

The Financing of Public Schools in Manitoba – *A Time to Reform*



A Discussion Paper
for Manitoba Association of School Superintendents
November 2005



Abstract

Commissioned by the M.A.S.S. Education Finance Committee, this paper has been developed to provide information about the funding of public schools in Manitoba for members of the organization as they work with Boards of Trustees in the annual process of budget development. M.A.S.S. states its guiding principles for the funding of public education as they are aligned with organizational beliefs and explores some of the current conflicts and challenges in that process.

The Financing Of Public Schools In Manitoba – A Time To Reform

There are four obvious questions one can ask about the financing of schools: How do we decide how much should be spent on public education? How are revenues currently raised? How are they distributed? And how are they spent?

How Do We Decide How Much Should Be Spent On Public Education?

How much is to be spent is a matter of perspective for the stakeholders. Government, while it is obligated to provide public education, is anxious to control expenditure growth, balance demands, and keep its fiscal responsibilities under control. Those responsible for authorizing the education programs - Manitoba Education, Citizenship and Youth - are motivated to provide a range of programs and services which address matters of student access, equity of opportunity and the Government's objectives. Through the provision of funding and other resources such as curricula, the Government entrusts school divisions and their staff to provide a sound public education for the youth in our communities. The front line workers - teachers, school administrators, trustees, and superintendents - are responsible to ensure quality while living within the constraints of cost control and identified local needs. Children and parents, the recipients of the process, seek specific solutions, often more or a greater variety of what is provided. The resulting lobby groups present a challenge to all other stakeholders¹.

How Are Revenues Currently Raised?

Canadians have opted for a publicly supported elementary and secondary school system. Although there are three main ways in which to raise revenue – charging fees, borrowing, or by levying taxes – the Canadian decision requires that the necessary monies be raised through sources of provincial tax revenue² distributed through grants or by extending taxing ability to local authorities. Very rarely is the charging of fees to access

¹Sale, T and Levin, B., *Problems in the reform of Educational Finance: A Case Study*, Canadian Journal of Education 16:1, 1991.

²Main sources of provincial revenue include: income tax, sales tax, sale of natural resources, property taxes, fees, and intergovernmental transfers.

public schools a consideration, although fees for field trips, art supplies and the like are common. Borrowing ability is very limited and regulated. In Manitoba, in addition to the general revenues available to the Province from such sources as income tax, transfer payments and the sale of natural resources, the government levies what is known as the Education Support Levy (ESL) on all property except farmland. This tax raised approximately two hundred (200) million dollars annually before a phasing out program was introduced in 2002. Local divisions also have the ability to require municipalities to tax property, including farmland, for educational purposes. This is called the Special Levy. It raised approximately 500 million dollars in 2002/03, but the application to farmland has since been reduced through a rebate program.

How Are Revenues Currently Distributed?

Distribution is a very complex matter. While it is generally held that a public education program must be funded to provide equality of access to a “basic education”, it is also recognized that circumstances vary requiring special consideration to be given to such matters as student program needs, geographical impediments, and local ability to raise money. Equality of education opportunity has to be distinguished from equality of education funding to allow for adjustments to differing circumstances. Support to “basic education” is generally provided by some form of foundation grant, the estimated cost of providing a ‘prescribed minimum’ level of education. Various names are used: “supportable expenditure”, “recognized expenditure” or “base support”. The identified need to provide special services or programs (examples: Special Education and Students at Risk) is provided through special grants known as “categorical support” paid if the system’s circumstances meet the specified criteria. When opportunity for raising revenue at the local level is legislated, a third category of funding known as “equalization support” provides, through formula, an attempt to equalize across the province the ability of local jurisdictions to raise funds at the local level. Beyond normal operations other grants (Capital Grants) are available when criteria can be met for such undertakings as school construction, renovation or major repair. Special initiatives may also receive funding (Other Support).

How Are Revenues Currently Spent?

All stakeholders participate in the determination of how revenues will be spent. The Government places limits on its funding through the definitions of eligibility and the resulting



formulas; the local school board makes further determinations during budget discussions, and the school, in its response to local priorities, further addresses the matter of distribution through the emphasis placed on program, staffing and teaching resources. Parents and community members are afforded annual opportunity to participate in the budget discussions with trustees through public meetings at which their preferences for expenditure can be identified.

