

Chapter 35 Government Relations—Proposing Education Property Tax Mill Rates

1.0 MAIN POINTS

By September 2019, the Ministry of Government Relations implemented four of the six recommendations made in our 2017 audit of its processes to propose education property tax mill rates and partially implemented the two remaining recommendations.

The Ministry gave its staff more robust and comprehensive written guidance about the process it expects staff to use. In addition, it better documented options proposed.

However, the Ministry needs to better document why it proposed certain education property tax mill rate options over other potential options. In addition, it needs to include in its proposal submitted to decision makers, a more robust impact analysis for its proposed options. Without robust analysis, decision makers may have insufficient information to make informed decisions regarding education property tax mill rates.

2.0 INTRODUCTION

This chapter describes our first follow-up of management's actions on the recommendations we made in 2017.

Our *2017 Report – Volume 2*, Chapter 24, concluded, from July 1, 2016 to June 30, 2017, the Ministry of Government Relations had effective processes to propose education property tax mill rates for Cabinet approval except for the areas related to our six recommendations.

To conduct this audit engagement, we followed the standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (CSAE 3001). To evaluate the Ministry's progress toward meeting our recommendations, we used the relevant criteria from the original audit. Ministry management agreed with the criteria in the original audit.

2.1 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.¹ It makes its mill rate decisions public through Orders in Council.

¹ *The Education Property Tax Act* (s. 6(1)) indicates the Lieutenant Governor in Council shall determine the mill rates. 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 and resource revenues) used to deliver education.



The Ministry of Government Relations, on behalf of its Minister (by law), determines and recommends options for education property tax mill rates, other than for the City of Lloydminster and separate school divisions.^{2,3}

- 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.^{4,5} 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.⁶ As of September 2019, separate school divisions that passed such bylaws chose to approve mill rates equal to those set by Cabinet.

The Ministry has a goal of ensuring a fair and effective property tax regime.⁷ **Section 5.0** briefly describes the key components of property taxes.

With respect to education property taxes, the Ministry's role is to provide Cabinet with robust, objective, evidence-based mill rate options and advice so 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.

Section 4.0 highlights the Ministry's process to propose mill rate options to Treasury Board.

3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at September 30, 2019, and the Ministry's actions up to that date.

3.1 Rationale for Key Decisions Needed

We recommended the Ministry of Government Relations document its rationale for decisions made on which education property tax mill rates to propose. (2017 Report – Volume 2, p. 166, Recommendation 2; Public Accounts Committee agreement October 10, 2018)

Status—Partially Implemented

While the Ministry better documents the various options staff consider when proposing education property tax mill rates, it does not clearly document its rationale for selecting options proposed to Treasury Board.

² *The Education Property Tax Act* (s. 3) assigns responsibility for the “establishment, operation, collection, administration or management of school tax” to the Minister of Government Relations.

³ *The Education Property Tax Act* (s. 6(2)(b)) allows establishing different mill rates for school divisions located in Lloydminster. The City of Lloydminster is located in both Saskatchewan and Alberta.

⁴ *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.

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

⁶ *The Education Property Tax Act*, s.7(1).

⁷ *Ministry of Government Relations Plan for 2019–20*, p. 4.

The Ministry's manual includes potential mill rate options (e.g., no change to mill rates, adjust mill rates to keep revenue the same as prior year, increase revenues) and directs staff to document rationale for the options chosen in its options paper.

We found its December 2018 options paper included some pros and cons of the selected options. However, the paper did not explain why the Ministry chose those options over other options.

Only a small number of staff (about three) are involved in the Ministry's process to assess and propose education property tax mill rates.

Not documenting the rationale for decisions made could result in decision makers not understanding the evidence on which the Ministry based its proposed mill rate options. In addition, it may result in the Ministry being unable to explain the basis for its proposed options, especially in the event of key personnel turnover.

3.2 Key Assumptions Supported, But More Robust Impact Analysis Needed

We recommended 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. (2017 Report – Volume 2, p. 168, Recommendation 3; Public Accounts Committee agreement October 10, 2018)

Status—Implemented

We recommended 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. (2017 Report – Volume 2, p. 171, Recommendation 5; Public Accounts Committee agreement October 10, 2018)

Status—Partially Implemented

The Ministry clearly documented the factors it considered and their impact when making assumptions about growth in assessed property values. In addition, since our initial 2017 audit, the Ministry improved its analysis of each proposed mill rate option, but further improvements are needed.

Growth rates are the most significant assumption the Ministry makes when estimating assessed property values for the upcoming year.

We found the Ministry's December 2018 options paper:

- Included factors it considered when setting growth rates
- Referenced the external sources of information the Ministry used (e.g., building permit information provided by the Saskatchewan Construction Association) when estimating the growth rate



- Discussed the impact of certain proposed options on other public policies related to provincial-municipal relations (e.g., establishing limits on municipal mill rate ratios)
- Provided some high-level discussion of economic impacts for the various options proposed (e.g., impact of options on certain sectors of the economy)

However, the paper did not include the following:

- An assessment of the impact of changes in the growth rate assumption on each option. A 1% change in the growth rate in each property class affects education property tax revenue by approximately \$3.7 million.
- Information about the social impact of proposed options (e.g., potential impact on housing affordability such as a general discussion of the trend in housing affordability and whether proposed options expect to impact that trend) given the cost of property taxes are borne not only by property owners, but also by renters.

Without robust, objective, and evidence-based analysis of mill rate options, key decision makers may have insufficient information to make informed decisions.

3.3 Key Processes Formalized

We recommended 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.

