

## Chapter 24

# Government Relations—Proposing Education Property Tax Mill Rates

### 1.0 MAIN POINTS

By law, Cabinet is responsible for determining the amount of education property taxes levied each year to help pay for the delivery of Pre-Kindergarten to Grade 12 education, and the related mill rates. The Ministry of Government Relations is responsible for providing Cabinet with options for education property tax mill rates for its consideration.

For the 12-month period ending June 2017, the Ministry had effective processes to propose education property tax mill rates for Cabinet approval, other than the following key areas.

The Ministry needs to provide more robust analysis of proposed mill rate options to better explain the implications of potential changes in key assumptions, and the economic and social impact of the various proposals. Without robust analysis, Cabinet may not have sufficient information to make informed decisions regarding education property tax mill rates.

While the Ministry provided detailed guidance about its mill-rate proposal process, it needs to formalize certain aspects of its processes. This includes:

- Clarifying who should review and approve mill rate options and when
- Providing guidance on when to investigate changes to assessed property values
- Documenting its rationale for proposed mill rate options, and factors it considered and their impact when making assumptions about growth
- Confirming the reasonableness of estimated assessed property values

Formalizing these aspects of its processes would help ensure they are sustainable in the event of key staff turnover.

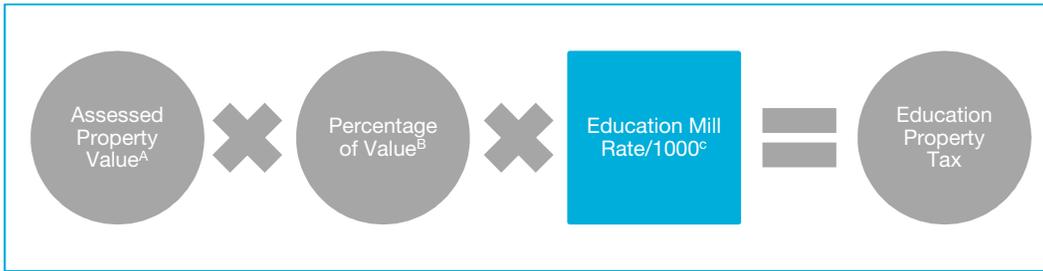
### 2.0 INTRODUCTION

This chapter provides the results of our audit of the Ministry of Government Relations' processes to propose education property tax mill rates for Cabinet approval.

As shown in **Figure 1**, in common with other property taxes, education property taxes are based on two key parts—the taxable assessment of a property (the product of assessed property value and percentage of value) and mill rate.



Figure 1 – Education Property Tax Calculation



Source: Adapted from [www.saskatchewan.ca/government/municipal-administration/taxation-and-service-fees/municipal-property-tax-tools](http://www.saskatchewan.ca/government/municipal-administration/taxation-and-service-fees/municipal-property-tax-tools) (4 October 2017).

<sup>A</sup> Determined by assessment service providers who are not part of the Government of Saskatchewan; assessed values are updated every four years or when changes to property occur (e.g., addition of a new building).

<sup>B</sup> Set by Cabinet for each property class under *The Municipalities Regulations*, *The Cities Regulations*, and *The Northern Municipalities Regulations*; education property taxes have four different property classes (i.e., agricultural, residential, commercial industrial, and resource) (Section 69 of *The Education Regulations*, 2015).

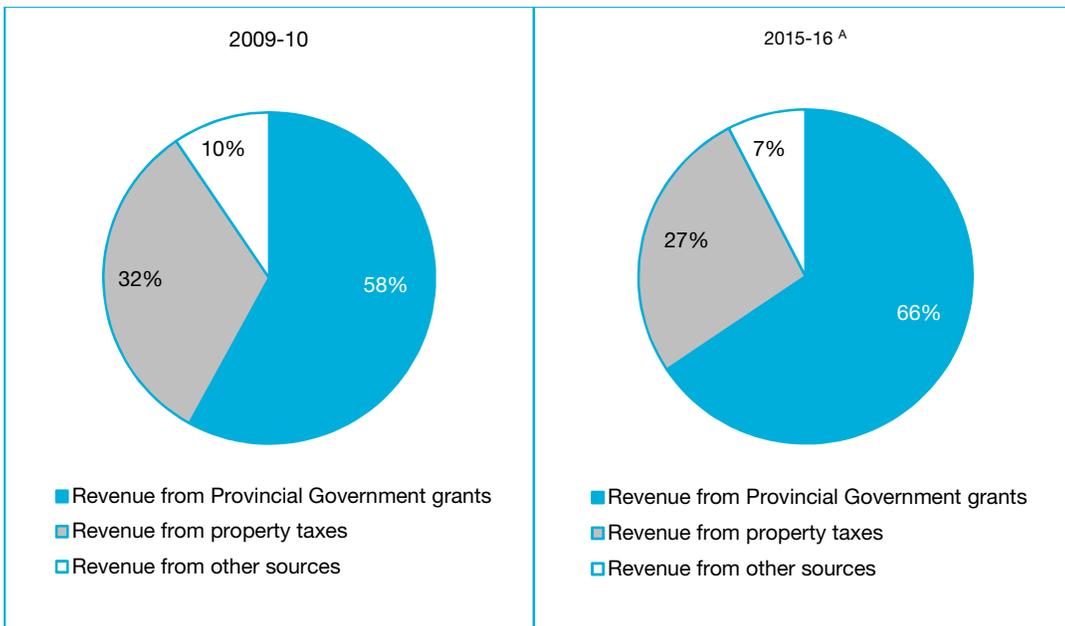
<sup>C</sup> Set by Cabinet using information prepared by Ministry of Government Relations. Property tax mill rates represent the amount, per \$1,000 of the taxable assessed value of a property, used to calculate education property taxes.