Manitoba covers a large geographic area with a variety of challenges for school divisions. School size, student needs, declining or expanding enrollment and transportation requirements are a few considerations which must be addressed. The decisions Boards have to make to meet these challenges in order to provide the most reasonable access and equity for students require that the choices be made based on local circumstances and capabilities. The result is a vast range in per pupil expenditure. FRAME reports that for the 2004/2005 budget year the lowest cost per pupil is predicted to be \$5,986; the highest \$12,696 and the average \$8,117.

Key Principles In The Financing Of Public Education

The relationship between sources of funding and distribution of those funds is extremely complex. A recent report to the Minister of Education for Manitoba, by a working group on education finance³, identified five key principles to guide its explorations of alternative funding arrangements for public education. As part of that group, M.A.S.S. generally supports these principles as guidelines for fair funding of public schools recognizing that they need explanation and are open to interpretation.

- 1. Public education is a public service that benefits all society.**
The provision of high quality, universally accessible public education is a cornerstone of a highly developed society promoting both prosperity and good citizenship.
- 2. All members of society are responsible for the public education system.**
All members of society share responsibility to sustain a high quality public education system.

³Toward a New Finance Structure for Public Education in Manitoba, Report of the Minister's Working Group on Education Finance, July, 2004, p 6.

3. There must be a defined education program.

Government is responsible for establishing the parameters of a defined education program that will provide students with the opportunity to achieve their potential and pursue life goals including post-secondary education and employment.

4. All students must have equitable opportunity to access a defined education program.

Geographic location or local economic factors cannot be impediments to students' entitlement to a defined education program.

5. Local autonomy is important.

A level of local autonomy that includes taxing authority is necessary in order for school boards to meet local needs as reflected or determined by local communities.

Public education is a public service that benefits all society.

Benjamin Disraeli perhaps expressed this concept best when he said "Upon the education of the people of this country, the fate of this country depends." An earlier publication by M.A.S.S., *Public Education as an Investment*⁴, identifies many of the ways education supports not only the well-being of individuals but that of the society in which they live and work. Such benefits are not restricted to simple wealth, but include better health, better quality of life, scientific advancement, more intelligent consumers, lowered criminal activity, and less racism, gender inequality and environmental degradation to name but a few of the identified benefits.

In January 2005 M.A.S.S. surveyed their members to determine the level of support M.A.S.S. members have for the key principles for the funding of public education identified above. Support for the idea that public education is a public service that benefits all society was very high and seen as being very important. This is not surprising as it is well accepted in Canada that public education is a major responsibility of the provincial government, first, as a responsibility assigned in the British North America Act⁵, and, second, as confirmed in the so-called Salmon Arm case⁶ in 1952, which found that when a province has legislated compulsory attendance, the province has the ultimate responsibility to provide adequate funding. Hence the major responsibility for education as a public service must rest with the provincial government.

⁴ *Public Education as an Investment*, R.M. Swayze, M.A.S.S. Journal, Winter, 2002 – 2003, pps. 9 – 13.

⁵ Section 93 provides that provinces have the exclusive responsibility to make "laws in relation to education", and Section 92 provides the authority for provinces to "direct taxation ... to the raising of revenue for provincial purposes".

⁶ *McLeod vs. Salmon Arm School Trustees*, 4WWWR (YS) 385 (1952) 2D.L.R. 562 (B.C.C.A.).

M.A.S.S. believes that one of the purposes of public education is to assist children to view themselves as capable of contributing to the public good as a lifelong contributing member of society. M.A.S.S. therefore supports the call for the Manitoba Government to assume a greater financial responsibility for public education than is currently the case.

All members of society are responsible for the public education system.

