

Meeting of the
**Association of
Manitoba
Municipalities**



with

The Honourable Peter Bjornson

Minister of Education, Citizenship and Youth

March 8, 2004

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A) Executive Summary

1. Education Funding

- An ongoing and important concern for Manitoba municipalities is education funding. In fact, the proportion of education funding coming from property taxes remains the primary concern of AMM members and was chosen as the AMM's number one issue of concern during the 2004 Strategic Planning Session.
- The AMM is pleased to be a part of the Minister's Working Group on Education Finance and would encourage the Province to move forward with the final report.
- The education component of property tax greatly limits the ability of local governments to fund property services, such as infrastructure maintenance, upgrading and construction.
- The AMM believes that a new formula must be developed that would decrease property tax support for education while not diminishing education quality. The AMM firmly believes that the Province needs to adopt a stable and sustainable education funding ratio of 80 per cent from Provincial general revenues and 20 per cent from property tax revenue levied by local school boards. Furthermore, it is important that once an 80:20 ratio is achieved, it be maintained in future years.

The AMM urges the Province to move forward with the final report of the Minister's Working Group on Education Finance, and looks forward to discussing the recommendations with the Province, once released. The AMM further urges the Province to adopt a stable and sustainable funding ratio of 80 per cent from Provincial general revenues and 20 per cent levied by local school boards and that once achieved, this ratio be maintained in future years.

2. Changes to the Public Schools Act

- In 2002, the AMM membership passed a resolution calling on the Province to change *The Public Schools Act* to reinstate the requirement for the Public Schools Finance Board to notify municipalities with the amount they must collect under the Education Support Levy before March 15.
- The recent change to require this information one month later (by April 15) is problematic in relation to *The Municipal Act* requirement for municipalities to file their financial plans with the Minister of Intergovernmental Affairs and Trade by the May 15 deadline.
- Municipalities are required to present their financial plans at a public meeting prior to submitting them to the Minister. However, because the notification date has been extended to April 15, ratepayers are not presented with accurate financial plans because municipalities must estimate the Education Support Levy amount.

- The requirement to present municipal financial plans to the public without related information being provided by the Public Schools Finance Board removes the ability to ensure that property taxes do not increase. Essentially, this means that the Public Schools Finance Board can dictate tax increases, thereby removing this authority from Municipal Governments.

Therefore, the AMM urges the Province to amend *The Public Schools Act* to reinstate the requirement for the Public Schools Finance Board to notify municipalities with the amount they must collect under the Education Support Levy before March 15.

3. A New Deal for Municipalities

- All Manitoba municipalities have concerns about the ability of the current taxation system to meet municipal financial requirements. The root of the problem is the gap between the services that municipalities must provide and the resources at their disposal.
- In Manitoba, the infrastructure debt is approximately \$7.4 billion as municipal revenues have failed to keep pace with increasing demands for investment. Although Federal and Provincial revenues have grown significantly over the past four years, Municipal revenues have grown by only four per cent.
- Municipal governments in Canada currently earn 54% of their income from property taxation, a revenue stream that does not increase in times of economic growth. Without a change to this system, infrastructure upgrades will continue to be postponed and the infrastructure debt will only grow larger.
- The AMM hopes that the Province is willing to work with all Manitoba municipalities to access new sources of revenue- especially growth revenues, and hopes the Province will respond to the needs of local governments.

The AMM looks forward to working with the Province to make a new revenue deal for municipalities a reality for local governments across Manitoba.

B) Departmental Issues

1. Education Funding

An ongoing and important concern for Manitoba municipalities is education funding. In fact, the proportion of education funding coming from property taxes remains the primary concern of AMM members and was chosen as the AMM's number one issue of concern during the 2004 Strategic Planning Session. This will continue to be a major issue for local governments in the coming year, and as such, the AMM is committed to raising this issue with each Provincial Cabinet Minister as we meet with individual departments. The AMM is pleased that the Province has increased its funding of education over the past five years, and is mindful of the recent announcement of \$17.6 million in new funding for public education. The AMM supports any increase in the provincial contribution to education, but a funding increase must be weighed against increasing education costs. The AMM believes there is still much to be done on the issue of education finance, and would like to take this opportunity to outline our position.

