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3.

Committee of the Whole
October 10, 2006
October 24, 2006
November 7, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

A handwritten signature in black ink, appearing to read "Dan English", written over a horizontal line.

Dan English, Chief Administrative Officer

A handwritten signature in black ink, appearing to read "Geri Kaiser", written over a horizontal line.

Geri Kaiser, Deputy Chief Administrative Officer - Corporate Services
& Strategy

DATE: October 3, 2006

SUBJECT: Supplementary Funding Joint Working Group Report

ORIGIN

The Supplementary Funding Joint Working Group Report of May 30, 2006 was presented to Committee of the Whole. A Financial impact analysis was requested by Council:

Staff requested to provide a financial impact analysis report on the themes outlined in the Supplementary Funding Joint Working Group Report including comments from Councillors. The report is requested for further debate at a Committee of the Whole session following Council's summer break.

RECOMMENDATION

It is recommended that :

Regional Council withhold support for the recommendations of the Supplementary Education Joint Working Group, and confirm that education is a provincial responsibility and should be funded through provincial fiscal capacity not through property taxation.

BACKGROUND

In Nova Scotia, municipalities are required under provincial law to provide funding to school boards. This funding is known as “mandatory education”. Individual municipal councils have no control or say over how those funds are spent. Rather that is a responsibility of the Province and the School Board.

Prior to amalgamation both the Halifax and the Dartmouth City Council’s provided their respective school boards with additional funding for educational uses. The purposes of these funds was for enhancements to the school system especially in the areas of music and arts. The County of Halifax and the Town of Bedford collected “trustee” rates. These were area rates established in school catchment areas. Although collected by the municipality the rate was set by the various schools and was used in accordance with the priorities of individual schools.

As part of amalgamation the trustee rates were no longer permitted under provincial law. Funding from the cities, however, was entrenched in legislation. Under the Municipal Government Act HRM was required to levy a “supplementary education” area rate in Halifax and in Dartmouth. The funds must be collected and spent only in those two former cities. Council may not direct how the funds are to be spent but is free to reduce the budgeted amount by 10% per year.

In 2000-2001 Council added an education area rate to the former Bedford and County areas. This differs from the trustee rates in two ways. First, it is levied across the entire area, not just by school districts. Secondly, Council controls the rate and may eliminate it or make stipulations as to how it might be spent.

In recent years two events occurred to affect supplementary education. First, there are two school boards that operate in HRM: the Halifax Regional School Board and Conseil scolaire acadien provincial (CSAP), the Province-wide French school board. There have been complaints that the current system is unfair since French parents must pay for supplementary funds even though they receive no benefit. As a result of this and a subsequent Human Rights complaint by a group of parents, the Province of NS offered to amend the MGA. Under Bill 9 it is proposed that funds be provided to CSAP either by splitting the current allocation or adding to it. This law may take effect for the year 2006-2007.

Secondly, in 2005-2006 Halifax Regional Council reduced supplementary funding and re-allocated those funds to a music and arts area rate. This effectively placed control of music and arts funding directly under Council’s purview. Regional Council also debated reducing the remaining supplementary funds (but not the music and arts rate) by 10% in 2006-2007.

Since amalgamation, supplementary education has been debated by Council on numerous occasions and has been the focus of one special Task Force set up by Council. In 2005 the Halifax Regional School Board established the Supplementary Funding Joint Working Group to investigate options and make recommendations. It was composed of elected school board members, councillors and

MLAs from the two opposition parties.

DISCUSSION

The Supplementary Funding Joint Working Group Report was presented to Council in May of 2006. It concluded that:

- School Boards, not municipalities, should have the legal authority to establish supplementary education amounts and tax rates. The maximum levy would be 10% of the previous year's global budget (\$327m in 2005-2006).
- Municipalities should act as the collection agent for the school board.
- School Boards would have a business case for supplementary education approved by the Department of Education and would issue an annual report on its use.

There are a variety of themes that tend to dominate the supplementary education debate. First and foremost, education is a provincial and not a municipal responsibility and that funding should occur at the provincial level. Supplementary education is clearly outside of the formulas that determine the amount of mandatory education funding. However, the claim has been made that increased supplementary funds essentially allow the province to reduce what its contribution would otherwise be to education. Hence, school boards may not receive the full amount of extra municipal funding.

Secondly, the current system of funding has caused inequities across the region. For instance, supplementary education funding is significantly higher in Halifax or Dartmouth than elsewhere. This issue could be alleviated if the County and Bedford increased their area rates to provide for comparable funding. However, this approach has generally be difficult to implement due to the resulting increase in the tax burden.