## 2.1 Education Property Taxes used to Fund PreK-12 Education

The Government funds Pre-Kindergarten to Grade 12 (PreK-12) education primarily using revenues raised from education property taxes and grants from the Ministry of Education. In 2015-16, education property tax revenues were \$651 million.

As shown in **Figure 2**, over the seven-year period from 2009-10 to 2015-16, the percentage of education property taxes as compared to total school division revenues declined 5% from 32% in 2009-10 to 27% in 2015-16. Over this period, grant revenue as compared to total revenues increased 8% from almost 58% in 2009-10 to 66% in 2015-16; and revenue from other sources (e.g., student fees) declined 3%.

Figure 2 – Combined School Division Revenues by Source of Funding

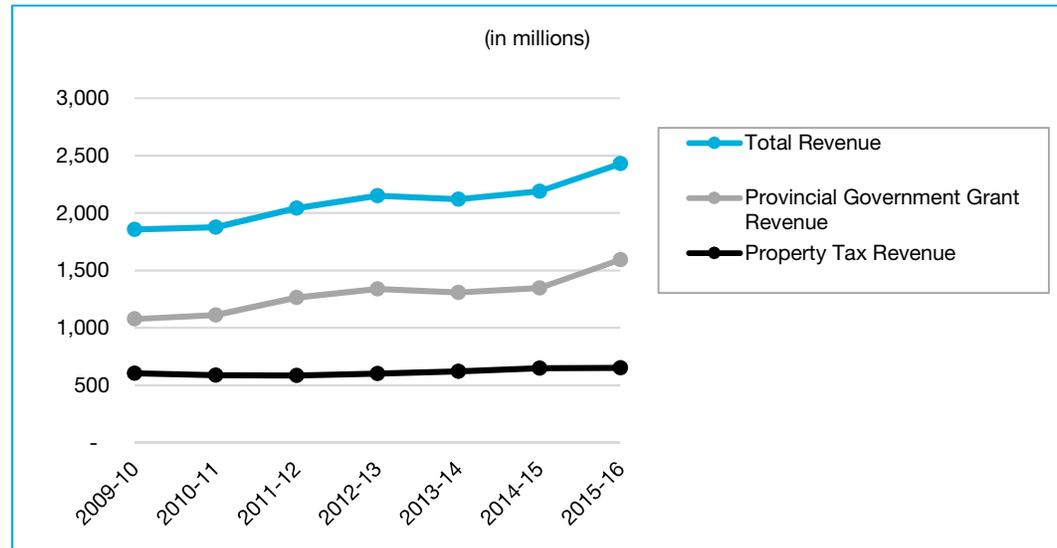


Source: Ministry of Finance information for Summary Financial Statements.

<sup>A</sup> 2016 school division revenues were the most recent available at August 2017.

Over the same seven-year period, the cost of delivering PreK-12 education in Saskatchewan increased 30%. School divisions normally operate on a break-even basis; thereby, their revenues for any given year are quite similar to their expenditures for that year. In 2015-16, school divisions had combined total revenues of \$2.4 billion as compared to \$1.8 billion in 2009-10 (see **Figure 3** for details).

**Figure 3—Combined School Division Revenues between 2009-10 and 2015-16**



Source: Ministry of Finance information for Summary Financial Statements  
2016 school division revenues were the most recent amounts available at August 2017.

In Saskatchewan, municipalities are responsible, by law, for charging and collecting the education property taxes using the Cabinet-approved mill rates. Municipalities include education property taxes on the same property tax bill as municipal property taxes. Municipalities must forward collected education property taxes to the appropriate school divisions within their municipality. Beginning January 1, 2018, municipalities must send the collected education property taxes to the Ministry of Finance instead of school divisions.<sup>1</sup>

## 2.2 Proposing Mill Rates to Cabinet

Cabinet, by law, is responsible for determining the amount of education property taxes levied each year to help pay for the delivery of PreK-12 education, and related mill rates.<sup>2</sup> It makes its mill rate decisions public through Orders in Council.

Cabinet, when setting the Provincial Budget, ultimately determines the amount of education spending and the mix of revenues from property taxes and grants (financed primarily through income taxes, resource revenues) used to deliver education.

<sup>1</sup> *The Education Property Tax Act* comes into force on January 1, 2018. Section 10(1)(b) of the Act requires municipalities to pay all proceeds of the school tax received to the Government of Saskatchewan (i.e., school divisions will no longer directly receive property tax revenues), except for those separate school divisions who choose to set their own rates.

<sup>2</sup> *The Education Act, 1995* (s.288(2)) states the Lieutenant Governor in Council, on the recommendation of the minister responsible for *The Municipalities Act*, shall determine the rate in mills. Order in Council 417/2017 assigns the Minister of Government Relations responsibility for the administration of *The Municipalities Act*.



The Ministry of Government Relations, on behalf of its Minister (by law), determines and recommends to Cabinet options for mill rates for education property taxes, other than for the City of Lloydminster<sup>3</sup> and separate school divisions.

- The City of Lloydminster, in accordance with *The Lloydminster Charter*, uses the Government of Alberta's legislation to determine its education property tax funding requirements.<sup>4,5</sup> The Ministry's role is limited to reviewing the accuracy of the City's calculations before seeking Cabinet's approval of them.
- Separate school divisions can pass bylaws to set their own education property tax mill rates.<sup>6</sup> As of September 2017, separate school divisions who have passed such bylaws have chosen to approve mill rates equal to those set by Cabinet.