The AMM is pleased to be included as a part of the Minister's Working Group on Education Finance and is pleased that the Province is including a municipal voice in its review. The final report of the Working Group was expected originally in October 2003, however, the AMM understands that the Minister's Working Group is currently in the process of finalizing its report, and will be ready to present its findings to the Minister in the near future. As the recommendations will not be available in time for the 2004 school budget process, the AMM would urge the Province to hold constant the current municipal and provincial contributions to education so that ratepayers are not further burdened by an increase in property taxes.

After the final report is released, our association looks forward to reviewing the recommendations of the Working Group and to collaborating with the Province to develop a new and sustainable system of education finance in Manitoba.

Education funding will continue to be a major issue for local governments in the coming year, as many school divisions are set to increase local levies, placing further pressure on local ratepayers. For example, the AMM understands that the Border Land School Division is set to increase its local levy by approximately seventeen per cent this year, and is considering greater increases for next year. Therefore, local education costs continue to increase, even when school divisions may have surpluses that they could use to offset these increases. The AMM believes this current situation is unsustainable, and urges the Province to address this issue immediately.

It is crucial that the Province take action, as no issue is heard more often from our members than the concern of high property taxes, as a result of the amount of property taxes dedicated to funding education. The AMM is disappointed that there has not been more progress toward an education funding solution that would meaningfully shift education from property taxes to general revenue. The AMM believes also that the current system of education finance does not take into account the principle of ability to pay, resulting in unequal contributions among the various property classes.

The education component of property tax greatly limits the ability of municipalities to provide property services, such as infrastructure maintenance, upgrading and construction.

The NDP election promise to phase out the Education Support Levy (ESL) over the next five

years is welcomed, as this will partly assist in reducing the tax burden. The AMM acknowledges the efforts the Province has made so far, and we are pleased to see that a \$27 million reduction in the ESL has been achieved since 1999. However, the AMM believes that a new formula must be developed that would decrease property tax support for education while not diminishing the quality of education. Over the past few years, teachers' salaries have increased approximately three per cent annually, while the salaries of support staff have increased as well. This has resulted in education costs outpacing education funding, and school trustees have no choice but to increase their special levies to fund the shortfall. Furthermore, local schools are required to provide up-to-date learning tools, including current teaching materials and computer hardware and software, and the AMM does not believe that reducing property tax support for education should compromise the quality of education that Manitoba youth receive.

The AMM firmly believes that the Province needs to adopt a stable and sustainable education funding ratio of at least 80 per cent from Provincial general revenues and a maximum of 20 per cent from property tax revenue levied by local school boards, a formula recommended by our own Task Force that examined this issue in great depth. In addition, it is important that once the 80:20 ratio is achieved, it be maintained in future years. It is clear that the current system is not sustainable, and the AMM urges that the reform of education funding be substantive and fair. The AMM again expresses its appreciation for being a part of the Minister's Working Group on Education Finance and looks forward to the release of the final report in the near future.

The AMM urges the Province to move forward with the final report of the Minister's Working Group on Education Finance, and looks forward to

discussing the recommendations with the Province, once released. The AMM further urges the Province to adopt a stable and sustainable funding ratio of 80 per cent from Provincial general revenues and 20 per cent levied by local school boards and that once achieved, this ratio be maintained in future years.

AMM RESOLUTION NUMBER 56 — 2001

**Sponsor: RM of St. Andrews (Interlake District)
RM of Wallace (Western District)**

Topic: Payment of Education Taxes

Department: Manitoba Education, Training and Youth

WHEREAS Manitoba municipalities, by legislation are obligated to collect school taxes on behalf of local school divisions;

AND WHEREAS Manitoba municipalities receive no administrative compensation for performing this obligation;

AND WHEREAS the education/special taxes must be submitted in totality to both provincial and local education authorities by January 31 of each year, whether the municipality has collected the current year's education taxes or not;

AND WHEREAS municipalities such as the RM of Wallace for a number of years have found difficulty in collecting personal property tax arrears on oil production sites;

AND WHEREAS it is seen as inequitable and unfair for Manitoba municipalities to have to pay monies to the education authorities that they have not yet collected;

THEREFORE BE IT RESOLVED that the Association of Manitoba Municipalities lobby the Province to consider methods in neighbouring provinces where remittances to other authorities are based upon actual taxes collected (Saskatchewan Rural Municipalities Act, Section 390);

BE IT FURTHER RESOLVED that the Association of Manitoba Municipalities lobby the Province to change legislation for municipalities to submit only the percentage of education taxes collected.

