

Rethinking Education Funding: Challenges and Opportunities

***Report of the
Association of Manitoba Municipalities
Task Force on Education Funding
April 2001***



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Preamble: The Task Force - Its Origin and Mandate

The AMM Task Force on Education Funding was created in response to Manitobans' concerns about increasing property taxes to fund public education in this province. The mandate of the Task Force was to examine ways to reduce education's \$600 million reliance on property taxes and to shift these expenditures into provincial general revenue. In examining this complex public policy issue, the Task Force invited written submissions from the public and also had several meetings with officials from the Province of Manitoba.

The Task Force was comprised of representatives from the Association of Manitoba Municipalities (AMM), the Manitoba Association of School Trustees (MAST), the Manitoba Association of School Business Officials (MASBO), the Manitoba Municipal Administrators Association (MMAA), and the City of Winnipeg.

In the course of its deliberations, the Task Force consulted with officials from various provincial government departments. We would like to express appreciation to Stephen Watson, Manitoba Finance, René Perrault, Manitoba Finance, Ron Neumann, Manitoba Finance, Laurie Davidson, Manitoba Intergovernmental Affairs, and Stephen Power, Manitoba Education, Training and Youth, for all their advice to the Task Force.

The Task Force would also like to thank Ede Fast, Executive Director, MMAA/MASBO, Joe Masi, AMM Director of Policy and Research, and Matthew Majkut, AMM Policy and Research Officer for providing administrative support to the work of the group.

The Task Force acknowledges that this report does not constitute a definitive answer to the pressing challenges of education funding in Manitoba. Rather, it is the hope of the Task Force that this report will open the door to constructive dialogue on the development of a more effective funding model for Manitoba's public education system.

Re-Thinking Education Funding: Challenges and Opportunities

Introduction

In a reference to children who will come of age in the year 2020, the Manitoba government's 2000 Throne Speech spoke to society's responsibility to "support their [children's] development, as learners, from their earliest years through their working careers." The members of the AMM Task Force on Education Funding concur with this view.

The Task Force is convinced that a strong system of universally accessible public education is fundamental to the success and prosperity of individuals and democratic societies. Similar to health care, education is an investment from which all citizens accrue benefit and to which all citizens must contribute. Education funding in Manitoba should provide resources sufficient to address fully the learning needs and developmental challenges of all students. Moreover, Manitoba must strive to ensure equity of opportunity for all students to access a complete range of educational programs, services and supports regardless of geographic location or community wealth.

As an association of locally elected municipal governing councils, the Association of Manitoba Municipalities believes in the need to preserve an element of local autonomy in education matters. The Task Force on Education Funding neither seeks to reduce overall funding for education in Manitoba nor to restrict the ability of duly elected school boards to levy taxes for education purposes. Rather, the primary goal of the Task Force was to examine ways to reduce the degree of reliance on property taxation as a means to fund public education and to make recommendations about alternative revenue sources for consideration.

Education Expenditures & Funding: Trends and Shifts

In 1958, the Manitoba Royal Commission on Education, in its interim report, spoke to the difficulties and challenges in financing public education. The report cited the rapid escalation in education expenditures as a function of the increasing complexity of modern society. It suggested as well that local education resources, that is to say property taxes levied by school divisions/districts, were insufficient to ensure even satisfactory basic programming without significantly increased revenues from provincial sources. Analysis of education expenditures and funding in Manitoba over the past two decades confirms that the Royal Commission's findings in 1958 remain relevant and applicable in 2001.

A study commissioned by the Manitoba Association of School Trustees in 1996 indicated that total Kindergarten to Senior 4 expenditures rose from \$714 million dollars in 1985 to almost 1.1 billion in 1994/95. In the current school year, total expenditures for public education are approximately \$1.2 billion dollars. Appendix 1 illustrates the breakdown in revenue sources to support education costs. Currently one-half the funding for public education in Manitoba is drawn from property taxes - \$200 million from the provincial Education Support Levy (ESL) and some \$400 million from school division/district special levies. The remaining \$600,000,000 is derived largely from provincial general revenues which provide about 50% of the required funding for public school division/district operating revenue.