The Ministry's role is to provide Cabinet with robust, objective, evidence-based mill rate options and advice so that Cabinet has a solid basis to make decisions about education property tax revenue it wants to levy. Cabinet ultimately decides which option, if any, to choose. Without effective processes to propose education property tax mill rates, the Ministry may not give Cabinet sufficient and appropriate information to make decisions. In addition, the Ministry may not achieve its goal of ensuring a fair and effective property tax regime.<sup>7</sup>

### 3.0 AUDIT CONCLUSION

**We concluded that, for July 1, 2016 to June 30, 2017, the Ministry of Government Relations had effective processes, except for the following areas, to propose education property tax mill rates for Cabinet approval. The Ministry needs to:**

- **Provide more robust analysis of proposed mill rate options that better explains the implications of potential changes in key assumptions and the impact of proposals on the economy and society**
- **Clarify who needs to review and approve mill rate options, and when**
- **Formalize certain processes to ensure they are sustainable in the event of key staff turnover**

**Figure 4—Audit Objective, Criteria, and Approach**

**Audit Objective:**

To assess the effectiveness of the Ministry of Government Relations' processes to propose education property tax mill rates for Cabinet approval for the period from July 1, 2016 to June 30, 2017.

The audit did not question whether Cabinet approved the most appropriate mill rate as this is a public policy decision.

<sup>3</sup> *The Education Act, 1995* (s. 288(3)(c)) allows establishing different mill rates for school divisions located in Lloydminster. The City of Lloydminster is located in both Saskatchewan and Alberta.

<sup>4</sup> *The Lloydminster Charter*, s. 302(2)(c), requires the City of Lloydminster to use the Government of Alberta's legislation to determine its education property tax funding requirements.

<sup>5</sup> Two school divisions operate in Lloydminster: Lloydminster School Division No. 99 and Lloydminster Roman Catholic Separate School Division No. 89.

<sup>6</sup> *The Education Act, 1995*, s.288.1.

<sup>7</sup> *Ministry of Government Relations Plan for 2017-18*, p. 6.

**Audit Criteria:**

Processes to:

1. Establish a framework for proposing mill rates
  - 1.1 Approve framework for proposing rates (e.g., policies, procedures)
  - 1.2 Establish information requirements (e.g., property assessment data, revenue requirements, municipal mill rates)
  - 1.3 Communicate information requirements (e.g., assessed property values)
  - 1.4 Periodically evaluate framework used to determine whether changes required
2. Receive and evaluate required information
  - 2.1 Gather and maintain relevant information
  - 2.2 Verify the accuracy and completeness of information received
  - 2.3 Maintain integrity of information (e.g., protect information from inadvertent or unauthorized changes)
3. Propose options for consideration
  - 3.1 Adjust property assessment data as necessary (e.g., for estimated assessment changes due to appeals, arrears, forecasted new construction)
  - 3.2 Develop education mill rate options (e.g., status quo, revenue neutral, change rate)
  - 3.3 Communicate options including recommendation to decision makers (e.g., Minister of Government Relations, Ministry of Finance, Cabinet)
  - 3.4 Communicate approved education property tax mill rates (e.g., to municipalities, school divisions, public)

**Audit Approach:**

To conduct this audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance* (including CSAE 3001). To evaluate the Ministry's processes, we used the above criteria based on our related work, reviews of literature including reports of other auditors, and consultations with management. The Ministry's management agreed with the above criteria.

We examined the Ministry's criteria, policies, and procedures that relate to proposing education property tax mill rates. We interviewed Ministry staff responsible for proposing education property tax mill rates, and reviewed documentation related to Ministry processes (e.g., process manuals, assessed property values, key assumptions used in analysis, calculations). We assessed controls over key IT applications used and tested key aspects of the Ministry's processes.

## 4.0 KEY FINDINGS AND RECOMMENDATIONS

### 4.1 Guidance for Proposing Mill Rates Substantially Complete

The Ministry has set out, in detail, the process it uses to propose education property tax mill rates.

Other than not providing sufficient guidance to assist staff in identifying which changes in assessed property values to investigate, and documenting the basis of decisions on which mill rate options to propose, the guidance is complete and understandable.

#### Process Manuals Up-to-Date

The Ministry has assigned responsibility for developing education property tax mill rate options mainly to two key employees within its Policy and Programs Services Division—both have significant hands-on experience and knowledge of the process.

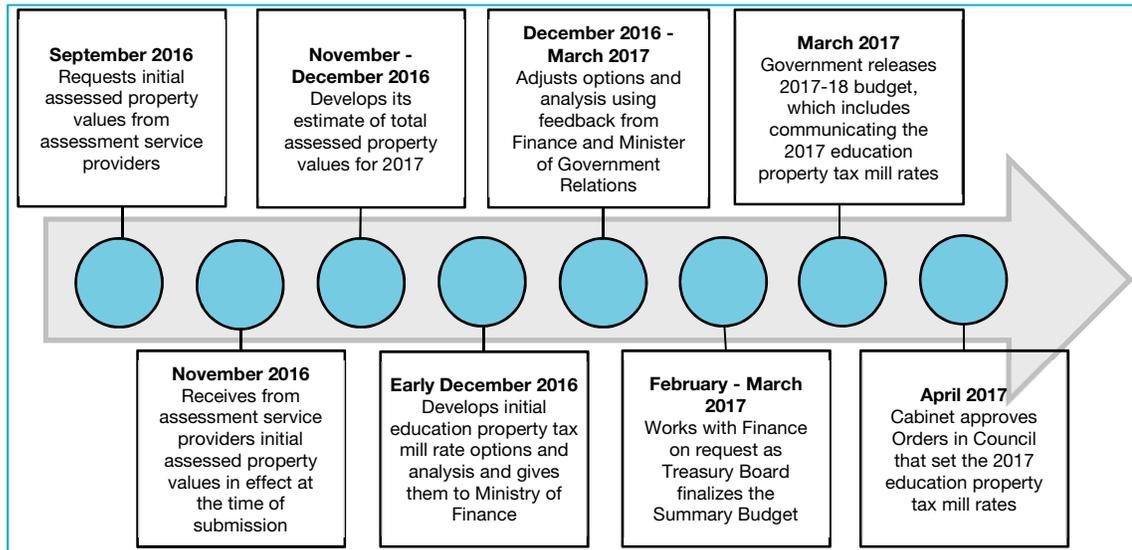
In 2015, the Ministry developed a Process Manual to document its process for proposing mill rates, and last updated it in December 2016. The Ministry's Process Manual gives



staff guidance on proposing education property tax mill rates for Saskatchewan. It includes guidance for:

- Collecting information (e.g., initial assessed property values)
- Validating information received and adjusting where needed
- Estimating the taxable assessment
- Preparing and reporting options for mill rates

**Figure 5—Government Relations 2017 Education Property Tax Mill Rate Process and General Timing**



Source: Developed by Provincial Auditor.