BE IT FURTHER RESOLVED that the Association of Manitoba Municipalities lobby the Province to make changes to provide where an assessment error has resulted in an overpayment of school taxes that this overpayment be refunded to the municipality.

AMM RESOLUTION NUMBER 43 — 2000

**Sponsor: RM of Woodworth (Western District)
RM of Miniota (Mid-Western District)**

Topic: Education Tax on Agricultural Property

Department: Manitoba Education and Training

WHEREAS Provincial funding from general revenue for education has fallen to approximately 50%;

AND WHEREAS the level of portioned assessment on Class 30 (agricultural property) was raised from 27% to 30% and the level of portioned assessment on Class 10 (residential property) was lowered from 47% to 45% thereby creating a shift of Education Tax onto the agricultural properties;

AND WHEREAS it is deemed that the level of education taxes on agricultural property is disproportionately high;

THEREFORE BE IT RESOLVED that the Association of Manitoba Municipalities lobby the Provincial Government to reduce the education tax on agricultural property and increase the Province's funding of education costs.

2. Changes to the Public Schools Act

The AMM would like to take this opportunity to raise another concern with the Minister of Education, Citizenship and Youth. Prior to 2002, the Public Schools Finance Board would notify municipalities with the amount they must collect under the Education Support Levy by March 15, allowing municipal administrators sufficient time to file municipal financial plans by the May 15 deadline. However, in 2002, the Province changed this notification date, which has posed significant administrative difficulty for many municipalities across the province.

In 2002, the AMM membership passed a resolution calling on the Province to change *The Public Schools Act* to reinstate the requirement for the Public Schools Finance Board to notify municipalities with the amount they must collect under the Education Support Levy before March 15. The recent change to require this information one month later (by April 15) is problematic in relation to *The Municipal Act* requirement for municipalities to file their financial plans with the Minister of Intergovernmental Affairs and Trade by May 15.

Municipalities are required to present their financial plans at a public meeting prior to submitting them to the Minister; both written and posted notification of the meeting must convey accurate financial information for the public to make representation, ask questions or register an objection to the plan under consideration. With this change, *The Public Schools Act* does not commit the Public Schools Finance Board to inform municipalities of the amount required under the Education Support Levy until after these public meetings have taken place. As a result, ratepayers are not presented with accurate financial plans because municipalities must estimate what the Education Support Levy will amount to. The purpose of these meetings is to allow the public to review how their Municipal Government is

allocating funds, and it is important to ensure accuracy and transparency in this process. The AMM strongly believes that municipalities need to have all the information required of the Public Schools Finance Board so that these public meetings accurately reflect the allocation of property taxes.

This change has led to another concern of many AMM members, which relates to a municipality's ability to control the amount of property tax being collected. Some municipalities decide to absorb fluctuations in the Education Support Levy to ensure that property taxes do not increase. If municipalities must absorb increases in the education portion of property tax, this leads to a reduction in much needed municipal revenue. The requirement to present municipal financial plans to the public without related information being provided by the Public Schools Finance Board removes the ability to ensure that property taxes do not increase. Essentially, this means that the Public Schools Finance Board can dictate tax increases, thereby removing this authority from Municipal Governments. The AMM strongly believes that Municipal Governments should retain the ability to control the amounts levied from property within their jurisdictions.

Therefore, the AMM urges the Province to amend *The Public Schools Act* to reinstate the requirement for the Public Schools Finance Board to notify municipalities with the amount they must collect under the Education Support Levy before March 15.

AMM RESOLUTION NUMBER 57 — 2002

Topic: **Changes to *The Public Schools Act***

Department: **Manitoba Intergovernmental Affairs
Manitoba Education and Youth**

WHEREAS the Public Schools Act of Manitoba has changed the information requirement for municipalities from March 15 to April 15;

AND WHEREAS municipal corporations must have budgets approved by May 15;

AND WHEREAS education levies account for a significant part of municipal budgets;

THEREFORE BE IT RESOLVED that the AMM lobby the Province for changes to the Public Schools Act that would reinstate the previous requirements.