2005-2006 Supplementary Education Budget per student	
	HRSB
Halifax	981
Dartmouth	596
Sub-Total	823
Bedford and County	100
HRM	382

The issue is complicated by the uneven distribution of the student population and the tax base.

Bedford and the County have 60% of the students but less than 40% of the tax base. As such, the

2005-2006 Tax Base per student		
Halifax		\$1,119,008
Dartmouth		800,559
Sub-Total		983,746
Bedford and County		383,350
HRM		\$620,385

tax base per student for Bedford and the County is only one-third of that in the former City of Halifax.

All of this leads to the most fundamental problem inherent in supplementary funding: trying to achieve equity across HRM. There are different perceptions of equity. Some have concluded that equity requires the same tax rate across the region. Or that per student funding should be equal. The report refers to a “reasonable opportunity to access programs” and states that equitable “does not mean ‘the same’ or ‘equal’”. It does not, however, discuss what funding might be required to achieve an equitable situation. There is no discussion of how service requirements differ, what the service gap is, and how much it might cost to close that gap. The report clearly indicates that there will be “no loss of funds for the School Board’s students or schools” and “No loss of programming in areas that have historically enjoyed it”.

Impact on Service and Tax Levels

Since there is no discussion in the report on how services and taxation would be harmonized following the transfer of tax power, it is difficult to conclude how effective a solution that transfer is. For illustrative purposes one might look at three various scenarios for funding supplementary education. The first would assume that the HRSB does not require additional tax powers but can achieve equity within the current funding. The second assumes that it increases supplementary expenditures to 10% of its global budget. The third, that it increases expenditures so that students in each area of HRM receive the same per student funding as in Halifax. For simplicity, all three scenarios assume that per student funding is equalized although at different levels.

As can be seen from the above table, the impacts of each of these options is dramatic. For instance, if the current funding were re-distributed amongst the existing units the three tax rates could be harmonized at 6.0 cents. This would lead to significant cuts in expenditures in Halifax and Dartmouth but also reductions in their tax rates. In the County and Bedford the reverse would happen. Expenditures (and presumably services) would rise as would the tax rate. The impact on the average tax burden for a single home would range from an average savings of \$53 in Halifax to a cost of \$35 in Bedford and the County. Expenditures would be within the 10% limit. Based on past debates on supplementary education, it is not likely that significant progress can be made in equity with the same level of funds unless services are reduced in the former Cities.

If instead, expenditures were allowed to rise to the 10% limit, there would be an additional \$12 million to put towards the equity issue. The amount spent per student would rise considerably. There would be service enhancements in Bedford and the County and likely few service changes in Dartmouth. Halifax would likely see service reductions although their nature is not clear. Taxes in Halifax would stay almost the same but would rise in Dartmouth (by 2.1 cents or \$30 on average) and in Bedford and the County would rise by 6.0 cents or \$80 on average.

Under the third scenario each unit would receive enough funding to match the Halifax level. To increase funding to achieve this goal would require an increase in supplementary funding of \$34m for a total supplementary budget of \$55m. This requires 17% of the current HRSB Global Budget and a tax rate across the region of nearly 16 cents. This would be a substantial tax rate increase for all areas of HRM with the average dollar increase as high as \$166 in Bedford and the County.

In fairness to the school board, the issue is more complex than simply discussing per student amounts. Student enrollment levels are changing, global budgets can be re-allocated and services can be made more efficient. However, without a more extensive implementation plan it is difficult

Impact of Altering Supplementary Education Funding Levels				
	Current Status	Re-distribute Current Funding	Increase Funding to 10% of Budget	Increase Funding to Halifax per Student amount
Total Funds Required	20,846,200	20,840,600	32,700,000	54,829,400
Per Student Funding (HRSB+CSAP)	Varies (see table)	373	585	981
Percent of HRSB Global Budget	6.4%	6.4%	10.0%	16.8%
Supplementary Tax Rates (weighted):				
Halifax	8.7	6.0	9.4	15.8
Dartmouth	7.3	6.0	9.4	15.8
Bedford/County	3.4	6.0	9.4	15.8

to conclude that the Report's proposal for a transfer of 10% tax power could solve the long standing

equity problem with supplementary funding.