We also found the Process Manual aligns with Ministry guidance for setting municipal property taxes, and its process is similar to other jurisdictions.<sup>8</sup>

With respect to the City of Lloydminster’s mill rates, we found the Ministry had appropriate processes to confirm the accuracy of the calculations and followed its processes.

With respect to estimating the total assessed value of Saskatchewan properties for the upcoming year, the Process Manual recognizes this estimate is critical as it forms the basis of the education property tax calculation. It highlights complexities in making this estimate (e.g., information is from differing timeframes, assessed property values change continuously due to changes in property [new construction, change in classification]).

On the Government’s behalf, Saskatchewan’s almost 800 municipalities<sup>9</sup> calculate and collect education property taxes for Saskatchewan based on the calendar year (January to December). When preparing the Government’s summary budget, the Ministry uses information on education property taxes for the upcoming calendar year as an estimate for the Government’s fiscal year (i.e., April to March).

<sup>8</sup> The Ministry’s process for setting education mill rates is similar to that outlined in *Property Taxation in Ontario: A Guide For Municipalities*, and *Guide to property assessment and taxation in Alberta*.

<sup>9</sup> [www.saskatchewan.ca/government/government-structure/local-federal-and-other-governments/your-local-government/about-the-saskatchewan-municipal-system](http://www.saskatchewan.ca/government/government-structure/local-federal-and-other-governments/your-local-government/about-the-saskatchewan-municipal-system) (28 July 2017). At July 2017, Saskatchewan had 779 municipalities.

## Clearer Guidance Needed for Determining Changes in Assessed Property Values to Investigate

We found that the Ministry did not give staff enough guidance to help them determine whether certain changes or variances in assessed property values are significant (e.g., would significantly impact expected property tax revenues to the extent that Cabinet may select different mill rate options).

The Manual expects staff to investigate wide variations identified when verifying total assessed property values submitted. In this chapter, we refer to these values as initial assessed property values in that they reflect assessed property values in place at the time of assessment service providers' submission (in the fall).

In addition, it expects staff to confirm with assessment service providers whether significant changes in initial assessed property values occurred between the fall (when values are submitted) and the date of the release of the Provincial Budget (normally late March).

In absence of guidance, staff indicated they use an informal threshold of 1% of initial assessed property values to determine whether changes or variances are significant. We found this informal threshold for 2017 to be reasonable; we determined that a decrease in total assessed property values of just under 1% (approximately \$1.6 billion decrease) would decrease revenues from education property taxes by about 1% (or approximately \$7 million).

Because of the small number of staff involved in the mill rate option process (two or three individuals), using informal processes increases the risk of those processes not continuing as expected in the event of key staff turnover. Also, formal guidance on what the Ministry considers significant would help ensure it uses staff resources wisely (that is, only investigate differences viewed as important).

1. We recommend that the Ministry of Government Relations give staff guidance on when to investigate changes to assessed property values used in proposing education property tax mill rates.

## Requirement to Document Basis for Options Proposed Needed

The Process Manual does not require management to document the basis of their choices of which mill rate options it develops and proposes. As discussed in further detail in **Section 4.3**, we found management does not document this.

The Process Manual describes five possible mill rate options the Ministry may consider proposing (see **Figure 6**), and notes other options may be considered.

**Figure 6—Ministry of Government Relations Process Manual: Mill Rate Options**

1. Status quo (keep mill rates the same as in the prior year)
2. Revenue neutral (adjust mill rates to keep revenue raised from education property taxes at the same amount as in the prior year)
3. Adjust the share of total education funding provided by education property taxes vis-a-vis government grants (adjust the ratio between education property taxes and grants from the Ministry of Education)
4. Increase total education property tax revenues
5. Adjust distribution between property classes

Source: Ministry of Government Relations Education Property Tax Mill Rate Estimates Process Manual, December 2016.



With respect to developing mill rate options, the Process Manual includes detailed guidance on developing four of the five potential mill rate options for consideration. It provides less detail in the following two areas—adjusting the distribution of amounts collected through each property class and considering the impact of municipal mill rates when developing mill rate options.

Not documenting the rationale for decisions made could result in the Ministry being unable to show it proposed evidence-based and objective mill rate options to key decision makers, especially in the event of key personnel turnover.

- 2. We recommend that the Ministry of Government Relations document its rationale for decisions made on which education property tax mill rate options to propose.**

## **4.2 More Needed to Confirm Reasonableness of Estimated Total Assessed Property Values**

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The Ministry could do more to confirm the reasonableness of its estimate of total assessed property values for the upcoming year. This estimate provides the basis of its determination of mill rate options.

As described below, while the Ministry followed its established guidance to estimate total assessed property values for the upcoming year, the Ministry did not do the following. It did not document the factors it considered when estimating the growth in assessed property value. Also, it did not formally confirm that its estimate of assessed property value adequately considered significant changes to assessed property values between November 2016 and when the mill rate options were finalized in March 2017, if any.

### **Accuracy of Initial Assessed Property Values Verified**

The Ministry received initial assessed property values as requested from assessment service providers in the fall of each year, and verified their completeness and accuracy.