C) General Issues

3. A New Deal for Municipalities

A relatively new and emerging issue for municipal governments in Manitoba concerns a new revenue deal for municipalities. Although the Federation of Canadian Municipalities (FCM) has been calling for a new system of municipal finance for some time, the City of Winnipeg has initiated substantial discussion on this issue in Manitoba. The AMM believes this discussion has important ramifications for all Municipal Governments as all Manitoba communities have concerns about the ability of the current system of taxation to meet municipal financial obligations. Manitoba's prosperity and quality of life is determined largely by the health of its municipalities. Vibrant, sustainable communities are crucial to attracting the skilled, creative people who are key to this province's success. However many municipalities across Manitoba are struggling; their resources have not kept pace with their growing responsibilities for physical and social infrastructure.

The root of the problem is the gap between the services that municipalities must provide and the resources at their disposal. Municipal revenues have failed to keep up with the increasing demand for infrastructure investment. Across Canada as a whole, over the past four years, Federal Government revenues have increased sixteen per cent, Provincial/Territorial revenues increased twenty-one percent and municipal revenues only four per cent. Canada's core municipal infrastructure debt has been estimated at about \$60 billion and growing at a rate of \$2 billion annually. In Manitoba, the infrastructure investment debt hovers in the range of \$7.4 billion: \$3.4 billion for Manitoba's highway system; \$2 billion for rural

municipal infrastructure; \$1 billion for rural land drainage; and \$1 billion for Winnipeg's infrastructure deficit.

Infrastructure debt passes on the costs of today's use and consumption of infrastructure to future generations, limiting their ability to meet impending infrastructure needs. Furthermore, failure to address the infrastructure debt breaches the principles of sustainable development.

Infrastructure should be regarded as an investment and not solely as a payment or cost.

However, it does require sustained investment, effort and organization to be maintained properly.

It is clear that the current situation is unsustainable and municipalities must gain access to new revenue sources. Municipal Governments in Canada currently earn 54% of their revenue through property taxation, a revenue stream that does not increase in times of economic growth. In Manitoba, increasing school division levies have resulted in Municipal Governments maintaining current levels of property taxation to respond to ratepayer demands, leaving municipalities with less revenue to maintain property services. Without a change to this system of taxation, infrastructure upgrades will continue to be postponed and the infrastructure debt will only grow larger. Manitobans know that their Municipal Governments are accountable and responsive. They want the order of government closest to them to have access to new sources of revenue and they want the tax burden on municipalities lowered.

Municipal Governments are in an ideal position to deliver many services, however, increasing municipal responsibilities have resulted in more demand for services with less

revenue to meet these demands. In Manitoba, many examples of increasing municipal responsibilities without commensurate financial compensation exist. For example, the Province provides Manitoba Universities- and research institutions affiliated with the Universities- a property tax exemption, but do not provide any grant-in-lieu to affected municipalities to compensate for the loss of property tax revenue. This results in municipalities having to subsidize Universities, despite the fact that this is not a municipal responsibility. Another example is the Province's decision to revert certain provincial roads and drainage infrastructure back to municipalities without appropriate financial compensation. A further example is the decision to charge municipalities for retail sales tax on mechanical and electrical contracts, which increases the cost of building new infrastructure. Policies such as these place increasing responsibility on Municipal Governments, reduce the municipal tax base, and divert much needed funding from municipal infrastructure priorities.

This is an important debate for all Municipal Governments in Manitoba, and one that should involve the input of all stakeholders. In fact, partnership must be at the heart of a new revenue deal for municipalities and Manitoba municipalities believe that the three orders of government must work together to deliver municipal priorities. The Federal Government has committed to raising the municipal GST rebate to 100 per cent and has also committed greater funds to existing infrastructure programs, and the AMM is very pleased that the Federal Government responded quickly and in the spirit of partnership to address municipal concerns. Furthermore, there are suggestions that municipalities may receive a portion of the federal fuel excise tax, an exciting prospect for Municipal Governments in Canada and one supported by the Federation of Canadian Municipalities. There is much that the Province of

Manitoba can do as well, and the decision to pass all Provincial fuel taxes back to transportation infrastructure is a good starting point. However, there is much more that needs to be done to address the growing revenue needs of Municipal Governments in Manitoba. The AMM hopes that the Province is willing to work with Municipal Governments to access new sources of revenue- especially growth revenues, and hopes the Province will remain responsive to the needs of local governments. The AMM looks forward to consulting with the Province to make this new deal a reality for all municipalities in Manitoba.

The AMM looks forward to working with the Province to make a new revenue deal for municipalities a reality for local governments across Manitoba.