While total public education expenditures have risen in the past decade, program and service reductions in schools across the province have produced a 2% decrease in average per pupil expenditure calculated in constant dollars (Appendix 2). Through this same time period, there has been significant shift in the revenue patterns to support school division/district operations (Appendix 3). An approximate 10% decline in total operating support from the province (ESL and general revenues combined) over this 10 year time frame has been balanced by a similar increase in the percentage of operating revenues generated through property taxation levied by local school divisions/districts.

Clearly, the burden on real property owners has increased substantially in recent years, and public concern and opposition to this trend is becoming increasingly vocal. A partial solution lies in identifying alternative provincial revenue sources to fund that portion of education expenditures currently financed by either provincial or local property tax levies. At the same time, a longer term solution to ensure adequate and equitable education funding in Manitoba will necessitate a significantly greater contribution from provincial government coffers. The Task Force acknowledges and welcomes the increases by the province to education funding in the past two years' budget announcements. At the same time, the Task Force echoes the earlier caution expressed by the 1958 Manitoba Royal Commission on Education of the need for significantly greater provincial resources to support and sustain quality public education for school-aged children and youth in Manitoba.

Funding Public Education in Manitoba

An examination of education funding across Canada reveals that Manitoba's challenges in this regard are not dissimilar to those in other provincial jurisdictions. In seven of ten Canadian provinces, property taxation remains a significant source of funding for public education systems (Appendix 4). Combined local and provincial property taxes provide levels of support from 19% to 62% of total education expenditures across these provinces. Provincially levied property taxes, comparable to Manitoba's Education Support Levy at 17% account for 30%, 33% and 44% of total operating revenues in British Columbia, Alberta and Ontario respectively. Contributions from locally levied property taxes generate levels of support from 5% to 62% across five provinces.

The relative percentages of education funding derived from property taxation and provincial general revenues has been an issue of long standing debate in Manitoba. The Task Force believes the Province should strive to move away from the current 50/50 balance to a higher level of support from provincial general revenues and a corresponding decrease in property taxation revenues. In proposing this direction, the Task Force does not advocate the complete removal of property taxes as a funding source for education. Rather, the Task Force recommends that at a minimum, 80% of the total costs for kindergarten to senior 4 public education be derived from provincial general revenues and not more than 20% be derived from property taxation levied by local school division/district authorities. Moreover, the Task Force suggests that measures be developed and introduced to ensure that the appropriate 80/20 provincial/local revenue balance remains relatively stable over time.

80/20 Provincial/Local Cost Sharing

Consideration of an 80/20 cost sharing arrangement between the province and local education authorities invariably raises concerns about an education system that has the potential to become almost completely expenditure driven with costs largely out of the control of the major funding partner, the Province of Manitoba. The Task Force acknowledges that such a situation would be neither politically acceptable nor sustainable over time. Rather, such a model would necessarily involve some limits from the perspective of the provincial government as the primary contributor to public education funding. In such a scenario, various cost control mechanisms could be considered. Three such measures are outlined below.

- (a) **Percentage funding of "recognized expenditures":** Recognized expenditures, as defined in Manitoba's existing education funding formula, are the total allowable expenditures in respect of regular instruction, divisional administration and curriculum consulting and development. A policy to fund a constant percentage of recognized expenditures as a base of provincial support might ensure greater equity and stability across the province, and at the same time provide some reasonable measure of control over expenditure increases in these areas. It must be noted, however, that the concept of "recognized expenditures" in the current education funding formula is inadequate. Its calculation does not reflect actual expenditures incurred in the operation of school systems and results in funding levels far below the real costs of educating Manitoba students.
- (b) **Funding by function or object.** This approach would focus on increasing provincial general revenue support by funding those expenditures which represent the greatest portion of total education budgets across the province. Such an approach might be based on expenditures by function, i.e. regular instruction, exceptional instruction, divisional administration, operations and maintenance or alternatively by object across functions, i.e. salaries, employee benefits, services, supplies and materials.