Each year, the Ministry:

- Sends letters to assessment service providers each fall requesting initial assessed property values. The letters included the desired format of the information, and the submission deadline. It sent these letters in September 2016 to five assessment service providers and asked for responses by the end of November 2016. Saskatchewan Assessment Management Agency is the most used assessment service provider; it assessed over one-half of initial assessed property values in Saskatchewan.
- Gathers other information (i.e., economic indicators like commodity prices and real estate supply and demand trends) to help it estimate assessed property values for the upcoming taxation year (e.g., 2017 calendar year).
- Requests property tax mill rate calculations from the City of Lloydminster (requested in February 2017 for the 2017-18 budget cycle).

Where assessment service providers did not provide initial assessed property values by the date requested, the Ministry followed up within a reasonable timeframe. We found that it had information for all properties within the province before it estimated assessed property values for the upcoming year.

To verify the completeness and accuracy of the initial assessed property values, the Ministry compared them to:

- The assessment roll confirmation reports that the Saskatchewan Assessment Management Agency maintains.<sup>10</sup>
- Taxable assessment information from municipalities. Each year, most municipalities complete the Ministry's annual mill rate survey to provide the Ministry with taxable assessment information.
- Its prior year estimate of assessed property value.

It adjusted initial assessed property values where it determined that adjustments were needed (e.g., changes as a result of new percentages of value and known or anticipated revaluations of property values).

In addition, the Ministry summarized the values received for use in estimating the assessed property values for the upcoming year. We checked that the summarized information agreed to the original information received from the assessment service providers and did not find any errors.

### **Key Factors Used to Make Growth Rates Assumptions Not Documented**

The Ministry did not document the factors it considered when assuming the rate at which assessed property values of each property class would grow in the upcoming year. Growth rates are the most significant assumption the Ministry makes when estimating assessed property value for the upcoming year.

Each year, the Ministry appropriately uses historical data to assess the accuracy of its prior year growth rate assumptions. For example in 2016, it used roll confirmation reports and taxable assessment information to assess the accuracy of its 2016 assumptions of growth in assessed property value. It determined actual overall 2016 growth was slightly higher than its 2016 growth assumptions. For example, for residential property it expected growth of 2.5% while actual growth was 2.82%.

Management told us that besides historical data, it considers the economic factors outlined in its Process Manual (e.g., number of building permits, commodity prices, status of large commercial and industrial construction projects). It indicated that it uses these factors to adjust its assumed rate of growth in assessed property value. For example in 2017, it increased its growth rate assumption for commercial property from 1.5% to 2%.

However, the Ministry could not show us the specific factors it considered when making growth rates assumptions or explain how these factors specifically impacted its selection of the 2017 assumptions.

<sup>10</sup> Roll confirmation reports contain the property assessment totals that municipalities use to bill property taxes. Saskatchewan Assessment Management Agency must annually confirm the totals before the municipality can enforce collection of property tax.



Not documenting how it makes assumptions about growth in assessed property values increases the risk of the process not continuing as expected in the event of key staff turnover. Furthermore, not having this level of documentation may result in the Ministry not being able to determine reasons for differences between actual and assumed growth rates or provide robust, evidence-based mill rate options to senior management and other decision makers.

- 3. We recommend that the Ministry of Government Relations document the factors it considered and their impact when making assumptions about growth in assessed property values as part of its determination of education property tax mill rate options.**

### Estimates of Uncollectible Taxes Reasonable

The Ministry periodically assesses the validity of its estimate of uncollected education property taxes (i.e., education property tax cancellations and tax arrears); 2017 estimates of cancellations appear reasonable.

During 2013, the Ministry concluded year-to-year changes in tax arrears are too unpredictable to reasonably estimate. As such, the Ministry decided not to consider the impact of tax arrears when estimating assessed property values for the upcoming year. Tax arrears are taxes that property owners owe after December 31 of the current tax year.

Also, during 2013, the Ministry used reconciliations<sup>11</sup> from the prior three years to estimate cancellations. Using the average of the three years, the Ministry determined approximately 0.4% of taxes levied are cancelled. Cancellations can occur when a natural disaster, such as a fire, destroys a property. Since 2013, the Ministry continues to assume this percentage of taxes levied are cancelled when estimating assessed property value for the upcoming year.

We confirmed the continued validity of these assumptions. We did the following:

- For cancellations, we calculated the average cancellations to be 0.33% using data from the last six years. We found that using 0.33% instead of the Ministry's assumed cancellation percentage would not have significantly impacted the estimated assessed property values for the upcoming year and in turn the 2017 mill rates ultimately approved by Cabinet. For 2016, cancelled education property taxes totalled \$1.9 million.
- For arrears, we reviewed actual tax arrears over the last six years and agreed with the Ministry that a discernable pattern of changes is not evident, and as such, they are not predictable. Changes in education property taxes in arrears varied greatly from year to year, for example, an increase of \$2.3 million in 2016 to a decrease of \$5.7 million in 2011. Total outstanding tax arrears were about \$50 million in 2016 and about \$47 million in 2011.

<sup>11</sup> Reconciliations prepared by the Ministry of Education.

## Confirmation of Reasonableness of Estimated Assessed Property Values Informal

The Ministry used informal discussions to confirm the reasonableness of its estimated assessed property values for the upcoming year and did not document the results of its work.

As previously noted, the Ministry expects staff to confirm significant changes from initial assessed property values because they change continually.

Management said it determined no significant changes occurred to the 2016 initial assessed property values through conversations with assessment service providers in March 2017. It did not document these conversations. Initial assessed property values used to determine the 2017 education property tax mill rates totalled approximately \$163.1 billion.

We confirmed the 2016 initial assessed property values did not change significantly between November 2016 and March 2017 for the properties we examined. To determine if significant changes occurred, we compared total assessed property values as of March 1, 2017, for over one-half of the properties (from the largest assessment service provider, Saskatchewan Assessment Management Agency) to the initial assessed property values. We observed an increase of about \$500 million in total assessed property values (0.3% of initial assessed property values). We determined this size of an increase would not have resulted in a change in the proposed mill rates.

