

## Chapter 25

# Government Relations—Proposing Education Property Tax Mill Rates

### 1.0 MAIN POINTS

By July 2021, the Ministry of Government Relations implemented the remaining recommendations made in our 2017 audit of its processes to propose education property tax mill rates.

The Ministry documented its rationale for decisions made on which education property tax mill rate options to propose to decision-makers (e.g., Treasury Board, Cabinet). The Ministry also included sufficient consideration of economic and social impacts when proposing education property tax mill rate options to decision-makers (e.g., impact on post-COVID-19 recovery, stability in the property tax system for ratepayers).

Providing rationale for key decisions helps the Ministry explain to decision-makers the basis for its proposed options, especially in the event of key personnel turnover. Providing robust information helps ensure decision-makers have sufficient information to make informed decisions regarding education property tax mill rates.

### 2.0 INTRODUCTION

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

Our *2017 Report – Volume 2*, Chapter 24, concluded that 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. By September 2019, the Ministry fully implemented four recommendations and partially implemented two<sup>1</sup>.

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.

Our audit approach primarily included reviewing the Ministry-prepared options analysis and discussing the key processes with Ministry management.

<sup>1</sup> *2019 Report – Volume 2*, Chapter 35, pp. 275–280



## 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 prekindergarten through Grade 12 education, and related mill rates.<sup>2</sup> It makes its mill rate decisions public through Orders in Council.

By law, the Ministry of Government Relations on behalf of its Minister, determines and recommends options for education property tax mill rates, other than for the City of Lloydminster and separate school divisions.<sup>3,4</sup>

- 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>5,6</sup> The Ministry's role is limited to reviewing the accuracy of the City's calculations before seeking Cabinet's approval for them.
- Separate school divisions can pass bylaws to set their own education property tax mill rates.<sup>7</sup> As of July 2021, 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.<sup>8</sup> **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 directly to Treasury Board to align its responsibilities under legislation. The Ministry of Government Relations provides the recommended education mill rate options directly to Treasury Board, and ultimately to Cabinet, within its annual budget submission 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 July 31, 2021 and the Ministry's actions up to that date.

<sup>2</sup> *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 natural resource revenues) used to deliver education.

<sup>3</sup> *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.

<sup>4</sup> *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.

<sup>5</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>6</sup> Two school divisions operate in Lloydminster: Lloydminster School Division No. 99 and Lloydminster Roman Catholic Separate School Division No. 89.

<sup>7</sup> *The Education Property Tax Act*, s. 7(1).

<sup>8</sup> *Ministry of Government Relations Plan for 2020–21*, p. 10.

### 3.1 Rationale for Key Decisions Documented

***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**—Implemented

The Ministry of Government Relations clearly documented its rationale for selecting education property tax mill rate options proposed to Treasury Board.

The Ministry's *Education Property Tax Mill Rate Estimates Process 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 *Education Property Tax 2021 Mill Rates Options Paper*. Staff provide this Paper to senior management within the Ministry and to the Minister of Government Relations, as well as to the Ministry of Finance for their use in creating the budget submission sent to Treasury Board.

We found the Ministry's Options Paper provided some insight as to why the Ministry chose the options in the Paper over other options (e.g., considered inequities between certain property classes and suggested options that would address the inequities). The Paper also included pros and cons of the selected options (e.g., does an option help or harm the economic recovery from COVID-19; does an option more evenly distribute tax between property classes; does an option provide stability to ratepayers; does an option result in increases or decreases to provincial revenues). We also found the Ministry held regular discussions internally and with senior staff at the Ministry of Finance related to why it chose certain options over other potential options.

Documenting the rationale for decisions made assists decision-makers in understanding the evidence the Ministry based its proposed mill rate options on. Additionally, it helps the Ministry explain the basis for its proposed options, especially in the event of key personnel turnover.

### 3.2 Proposed Options Include Key Information

***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**—Implemented

The Ministry of Government Relations provided appropriate information on economic and social impacts when proposing education property tax mill rate options to decision-makers.