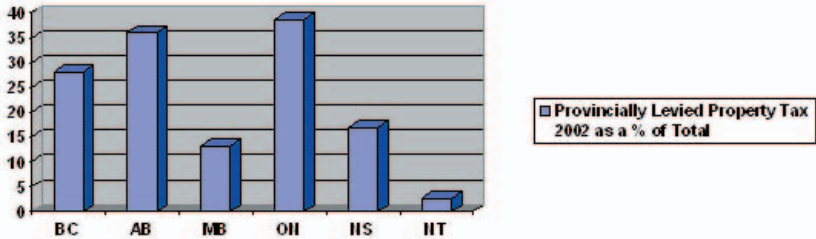
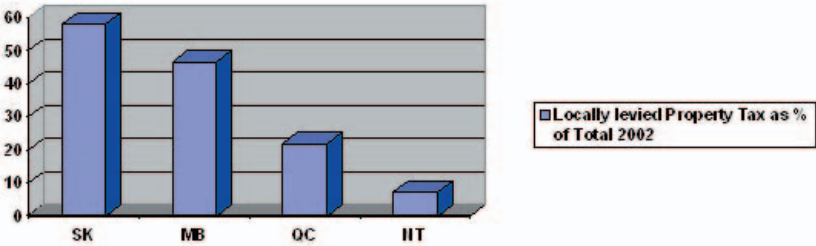
Support for this principle among M.A.S.S. members was equally high. M.A.S.S. does not support the discussions which would limit some residents' participation in the support of education. For example: some argue that seniors should not be responsible for Education as they are no longer users; likewise, some argue that youth should not be taxed to support Health as their use of the system is most often rare. One wonders what this argument would do if it were extended to such areas as fire fighting and police services. Interestingly "Education tax" is the only major tax in Manitoba labeled as to its purpose. We do not have a medical tax, a fire fighting tax, or a law enforcement tax.⁷

Education is seen as a desired and necessary function of a vibrant community. Many argue: "Take away the school and the community dies!" Indeed, such a statement clearly reveals the importance of all members of a community taking an interest in and supporting quality public education. If the benefits of education flow through society in such ways as, for example, better health and less reliance on medical services, then surely the costs associated with providing that education pay dividends to all and everyone should expect to contribute for the long term gain. However, in a democratic world one hopes that the expectation will be proportional to the ability of the citizen to make a contribution.

In Manitoba we have two property taxes, the Education Support Levy, levied at a uniform rate by the Province and the Special Levy, levied at a rate set by the local Division Board. These are seen as regressive taxes, in particular because the relationship between property values and personal income is not directly related and subject to change as people progress through their lives and adjust to fixed incomes, often as personal property values increase. Likewise, the fact that the rates on the Special Levy are set locally means that people in neighbouring communities can experience substantial differences in the property taxes they pay.

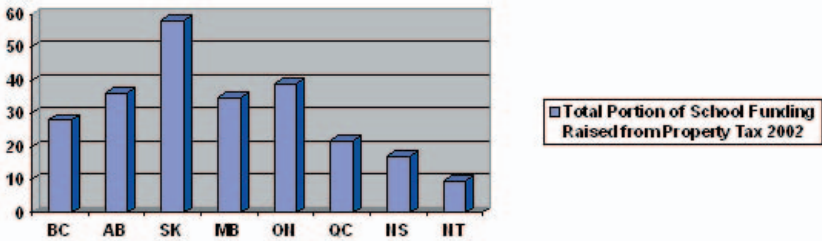
⁷ *Equity in Public Education*, Arnold Reimer, M.A.S.S., Volume 2, Issue 1, 2005.

Currently, Saskatchewan and Manitoba are the two provinces which use property taxes as a means of funding a significant portion of education costs. However, the picture is complicated: Saskatchewan relies on a locally levied property tax for 58% of the province’s education costs and takes the balance (42%) from general revenue. There is no uniform provincial levy on property such as the Education Support Levy Manitoba uses. Manitoba raises approximately 33% of education costs from local levy, 13% from a provincial levy (ESL) and the balance from general revenue. The provinces of British Columbia (28%), Alberta (36%), Ontario (39%), and Nova Scotia (17%) all continue to levy a provincial property tax (Manitoba’s ESL), sometimes in excess of the net effect of the property taxes levied in Manitoba.⁸ The Northwest Territories raises approximately 11% through levies on property – 7.1% local levy and 2.5% territorial levy. Only New Brunswick, Prince Edward Island, Newfoundland, Yukon and Nunavut rely solely on provincial general revenue to fund public education.⁹



⁸ Percentages represent the portion of total revenue for education collected. These figures are taken from the 2002 Saskatchewan Survey as reported in *Toward a New Structure for Public Education in Manitoba, Report of the Minister’s Working Group on Education Finance – July, 2004, Appendix 3, page 52.*

⁹ *Rethinking Education Funding: Challenges and Opportunities- Report of the AMM Task Force of Education Funding, April, 2001, pps. 10-11, sourced from Saskatchewan Education.*



A tax on property in some form is present in the majority of provinces.