Using informal processes increases the risk that those processes will not continue as expected in the event of key staff turnover. Not confirming the basis of its estimated property values increases the risk that the Ministry may base its mill rate options on outdated assessed property values, which could result in the Ministry not providing robust information to Cabinet for making decisions on mill rates.

4. We recommend that the Ministry of Government Relations formalize its process for confirming the reasonableness of estimated assessed property values used in proposing education property tax mill rates.

## 4.3 Basis of Selection of Mill Rate Options and Analysis Unclear

The Ministry does not include its reasons for selecting the options proposed in the information it provides to decision makers about proposed mill rate options.

To help it develop options, Ministry staff obtained from the Ministry of Finance (in December 2016 for the 2017-18 budget cycle) an estimate<sup>12</sup> of revenue necessary to pay for the delivery of PreK-12 education in the upcoming year.

For the 2017-18 budget cycle, the Ministry initially gave the Ministry of Finance, then later its Deputy Minister and Minister, the first three mill rate options set out in **Figure 6**. Based on feedback from the Minister of Government Relations, staff considered and later prepared (and Cabinet ultimately approved) another mill rate option (i.e., rates to raise

<sup>12</sup> This estimate is subject to final review and approval through the Government's budget finalization process.



specific revenue amounts for each property class). In its communications with these parties, the Ministry did not document why it initially chose the three options.

As noted in **Section 4.1**, the Ministry does not require staff to document the reasons for choices made. We think it should. See **Recommendation 2**.

### **More Robust Analysis of Options Needed**

While the Ministry provides decision makers with impact analysis for each mill rate option proposed, the analysis could be more robust. We found gaps in some areas of the analysis provided.

We reviewed the Ministry's analysis for each of the four options proposed for 2017. We assessed the level of detail provided with respect to economic, social, and public policy impacts, and whether the analysis sufficiently conveyed the uncertainty resulting from the assumptions used to prepare the options.

We found:

- Pros and cons of each option was a high-level summary with limited detail (e.g., whether option generates additional revenue for government, impact on split of education funding between property taxes and government general revenues, general commentary regarding burden on taxpayers).
- For impact on public policy, discussion for each option that the Ministry prepared included a discussion of the expected impact of each option on the Government's public commitment to fund 60% of costs of education from general revenues (i.e., grants from the Ministry of Education) and 40% from property taxes. However, it did not include implications on other public policies related to provincial-municipal relations.
- For impact on average property owners (social and economic), discussion included the results of the Ministry's calculated expected education property taxes for each of the options for a sample of 24 different property categories located across the province (e.g., commercial, residential, agricultural and resource properties from 10 municipalities).

However, it did not include discussion of the known or expected impact of the overall property tax burden (that is, include consideration of known changes in municipal property taxes) and the combined impact on disposable income or the economy (e.g., reduced investments, less discretionary spending).

Also, the analysis did not consider the potential impact on the Ministry's assumption about uncollectible taxes, given the projected slower growth in the economy for the upcoming year could impact property tax owners' ability to pay. Rather, information only noted that adjusting mill rates may be seen by some in the commercial, industrial, and resource sectors as possibly dampening economic growth.

- For social impact, the analysis did not discuss the potential impact on housing affordability (e.g., general discussion of trend in housing affordability and whether options proposed are expected to impact that trend), given the cost of property taxes are borne not only by property owners but by renters.

- For sensitivity of the growth-rate assumptions, the analysis clearly set out the 2017 property value growth-rate assumptions as compared to prior year assumptions and actuals, high-level rationale for current year assumptions, and detailed calculations showing the impact of each option on estimated revenues and share of revenues by property class. It also clearly showed estimated revenues, by property class, both before and after applying growth-rate assumptions.

However, it did not explain the impact of potential changes in growth rates (from its assumed rates) on expected education property tax revenue. For example, a change in the 2017 rate of growth in the assessed property value growth rates of +/- 0.5% could change the expected education property tax revenues by approximately \$3.7 million (between \$230,000 to \$1.8 million for individual property classes).

- Analysis did not provide insight into the accuracy of the Ministry's prior year expected education property tax revenue (e.g., compare actual education property tax revenue raised in the prior year to prior year expected).

Without robust, objective, and evidence-based analysis of mill rate options, including an assessment of the impact of changes in key estimates (i.e., sensitivity analysis) and a high-level analysis of economic and social impacts, key decision makers may not have sufficient information to make informed decisions.

- 5. We recommend that the Ministry of Government Relations include the impact of potential changes in key assumptions (property growth rates) and more information on economic and social impacts when proposing education property tax mill rate options to decision makers.**

## 4.4 Clearer Process to Approve Proposed Mill Rate Options Needed

The Ministry has not formalized if and who must review and approve its proposed mill rate options and their basis before it shares these options outside the Ministry.

We found it unclear if and at what point Ministry-related decision makers (e.g., members of senior management, the Deputy Minister, the Minister) expect to see the mill rate options proposed, and the related analysis of their potential impact and basis before the Ministry proposes them externally (e.g., to the Ministry of Finance). The Ministry of Finance assists Treasury Board and Cabinet in reviewing the mill rate options as part of the Government's annual budget cycle. As a result, we could not determine if staff met expectations.

Guidance in this area is limited. The Process Manual:

- Requires a peer review of calculations used to estimate education property tax revenues under the status quo option, which is the basis for all other mill rate options. This review is to check the accuracy (including formulas) of relevant spreadsheets but not the reasonableness of the key assumptions used (e.g., growth rate) or robustness of the range of mill rate options proposed.



We found Ministry staff completed this level of review as expected and before the Ministry proposed mill rate options to the Ministry of Finance in December 2016.

- Indicates that the related Executive Director should review some of the work on a selective basis for accuracy.

Although management indicated that the Executive Director reviewed the 2017 mill rate options and related key estimates before the Ministry communicated them to the Ministry of Finance, we did not find evidence of this review.