(2017 Report – Volume 2, p. 169, Recommendation 4; Public Accounts Committee agreement October 10, 2018)

Status—Intent of Recommendation Implemented

We recommended the Ministry of Government Relations formalize which levels of management need to review and approve proposed education property tax mill rate options, and when. (2017 Report – Volume 2, p. 172, Recommendation 6; Public Accounts Committee agreement October 10, 2018)

(2017 Report – Volume 2, p. 172, Recommendation 6; Public Accounts Committee agreement October 10, 2018)

Status—Implemented

Since our initial 2017 audit, the Ministry changed its process to receive property assessment data from service providers. It now receives data on a quarterly basis instead of annually. As such, the Ministry obtains and uses more current property assessment data to prepare its education property tax options paper than previously, reducing its need to estimate changes in assessed property values.

In addition, the Ministry formalized its review process. The Ministry updated its process manual to set out levels of management needed to review and approve proposed mill rate options, and expected timing. We found senior management reviewed the proposed mill rate options as expected.

Clear guidance helps ensure important processes continue as expected in the event of key staff turnover.

3.4 Guidance Updated

We recommended 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. (2017 Report – Volume 2, p. 165, Recommendation 1; Public Accounts Committee agreement October 10, 2018)

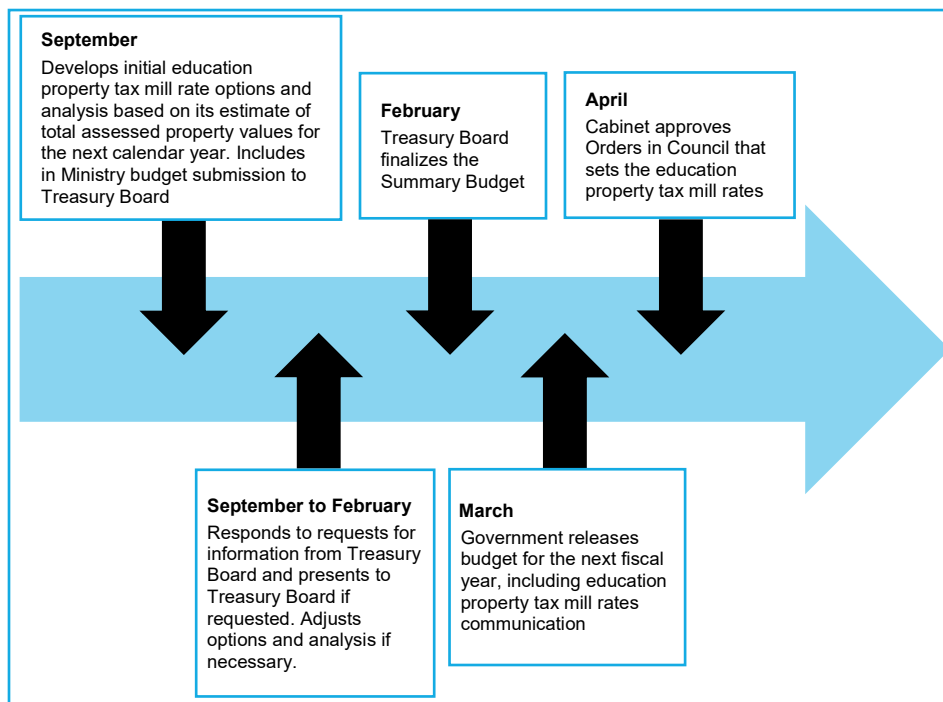
Status—Implemented

The Ministry developed guidance for staff in assessing and investigating changes in assessed property values used to prepare education property tax mill rate options.

Since our initial 2017 audit, the Ministry updated its process manual. The manual now includes detailed instructions to identify which variances in assessed property values to investigate. In addition, the manual now requires staff to use the most recent data available when preparing education property tax mill rate options.

Formal guidance on what the Ministry considers significant helps ensure it uses staff resources wisely (that is, staff only investigate differences viewed as important).

4.0 GOVERNMENT RELATIONS' GENERAL EDUCATION PROPERTY TAX MILL RATE PROCESS AND TIMING



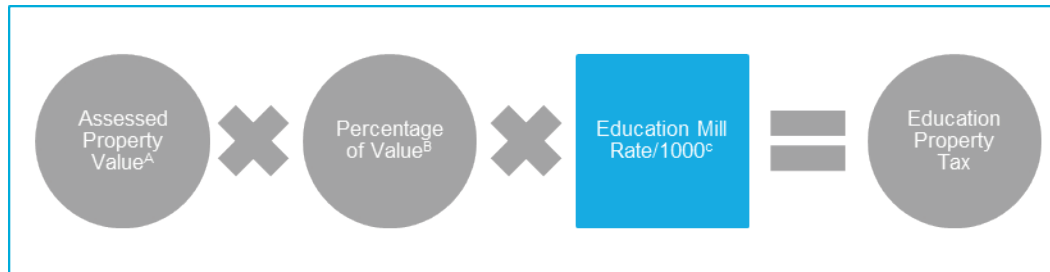
Source: Developed by Provincial Auditor of Saskatchewan



5.0 COMPONENTS OF EDUCATION PROPERTY TAXES

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 (25 September 2019).

^A 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).

^B Set by Cabinet for each property class under *The Municipalities Regulations*, *The Cities Regulations*, and *The Northern Municipalities Regulations*; education property taxes include four different property classes (i.e., agricultural, residential, commercial and industrial, and resource) (Section 3 of *The Education Property Tax Regulations*).

^C Set by Cabinet using information prepared by the 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.