Education costs related to staffing can be used to illustrate this approach. The FRAME Report reveals that in 2000-2001, total staffing costs (salaries plus employee benefits) for school division/district employees comprised some 81% of school board operating budgets (Appendix 5). A provincial commitment to full-funding for divisional staffing costs would likely necessitate a complex formula to allocate staff resources to school divisions. Needs equity in programs and services, scarcity factors and scale economies would require different consideration for urban, rural and northern school divisions/districts. Anomalies would certainly appear and some supplementary support might still be necessary to ensure equity and fairness for all geographic regions.

- (c) **Resource cost model:** A resource cost model (RCM) is a costing framework based not on a fixed level of funding per student, but rather a fixed level of educational programming and service per pupil matched by the financial resources required to support these in each school division/district. The key elements of the RCM include program and service specifications from the provincial level, the actual costs for program and service delivery in each school division/district, and the level of the provincial funding commitment in support of identified costs.

Given the diversity among Manitoba schools divisions/districts, the development of this sort of fiscal framework would need to take into account differences in student enrolment patterns, population dispersion, school size, staffing issues, and geography. On-going research and data analysis would provide an empirical basis for provincial education funding as well as a control mechanism for provincial support.

Health and Social Development Cost Factors

Provincial education policy with regard to mainstreaming has resulted in increasing levels of integration of special needs students into regular classrooms and concurrent and dramatic escalation in the Exceptional Instruction function. Included in this expenditure category are costs incurred by school divisions/districts for health-related programs and services such as physical/occupational therapy, nutrition programs, hearing screening, parenting programs and clinical services of various kinds. Currently, these costs are estimated at between 50 to 60 million dollars annually across the province. In examining new ways to fund public education, it may now be appropriate to consider funding these kinds of programs and services from health and/or social service budgets.

Provincial - Municipal Revenue-Sharing Agreements

Manitoba municipalities currently receive support for the delivery of municipal services through a variety of revenue sharing agreements with the provincial government. A case can be made for re-configuring these agreements in order to re-direct some portion of these provincial dollars from municipal services to education funding. Property tax bills would then reflect more accurately the delivery of municipal and property services. Education taxes would be reduced in accordance with the shift of greater funding responsibility to provincial general revenues.

Clearly, municipalities would seek to ensure fairness and equity across all regions of the province in the application of any new revenue-sharing agreements with the provincial government. At the same time, the net effect of these and other changes must be a significant reduction in property taxes at the local level. Neither municipalities nor their property owners are likely to support change whereby one level of taxation simply replaces another.

Taxation Revenues in Support of Education

Hugely complex in structure, demanding and costly to administer, property taxation as a major funding source for Manitoba's public education system is becoming increasingly problematic. There are fundamental questions about distribution. Which classes of property are currently taxed at what rates, and is there need for change in this regard? What property tax exemptions, if any, should apply?

Over the past decade, growth in Manitoba's real property tax base measured by market value assessment has been minimal relative to that represented by income and consumption taxes. Are there, then, other provincial revenue streams better suited to keeping pace with the cost of education programs and service delivery across the province? Should government consider designating some fixed percentage of these revenue streams to education funding? Are income and consumption taxes inherently more or less fair than property taxation in their application to all citizens?

The provincial Education Support Levy currently raises some \$203 million to fund education in Manitoba and is a significant equalization factor in the redistribution of dollars between wealthier and less wealthy school divisions/districts across the province. Some individuals and groups advocate its elimination and point to Manitoba's various tax credit programs, currently pegged at a cost of \$236 million to the provincial treasury, as sources of off-setting revenue to replace the ESL. The apparent simplicity of this strategy belies the significant tax shifting which would occur from commercial to residential properties, and the complex adjustments required to address issues of fairness and equity across all regions of the province.