In addition, it was unclear if the extent of the Executive Director's review considered whether the Ministry provided a sufficient range of options and whether its analysis of options was sufficiently robust.

We found that the Deputy Minister and Minister did not see the options prior to the Ministry proposing them to the Ministry of Finance. We noted that the Deputy Minister and Minister asked for, and were provided with, the options and their basis in January 2017.

Not having a clear or formal process for reviewing and approving mill rate options and their basis increases the risk of providing Cabinet with inaccurate or incomplete information. This may affect the ability of Cabinet to make informed decisions. There is also a risk that mill rate options proposed are inconsistent with senior management expectations, which could result in limited staff resources not being used efficiently (e.g., due to having to re-do work or doing work that is not necessary).

- 6. We recommend that the Ministry of Government Relations formalize which levels of management need to review and approve proposed education property tax mill rate options, and when.**

## **4.5 Education Property Tax Information Understandable and Mill Rates Shared Upon Approval**

The Ministry communicates understandable information on education property taxes including the Cabinet-approved mill rates to augment information included in the related Order in Council. It shares the rates promptly after Cabinet approval.

Because Cabinet approves education property tax mill rates through Orders in Council, the mill rates are publicly available on the Government's publications website.<sup>13</sup>

The Ministry's website<sup>14</sup> briefly describes how education property taxes are calculated, who collects them, and whether incentives and penalties apply.<sup>15</sup> In addition, it briefly explains how the Government determined the education property tax mill rates for the current year, and sets out the education property tax mill rates in effect for the current year as compared to the prior year.

<sup>13</sup> See [www.publications.gov.sk.ca/deplist.cfm?d=188&c=5119](http://www.publications.gov.sk.ca/deplist.cfm?d=188&c=5119) (9 September 2017).

<sup>14</sup> [www.saskatchewan.ca/residents/taxes-and-investments/property-taxes/education-property-tax-system](http://www.saskatchewan.ca/residents/taxes-and-investments/property-taxes/education-property-tax-system) (26 September 2017).

<sup>15</sup> As of January 1, 2013, discounts and incentives are no longer applicable to education property tax. Penalties may still be applied to education property taxes at penalty rates established by the municipality.

For Cabinet-approved education property tax mill rates for the City of Lloydminster, the Ministry does not publish additional information as information is available in the Order in Council and the City of Lloydminster provides information on the rates and related rate setting process on its website.<sup>16</sup> The Ministry could consider publishing additional information to make the public aware of the different process used to set education property tax mill rates for the City of Lloydminster.

In addition, the Ministry advised, in writing, all municipalities and school divisions<sup>17</sup> of the Cabinet-approved education property tax mill rates the same day Cabinet approved them (i.e., on April 27, 2017, for the 2017 mill rates). The Ministry's letters to each of them briefly explained how the Government determined the education property tax mill rates for the current year (similar to information included on its website).

The Minister of Finance had previously communicated in the Budget Address on March 22, 2017, that it was making education property tax mill rates adjustments to bring the contribution level of education property taxes to 40% of Kindergarten to Grade 12 school funding.<sup>18</sup> It announced the 2017 mill rates and indicated that it plans to collect an additional \$67 million of education property tax revenue in 2017-18, an increase of 9.8% from 2015-16.<sup>19</sup>

## 5.0 2013 TO 2017 EDUCATION PROPERTY MILL RATES AND PERCENTAGE OF VALUE BY PROPERTY CLASS

Property Class for Purpose of Calculating Education Property Tax (description) <sup>A</sup>	2017	2016	2015	2014	2013
	Education Mill Rate (MR) & Percentage of Value (POV) Other Than City of Lloydminster				
Agricultural Property Includes: Non-arable (range) land and improvements  Other agricultural land and improvements	MR 1.43		MR 2.67		
	POV 45%		POV 40%		
			POV 55%		
Residential Property (includes residential, multi-unit residential; and seasonal residential)	MR 4.12		MR 5.03		
	POV 80%		POV 70%		
Commercial Industrial Property (includes elevators; railway rights of way; land and improvements used or intended to be used for business purposes or institutional, government, recreational, or cultural purposes; and land and improvements not specifically included in another property class)	MR 6.27		MR 8.28		
			POV 100%		
Resource Property (includes land and improvements designed, built, being built, used, or intended to be used for the extraction of a mineral resource; and a pipeline and other land and improvements used in conjunction with a pipeline)	MR 9.68		MR 11.04		
			POV 100%		

<sup>16</sup> [www.lloydminster.ca/faq.aspx?TID=32](http://www.lloydminster.ca/faq.aspx?TID=32) (26 September 2017).

<sup>17</sup> *The Education Act, 1995*, section 289 requires the Minister of Government Relations to tell school divisions the Cabinet-approved mill rates for education property taxes.

<sup>18</sup> Government of Saskatchewan, *Saskatchewan Provincial Budget 17-18 Meeting the Challenge*, p. 11.

<sup>19</sup> [www.saskatchewan.ca/government/news-and-media/2017/march/22/budget-education-property-taxes](http://www.saskatchewan.ca/government/news-and-media/2017/march/22/budget-education-property-taxes) (18 August 2017).



Property Class for Purpose of Calculating Education Property Tax (description) <sup>A</sup>	2017	2016	2015	2014	2013
<b>Education Mill Rates for City of Lloydminster</b>					
Agricultural Property	2.8314	2.3955	2.2641	2.3954	2.4559
Residential Property	2.8314	2.3955	2.2641	2.3954	2.4559
Commercial Industrial Property	4.0185	3.5075	3.2930	3.5406	3.7042
Resource Property	4.0185	3.5075	3.2930	3.5406	3.7042

Source: Orders in Council 172/2017, 173/2017, 56/2016, 188/2016, 177/2015, 210/2015, 159/2014, 172/2014, 430/2013, and 261/2013.