In Manitoba, the provincial government has made recent moves to relieve the tax on property by increasing the Education Property Tax Credit paid to property owners to four hundred dollars (\$400) effective 1999, and by initiating a phase out of the Education Support Levy (2002). In addition, farmers have been provided a 50% rebate of the special levy on farmland (2005). The Government reports that in 2004-05, its support to public education was \$1.2 billion or 71.3 per cent of the costs of operating the school system.¹⁰ However, this figure needs to be carefully analyzed as it includes such items as capital costs, teacher's pensions and the education property tax credits the government pays out, none of which provide direct support to the classroom. The FRAME Report, published by the Finance Branch of Manitoba Education Citizenship and Youth for the 2004-05 Budget, estimates that the sources of operating fund revenues for school divisions in Manitoba will be 56.0% Provincial, and 38.8% Municipal (Special Levy), the balance is revenue paid directly by First Nations (2.1%), payments by other school divisions (0.8%), Federal Government (1.0%), Private (1.0%) and Other (0.3%).¹¹

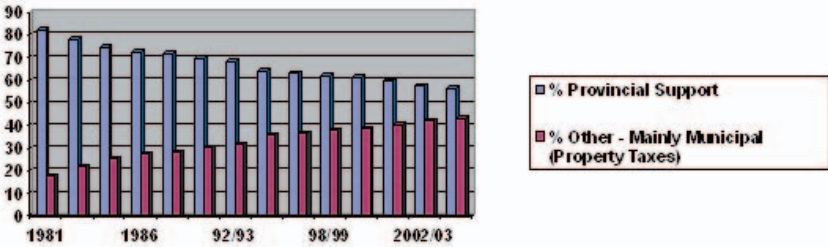
These figures project a continuing decrease in provincial support of public education. In 1981 the Manitoba Government provided 82.4% of the program and service costs of public education in the province. A review of the FRAME annual reports since that time reveals that the portion of funding from Government for the same items has declined every year since, dropping to 69.9% in 1990/91 and 56.6% in 2003/2004, the last year for which final numbers have been published.¹² In 1981 most of the remaining 17.6% was raised by municipalities. In 2003/4 muni-

¹⁰ Manitoba News Release: *\$25-Million Increase for Manitoba Schools*, January 26, 2005.

¹¹ *The Frame Report*, 2004-2005 Budget, published by the Finance Branch, Manitoba Education, Citizenship and Youth: <http://www.edu.gov.mb.ca/ks4/finance/facts/index.html>.

palities were responsible for 37.7% while the Federal Government contributed 1.0% and contributions by other school divisions (0.9%), First Nations (2.2%), private individuals or organizations (1.2%), and other miscellaneous revenue (0.4%) were responsible for the remainder. These decreases in support of public education by the Government have occurred at the same time that revenues from all sources as reported in the Public Accounts of the Province have been increasing – as much as 58% in constant dollar value over the two decades from 1981 to 2001. During this same period the direct Provincial Treasury contribution for public school operating and capital support was 12.9% of total provincial expenditure. By 2001/2002 the portion had dropped to 9.1%.¹³

AS THE PERCENTAGE OF PROVINCIAL FUNDING DECREASES DIVISIONS WERE FORCED TO RELY MORE ON OTHER SOURCES OF FUNDING - MAINLY MUNICIPALITIES (PROPERTY TAXES)



Source: FRAME, Province of Manitoba

M.A.S.S. believes that, while the Government has moved to relieve some portions of the property tax burden, these moves do not address the real need to re-think the entire process of generating revenue for public education through finding a better way to balance the relationship among all potential sources of revenue.