In stark contrast to this view, other voices suggest that the Education Support Levy represents a more equitable tax structure than locally levied property taxes. These groups argue for retention of the ESL, in favour of greater funding from provincial general revenues and a consequent reduction in the levels of local property taxes required to fund school division/district operations.

The varied and contradictory approaches suggested to reduce reliance on property taxation as a primary revenue source for education funding are indicative of the enormous complexity of this issue. Realistic alternatives and definitive conclusions rest upon comprehensive research and analysis which take into consideration all facets of existing tax structures at both provincial and municipal levels.

Summary & Conclusions

This report outlines the issues identified and the suggestions offered by groups and individuals who responded to the Task Force call for submissions on the subject of education funding in Manitoba. Without exception, all submissions advocated reducing the current reliance on property taxes to fund public education. Owing to the enormous complexity of the issue, there was understandably no clear consensus as to how this objective might be achieved.

Moreover, there was general agreement that no single intervention could address satisfactorily, the scope of Manitoba's education funding challenge. A multi-faceted strategy or "basket" approach will be required. Among the elements identified for consideration in any such "basket" approach are the following:

- ◆ establishment of a provincial funding base that more closely matches actual delivery costs of education programs and services in all regions of the province;
- ◆ designated allocation of some portion of revenue streams such as income and consumption taxes to education support;
- ◆ reconfiguration of provincial-municipal revenue sharing agreements so that provincial dollars are re-directed to funding education and municipalities assume greater financial responsibility for the delivery of municipal services;
- ◆ funding of health and social development related costs for special needs students from appropriate government Departments other than education;
- ◆ redirection of property tax credit program dollars to education;
- ◆ review and analysis of the Education Support Levy and the anticipated impacts of potential changes; and
- ◆ review and analysis of municipal property tax structures to address existing issues of fairness and equity, and the potential impacts of changes to education funding policy in other areas.

The Task Force is cognizant of the very real challenges confronting school boards and the province in funding Manitoba's public education system and acknowledges that this report is but a beginning. The directions suggested herein will require extensive research and analysis to assess their feasibility and appropriateness for restructuring education funding in this province. To this end the Task Force recommends that the Government of Manitoba establish a working group to explore in greater detail, the suggestions and alternatives outlined in this paper. The working group must include all stakeholders with representation from staff as well as elected officials. Government must also ensure that this working group is appropriately resourced to fulfill its responsibilities in an efficient and timely manner.

The Task Force recommends as well, that the goals of a strategy for restructuring education funding in Manitoba should include:

- ◆ a policy or framework based upon the actual costs of education program and service delivery in all regions of the province;
- ◆ the establishment of a stable and sustainable funding ratio of 80% provincial general revenues and 20% property taxes levied by local school boards to support public schools in Manitoba;
- ◆ a significant net reduction in property taxation for property owners across the province; and
- ◆ an implementation period for restructuring education funding not to exceed five years.

Education funding in Manitoba has evolved over many decades. It is clear that substantive reform of the existing model will be achieved neither simply nor swiftly. Municipal and school board authorities are committed to working with the provincial government to effect much needed change to the funding of education in this province. Manitoba students, taxpayers and the public education system would be well served should government choose to pursue the course of action recommended herein by the Task Force in its examination of provincial education funding.