<sup>A</sup> Property classes as set out in *The Education Regulations, 2015*, section 69, for the purpose of education property tax. These classes combine certain classes set out in *The Municipalities Regulations, The Cities Regulations, and The Northern Municipalities Regulations*.

## 6.0 2009 TO 2016 REVENUES FOR PRE-K TO 12 EDUCATION SECTOR

(in millions)	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Total Revenue <sup>A, B</sup>	\$1,857	\$1,877	\$2,043	\$2,151	\$2,121	\$2,189	\$2,429
% Year-over-year change	4.74%	1.08%	8.84%	5.29%	(1.39)%	3.21%	10.9%
<b>Total Revenue by Type and Percentage of Total Revenue by Type</b>							
Property Tax	\$603	\$588	\$584	\$601	\$620	\$648	\$651
% of Total Revenue from Property Taxes	32.5%	31.3%	28.6%	27.9%	29.2%	29.6%	26.8%
Ministry of Education Grants <sup>C</sup>	\$1,077	\$1,112	\$1,265	\$1,338	\$1,307	\$1,346	\$1,593
% of Total Revenue from Grants	58.0%	59.2%	61.9%	62.2%	61.6%	61.5%	65.6%

Source: Ministry of Finance Summary Financial Statement records.

<sup>A</sup> Revenue based on fiscal year of school divisions of September 1 to August 31.

<sup>B</sup> Total revenue includes all sources (e.g., property taxes, operating grants, capital grants, school-generated funds).

<sup>C</sup> Grant revenue includes operating and capital grants primarily from the Ministry of Education.

## 7.0 GLOSSARY

**Assessment service provider**—An organization that determines the value of every property within its jurisdiction and to which class each property belongs. Most municipalities in Saskatchewan use the Saskatchewan Assessment Management Agency (SAMA) as their

assessment service provider. The cities of Regina, Saskatoon, Prince Albert, Swift Current, Meadow Lake, and North Battleford, and the towns of Battleford and Nipawin do not.<sup>20,21</sup>

**Assessed value of a property (assessed property value)**—The value of a property for property taxation purposes as determined by law.<sup>22</sup> The assessed value of properties reflects a base date of January 1, 2015. Each municipality uses a service provider (assessment appraiser) to assess, for property taxation purposes, the value of every property within its jurisdiction. During the assessment of property value, the service provider also determines to which class each property belongs. Municipalities update assessed values every four years (i.e., revaluation). A revaluation occurred during 2017.

**Mill rate**—The amount of tax that is paid per \$1,000 of assessed property value. Each taxing authority (e.g., municipalities, separate school divisions and the Government of Saskatchewan [Cabinet]) can set mill rates to raise the revenue required by their current year budget to operate the municipalities and schools, respectively. In Saskatchewan, mill rates have two components—the municipal portion and the education portion. Municipalities establish the municipal mill rate usually after they have approved their budget for the year. Cabinet establishes mill rates for education applicable to all properties in Saskatchewan (other than for the City of Lloydminster). For the City of Lloydminster, the Governments of Alberta and Saskatchewan work together to establish a uniform education mill rate.

For example, if the mill rate (municipal and school) is 12.5 mills for every \$1,000 of assessment, the property owner will pay \$12.50 of taxes. Therefore, if the property is assessed at \$100,000 the tax bill would be \$1,250. Taxable Assessment X Mill rate / 1000 = Property tax amount.

**Property class**—The Government (Cabinet) establishes property classes for use by municipalities and itself to apply tax policy decisions (e.g., minimum tax, base tax). The Ministry re-examines property classes every four years in conjunction with revaluation. At September 2017, property classes for the purposes of provincial education property taxes included: agricultural, residential, commercial industrial, and resource.

**Percentage of value (Provincial Percentage)**—The taxable portion of the assessed value of a property based on the Government (Cabinet) established percentage for each property class. The Ministry re-examines these percentages every four years in conjunction with the revaluation. In November 2016, Cabinet approved the percentages of value for use in 2017 property tax calculations. *The Municipalities Regulations*, sections 39 and 40, set out property classes and a percentage of value in effect for each class, respectively.<sup>23</sup>

**Property assessment**—Assigning a value, for taxation purposes, for a property and assigning each property to a property class.

**Revaluation**—A periodic review of the value of all property in a municipality. In Saskatchewan, this is to occur, by law, every four years and serves to update the assessed value of each property

<sup>20</sup> Section 22 of *The Assessment Management Agency Act* makes SAMA responsible to provide direction and supervision for the assessment of all Saskatchewan properties every four years. Unless the cities of Regina, Saskatoon, Moose Jaw, and Prince Albert enter into an agreement with SAMA, these four cities must perform their own assessments. With the written consent of SAMA and the minister responsible for SAMA, any other municipality may perform its own assessments.

<sup>21</sup> The cities of Meadow Lake and North Battleford, and the towns of Battleford and Nipawin engage a private company as their assessment service provider. Effective January 1, 2018, these municipalities will use SAMA. The cities of Regina, Saskatoon, Prince Albert, and Swift Current use their own internal assessment departments.

<sup>22</sup> The assessed value of a property in accordance with *The Cities Act*, *The Northern Municipalities Act, 2010* or *The Municipalities Act* and *The Assessment Management Agency Act*.

<sup>23</sup> Property classes and percentage of value for each class for cities and northern municipalities are set out in *The Cities Regulations*, sections 12 and 13, and *The Northern Municipalities Regulations*, sections 27 and 28, respectively.



to a more current valuation base date. For the 2017 revaluation, the legislated valuation base date is January 1, 2015.

**Taxable Assessment (Taxable Assessed Value)**—A value based on multiplying the assessed value of a property by the applicable provincial percentage. The applicable provincial percentage is based on the class of the property. For example, the applicable provincial percentage for certain agricultural properties in 2017 is 45%.

## 8.0 SELECTED REFERENCES

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