We found the Ministry's *Education Property Tax 2021 Mill Rates Options Paper*:



- Discussed the general impact of certain proposed options (e.g., if government changed percentages of value or mill rates to adjust property taxes) on municipalities (e.g., municipalities tend to increase mill rates to make up the difference if education property taxes are decreased)
- Provided some high-level discussion about economic impacts for various proposed options (e.g., impact of options on certain economic sectors and development as well as on post-COVID-19 recovery)
- Offered some information about proposed options' social impact (e.g., stability to ratepayers especially in light of the pandemic, consideration of equity between property classes)

The Options Paper did not include the impact of potential changes for one key assumption (i.e., property growth rates) because 2021 was a revaluation year where property values are updated to current values. Revaluation years occur every four years. In our 2019 follow-up audit, we found the Ministry provided sufficient information on the impact of potential changes in property growth rates.

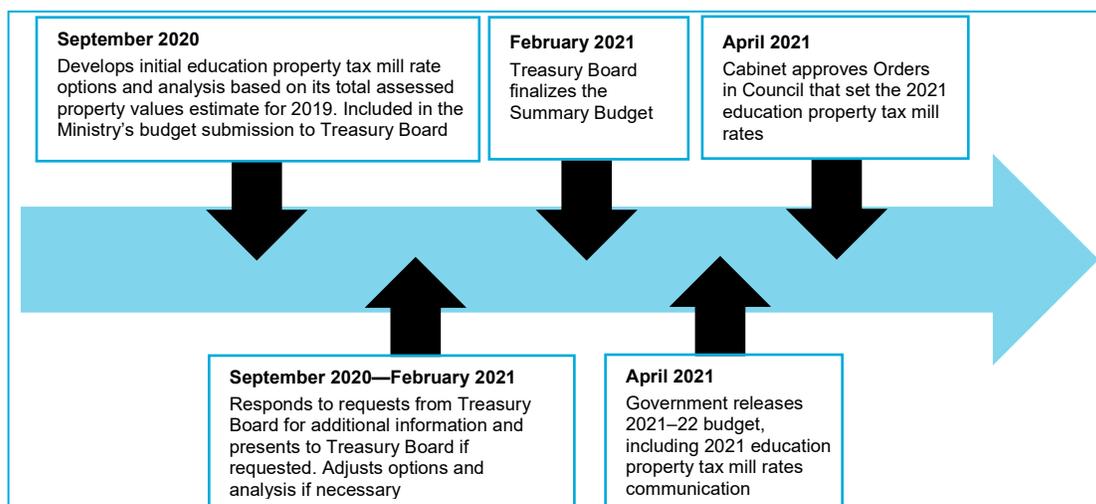
Having robust, objective, and evidence-based analysis of mill rate options, allows key decision-makers to have sufficient information to make informed decisions.

## 4.0 PROCESS TO PROPOSE MILL RATE OPTIONS

The Ministry of Government Relations' process to propose mill rate options aligns with its responsibilities under legislation.

**Figure 1** provides an overview of the Ministry's process related to setting 2021 education property tax mill rates.

**Figure 1—Government Relations' Education Property Tax Mill Rate Process and General Timing**

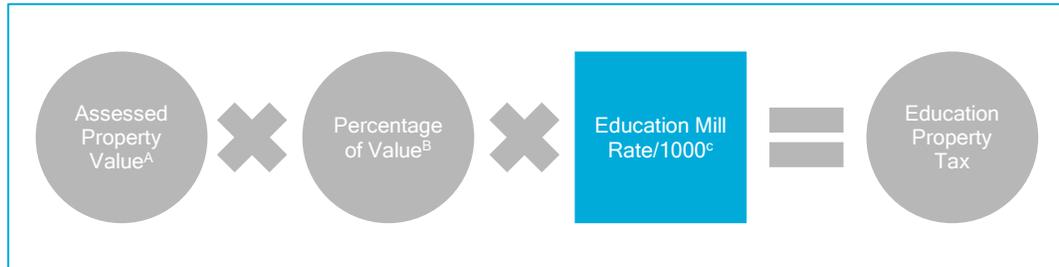


Source: Developed by the Provincial Auditor of Saskatchewan based on information provided by the Ministry of Government Relations.

## 5.0 COMPONENTS OF EDUCATION PROPERTY TAXES

As shown in **Figure 2**, 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 2—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) (8 September 2021).

<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 include four different property classes (i.e., agricultural, residential, commercial and industrial, and resource) (Section 3 of *The Education Property Tax Regulations*).

<sup>C</sup> 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.