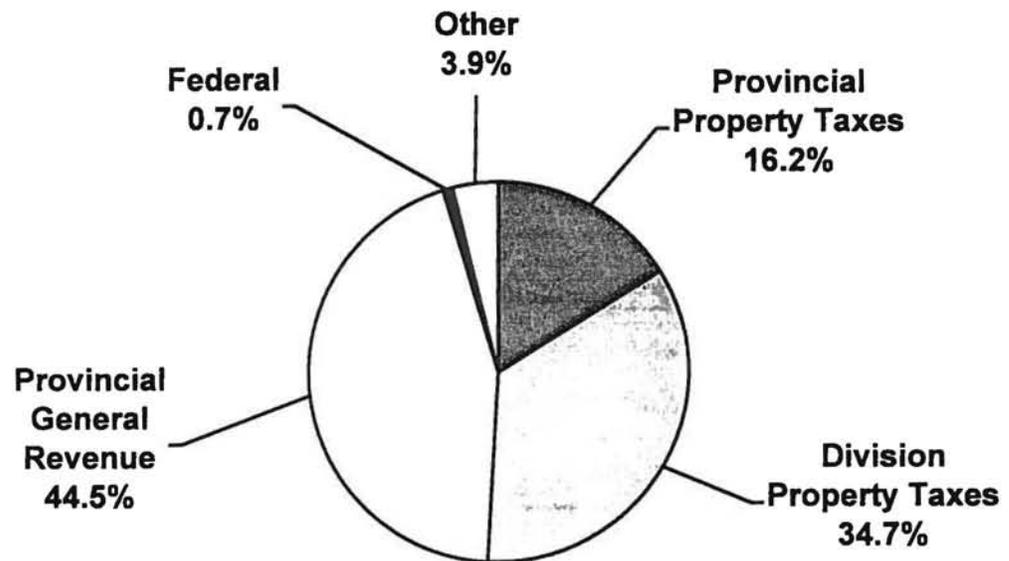
Appendices

Appendix 1:
Where the Money Comes From . . .

The following information was generated from the FRAME Report documents printed by the Department of Education, Training and Youth.

It costs approximately \$1.2 billion to operate public schools in the Province. The Province provides funding to Divisions equalling 60.7% of their total operating revenue. However, part of this revenue is obtained from property tax owners. When split into component parts, the property tax owner is now providing funding for 51% of the cost of public education.

School Division Operating Revenue by Source 2000/01



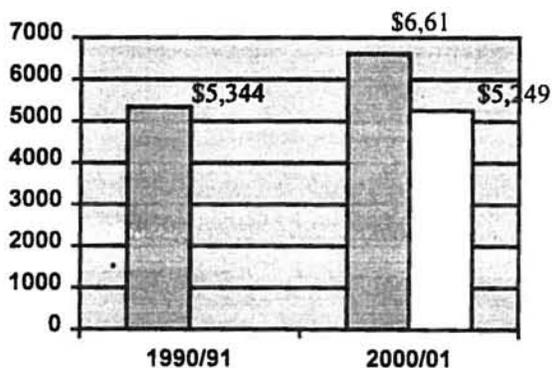
Appendix 2: Expenses per Student

The following information was generated from the FRAME Report documents printed by the Department of Education, Training and Youth.

When examining expenditures per student, it costs approximately \$6,612 per year to educate a student on average in Manitoba. When using constant dollars from 1990/91, the expenditure per pupil has actually declined by 2% as Divisions have streamlined operations. The following information illustrates this per pupil calculation for the five Divisions in Winnipeg with the largest budgets and the five Divisions outside Winnipeg with the largest budgets (excluding Frontier and DSFM):

Division	1990/91 Expense/Pupil	2000/01 Expense/Pupil	% Change	2000/01 Expense/Pupil (1990 dollars)	% Change
Winnipeg #1	\$6,312	\$7,374	+17%	\$5,854	-7%
River East #9	\$5,035	\$6,007	+19%	\$4,769	-5%
Seven Oaks #10	\$5,348	\$6,622	+24%	\$5,257	-2%
St. James #2	\$5,300	\$6,154	+16%	\$4,886	-8%
St. Vital #6	\$5,085	\$6,215	+22%	\$4,934	-3%
Brandon #40	\$4,367	\$5,727	+31%	\$4,547	+4%
Lord Selkirk #11	\$4,948	\$6,390	+29%	\$5,073	+3%
Hanover #15	\$3,883	\$5,289	+36%	\$4,199	+8%
Mystery Lake #2355	\$5,586	\$6,999	+25%	\$5,557	-1%
Portage #24	\$4,876	\$5,936	+22%	\$4,713	-3%
Province	\$5,344	\$6,612	+24%	\$5,249	-2%