Loss of Tax Room

A second issue of clear concern to HRM will be the potential loss of property tax room. HRM possesses only one major revenue source, property tax. With the increases that have been seen in assessment in recent years, there has been increased pressure to limit tax increases. With a transfer of tax power to the school board, HRM may find itself competing with the HRSB for limited tax room. If one organization passes a tax increase, the other may feel pressured to accommodate taxpayers with a tax reduction. Likewise, if one reduces taxes, the other might increase their rates so as to occupy that tax room. The pressure will be felt not only in residential taxes but in the commercial area where each organization may develop its own approaches to taxing business.

Changes in Transparency

One of the potential benefits of the school board acquiring its own tax powers is that it will then hold responsibility for both the rate and the expenditures. Currently HRM is held accountable for education expenditures and taxes even though it has limited ability to influence them. In theory, with a transfer it should become more obvious to the public that this is a provincial and a school board issue, not a municipal issue. However, the report recommends that the taxes be collected by HRM for the school board. As long as the HRM portion and the HRSB portion are listed on the same tax bill (as they are now) most taxpayers will not distinguish between the municipal and non-municipal portions of the tax bill. Separate bills could be issued although this would cause extra costs.

Provincial Responsibilities

Ultimately, the Province is responsible for education policy and standards and it is the Province that should assume full responsibility for education funding. Shifting tax powers and tax room away from HRM towards a provincial area of responsibility should not be done until it is clear that there are limits towards how much fiscal capacity municipal governments could lose. One of the risks in the recommendations being made in the report is that the 10% limit being proposed will be insufficient to deal with educational funding issues. In that event additional tax room may be ceded for either of supplementary or mandatory funding. All of this will place pressure on HRM to either find new funding for municipal services or to reduce its own expenditures.

Position of Conseil Scolaire acadien provincial (CSAP)

CSAP was not a member of the Joint Working Group. At its May 30th Committee of the Whole meeting it was requested that CSAP be provided with a copy of the report and be requested to provide comments.

At its board meeting of September 23-24 the report was considered. Through its Chair, CSAP has suggested that the "issue is much larger in scope than either CSAP or HRSB" and should be

discussed "in a much broader context and forum with all parties involved". The relevant correspondence is attached.

BUDGET IMPLICATIONS

There are no immediate budget impacts.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

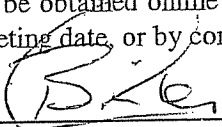
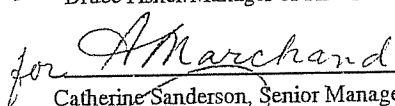
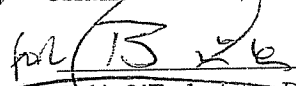
This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

Council could support the findings of the Supplementary Funding Joint Working Group. This is not recommended as it would have a negative impact on HRM's fiscal capacity and may not achieve the desired objectives of equity and accountability.

ATTACHMENTS

Correspondence from Kenneth Gaudet, Chair, Secrétariat du conseil scolaire

A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.html then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.	
Report Prepared by:	 Bruce Fisher/Manager of Fiscal and Tax Policy
Financial Review:	for  Catherine Sanderson, Senior Manager, Financial Services 490-1562
Report Approved by:	 Cathie O'Toole, Acting Director of Finance



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October 2nd , 2006

Mr. Bruce Fisher
Manager
Fiscal and Tax policy
Halifax Regional Municipality
P.O. Box 1749
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Mr. Fisher :

Thank you for the report of the Supplementary Funding Working Group and for the chance to react to the recommendations.

At our regular board meeting of September 23-24 we considered the report and rather than react directly to the report we would like to suggest that the issue is much larger in scope than either CSAP or HRSB. We believe that the issue should be discussed in a much broader context and forum with all parties involved. This way everyone would be apprised of the situations and a full and thorough debate would take place.

It is very important that all parties be on side if we want to move to taxations powers for School Boards.

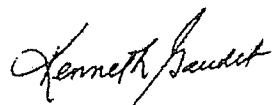
As an aside to this letter I noted in your report on page 16, *LX. Next Steps and Responsibilities for Implementation*. The second paragraph contains this erroneous statement;

“The Province of Nova Scotia has already indicated an intention to open/amend legislation affecting Supplementary Education Funding in response to litigation initiated by the Conseil Scolaire Acadien Provincial.” Page 16

Please be advised that the CSAP did not initiate any such litigation. The litigation was put forward by a group of parents who pay taxes to HRM.

We thank you and the Working Group for your continued cooperation in our joint efforts to meet the needs of the youths of this province. Please, feel free to share our suggestions with the parties involved.

Sincerely,

A handwritten signature in cursive script that reads "Kenneth Gaudet". The signature is written in black ink and is positioned above the printed name and title.

Kenneth Gaudet
Chair