¹² When teachers’ retirement allowances, capital support and the education property tax credit dollars are added Government support of all the requirements of public education in 2003/4 was 72.5%.

¹³ As reported in *The Need for Access and Equity, A Policy Paper Setting Out Principles and Key Evidence for Manitoba Public School Finance, July 2002*, The Manitoba Teachers’ Society, pps.11-12.

There must be a defined education program.

While receiving good support from M.A.S.S. members, this principle re-



ceived many comments questioning whether this was indeed the government's responsibility or that of the entire community – parents, students, business, and others. Nevertheless, which programs are “approved” and funded by Government becomes very important. In Manitoba the Foundation/Base funding formula is the main source of provision for what people generally accept to be the “regular” programs, while “Categorical Support Grants” provide the funding for many programs including Special Needs, Senior Years Technology and a host of special initiatives in languages, students at risk, small schools, early education, and the like. The result is that schools even within a community may offer different educational opportunities. These differences can be even greater from division to division, sometimes so much so that students and parents demand the right to access a program(s) in another division.

M.A.S.S. believes that whatever the defined education program, it must encourage a balance of intellectual, physical, emotional and social development, social consciousness, and preparation for employment. M.A.S.S. also supports local autonomy and the ability of a school division to determine the programs and services it feels are appropriate to the local community. Such autonomy supports accountability to the community and opportunity for its citizens to participate in the decisions necessary to develop and support the local schools.

All students must have equitable opportunity to access a defined education program.

In a province such as Manitoba geographic factors and differences in local economics and school size are readily apparent. Solutions to these are not as apparent as they often take on different definitions depending upon whether the area under discussion is urban, rural or northern and the program of choice (or necessity) is in a neighbouring school or a distant school division. In response, the government has provided some opportunities for transfer of funds and the establishment of fees exchanged between divisions. Enabling a student to access a program outside the home school division can refocus the issue from a question of equality of education funding to a question of equality of educational opportunity requiring that funding for students not always be equal.



M.A.S.S. believes that public education must provide each child access and opportunity to be educated in a manner consistent with justice, fairness and equity.

Local autonomy is important

This principle makes conditional as part of local autonomy the ability to tax, “to meet local needs as reflected or determined by local communities”. The ability to retain taxing authority at a local level is hotly debated. Many who support the abolition of local authority to tax seem to think that the result will be the elimination of tax on local property. However, as evidenced earlier in this document, currently, even in those provinces which have largely eliminated local taxation authority for school boards, property is still a source of tax revenue for education collected by the province: BC – 28%, AB – 36%, ON – 39%, and NS – 17%. The responsibility has simply shifted from local to provincial jurisdiction. Traditionally in Manitoba local autonomy has implied a local property tax; however, there is little unanimity on what the appropriate split – local vs. provincial – should be. It is recognized that wealthier divisions have an advantage, lending support to the idea that by creating larger divisions the disparity will be lessened. However, experience to date has not proven that additional wealth and less restricted expenditure is an automatic outcome of division amalgamations.

Such “local autonomy” places school divisions in a competitive position with the municipal authorities who are even more dependent upon local property tax to fund their services. The Association of Manitoba Municipalities (AMM) has recently taken the position that funding for public education should be at the ratio of 80 per cent from Provincial general revenue and a maximum of 20 per cent from property tax.¹⁴ The Manitoba Chamber of Commerce takes a similar stand.¹⁵

Local autonomy, based upon the ability to tax local property, was initially established in the belief that it would enable divisions to raise funds to address special or unique purposes within the jurisdiction. Unfortunately, the decline in provincial funding has largely destroyed that concept as Special Levy becomes more and more the only means of meeting the shortfalls of provincial funding. Once the concept of a special levy established to address local needs fades, it becomes obvious that using ever increasing percentages of provincial monies to fund

¹⁴ Meeting of the Association of Manitoba Municipalities with the Honourable Diane McGifford, Minister of Advanced Education and Training, March 12, 2004.

¹⁵ See www.chamber.mb.ca .

education without those monies actually assuming the basic costs now supported by special levy can only result in a further loss of local autonomy. In addition, the resulting variance in mill rates among contiguous jurisdictions is a divisive political issue that draws attention away from important educational matters.