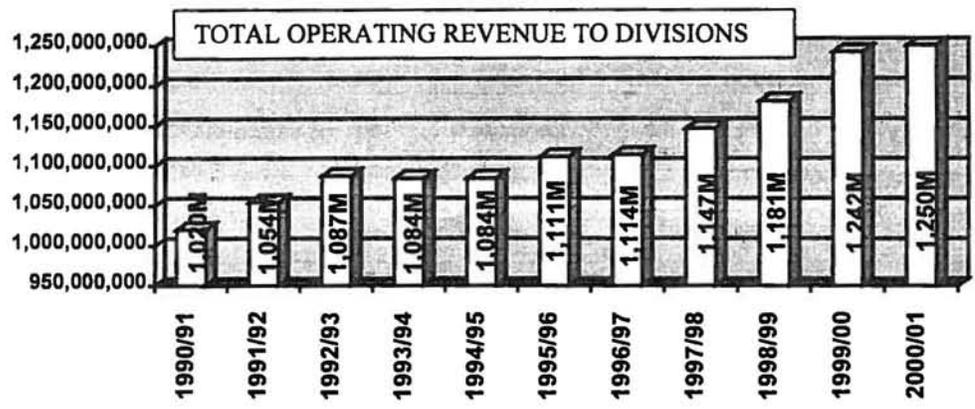
Note: 10 year compounded Winnipeg CPI rate used of 25.96%.



Total Expenditure / Pupil

2000/01 shown in actual and
1990 constant dollars.

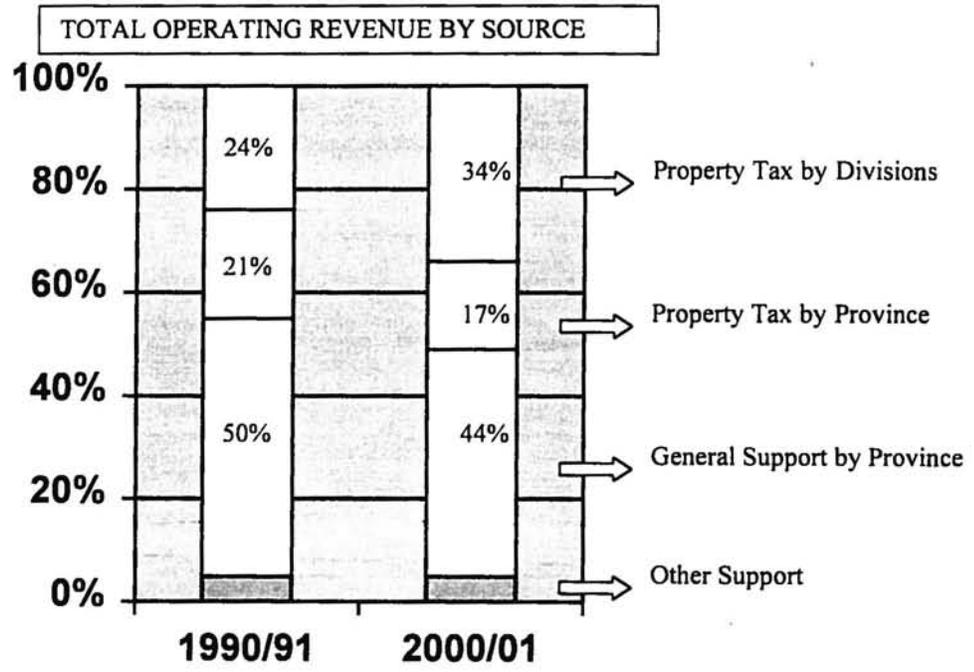
**Appendix 3:
School Division/District Operating Revenues**



10 year Change: + 230M or 23%

Of the additional \$230 million that it has cost to operate public schools in the last ten years, \$174 million (76%) has been generated through increases to property taxes by Divisions. In fact, until 1996, other sources of revenue to school divisions were either declining or static.

The percentage of education funded through property taxes has increased to 51% as indicated in the graph below.



Appendix 4:
1999 Provincial Comparison of Funding Sources for Education

Province or Territory	A	B	(A + B) C	D	(B + D) E
	Locally Levied Property Tax % of Total	Provincially Levied Property Tax % of Total	Total Portion of School Funding Raised From Property Taxation % of Total	Provincial General Revenue Contribution to Education Cost % of Total	Total Provincial Share of Education Cost % of Total
British Columbia	0	29.6	29.6	70.4	100
Alberta	5	33	38	62	95
Saskatchewan	61.6	0	61.6	38.4	38.4
Manitoba	34	17	51	49	66
Ontario	0	43.5	43.5	56.5	100
Quebec	22.9	0	22.9	77.1	77.1
New Brunswick	0	0	0	100	100
P.E.I.	0	0	0	100	100
Nova Scotia	19	0	19	81	81
Newfoundland	0	0	0	100	100
Northwest Territories	8.1	3.1	11.2	88.8	91.9
Yukon Territory	0	0	0	100	100
Nunavut	0	0	0	100	100

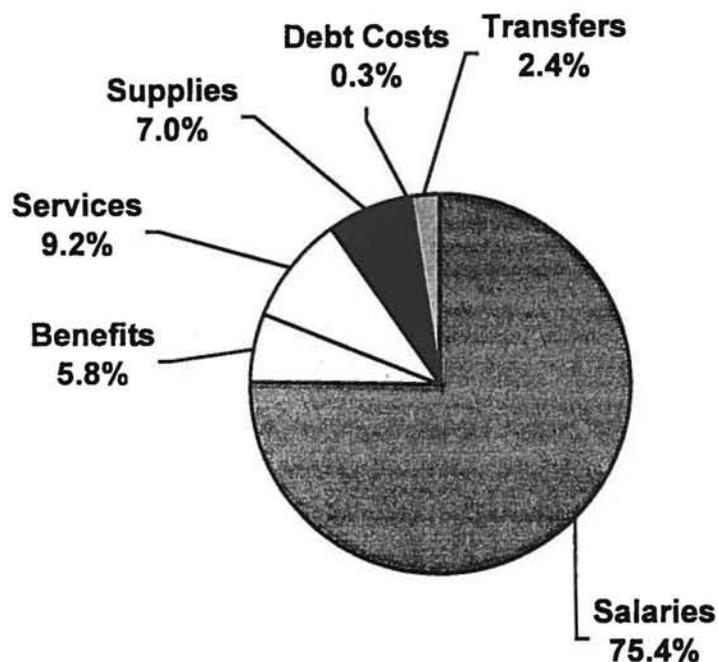
Source: July 2000 Survey of Provincial and Territorial Departments of Education prepared by Saskatchewan Education.

Appendix 5:
Where the Money goes . . .

The following information was generated from the FRAME Report documents printed by the Department of Education, Training and Youth.

It costs approximately \$1.2 billion to operate public schools in the Province. When split into component parts, salary and benefits expenditures comprise 81% of the cost of public education.

School Division Operating Expenses by Object 2000/01



Appendix 6:
Submissions to the Task Force on Education Funding

Individuals

- ◆ Mrs. Rita J. Rose, Portage la Prairie
- ◆ D. J. Sigmundson, Gimili
- ◆ Gerrit Boonstra, Garson
- ◆ Ray Gadd, Birtle

School Divisions

- ◆ Portage la Prairie School Division #24
- ◆ Garden Valley School Division #26
- ◆ Evergreen School Division #22
- ◆ Western School Division #47
- ◆ Transcona-Springfield School Division #12
- ◆ Brandon School Division #40

Organizations

- ◆ McCallister Farms Limited, Portage la Prairie
- ◆ Keystone Agriculture Producers
- ◆ Manitoba Association of Cottage Owners
- ◆ Manitoba Association of School Superintendents
- ◆ Town of Neepawa
- ◆ Winnipeg Real Estate Board
- ◆ Manitoba Association of School Business Officials
- ◆ Manitoba Teachers Society