M.A.S.S. supports the concept of “local autonomy” through school boards with some taxing authority. Taxation is fundamental to local autonomy.

Conflicts And Challenges

M.A.S.S. supports the retention of taxing authority for school boards in Manitoba and agrees that the Province needs to take a larger percentage of the responsibility (perhaps as much as 80% provincial funding and 20% local funding from property tax as advocated by M.A.S.T.) to better ensure equity and fairness of taxation across communities and individuals.

Given that in Manitoba we have a rapidly aging population and growing support for additional expenditures on Health, one of the lowest pupil teacher ratios in Canada, a declining student population, above average expenditure per pupil on education and the assignment of a higher percentage of gross provincial product (GPP) to education, the challenges are obvious. Regional disparities create additional challenges depending upon whether the jurisdiction is urban or rural, southern or northern, or sparsely or densely populated. Add to this the ever increasing demands upon schools to address such matters as nutrition, obesity, changing needs in the labour force, and high school graduation for all students, and it becomes obvious that the need for divisions to have more flexibility to manage the education dollar is only growing. The ability to exercise some taxing authority in an environment with fewer restrictions on categorical grants would provide additional flexibility.

M.A.S.S. believes that quality education enhances and enriches a community and in turn supports the expansion of business and industry; non-existent or poor quality education discourages new citizens and business development.

Because there are defined “education taxes”, school divisions are sometimes accused of having little or no regard for the ability of the community to attract new businesses and industry. Of course, the argument is spurious as it is not one tax but the combined effect of all taxes which impact such



choices. And while all provinces have to make adjustments in the balance, it is very evident that in Canada the ability to develop a province's natural resources to

generate provincial revenues is a far more important factor in keeping taxation reasonable. In Manitoba, recent reductions and rebates by the provincial government make this argument even less legitimate now than it may have been in the past. In fact, there is much evidence to show that the quality of schools in a community plays a very important factor in the ability of businesses to attract quality employees.

M.A.S.S. believes that the current number of categorical grants is detrimental to the flexibility Boards need to adequately address their respective differences in community expectations and programs. M.A.S.S. also believes the reliance upon student grants rather than program grants needs to be reviewed, believing that in some instances the requirement to spend the money on one student when the same services might more adequately be shared results in unnecessary expenditures.

There is much confusion and dissatisfaction with the current method of funding public education in Manitoba. Government support from general revenue has suffered a huge decline. Taxpayers feel there is an over-reliance on property tax as a revenue generator and see it as a regressive tax, particularly upon seniors. Business and agriculture express concern that the property tax discourages new enterprise. School Boards and their administrators struggle to make the available revenue meet community needs, and find decision making increasingly difficult as government reliance on categorical grants decreases flexibility and increases paper work and the demands upon administration.

M.A.S.S. believes that before addressing the question of how public education should be funded, attention must also be given to what level of funding is appropriate.

This paper has not addressed the question: "Is the funding available adequate for the responsibilities given and expectations held for public education?" This debate is now occurring across many jurisdictions in North America and is increasingly becoming a question for Manitobans. While the



percentage of support provided by Government has been dwindling, school boards have become increasingly aware that the real purchasing power of the revenue provided has also greatly decreased. High expectations being met with decreasing support can only lead to increasing dissatisfaction on the part of Manitobans and the failure of Manitoba's public schools. We must not let that happen!

A Time To Reform

Public education is clearly a Provincial responsibility. The challenge for Government is to find a way to provide equal education opportunity without creating imbalances in a funding formula that results in inequalities in funding and the burden placed on the property taxpayer. Manitobans want and value a quality public education system. Today's debate about how it is being funded is creating unnecessary hardship for the people who serve education in Manitoba and much dissatisfaction among our citizens. The need to find a solution grows more urgent each day. Government has a responsibility to act.

The author of this paper, R.M. Swayze, is a Past President of M.A.S.S. and an honorary member of the organization. He retired as Superintendent of Brandon School Division in 2001. He wishes to acknowledge the advice and support received during the preparation of this paper from Lawrence Lussier, Chair of the MASS Education Finance Committee and its members, and Coralie Bryant, Executive Director of MASS.