
The 1998 Ontario Alternative Budget
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Ontario Alternative Budget Working Group

This is putting children first?
Bill 160 and education funding in Ontario

by Hugh Mackenzie
Research Director, United Steelworkers of America
former Executive Director, Ontario Fair Tax Commission
and
Co-chair, Ontario Alternative Budget Working Group

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c/o United Steelworkers of America
Suite 700, 234 Eglinton Avenue East, Toronto, M4P 1K7

Phone (416) 487-1571; FAX (416) 482-5548; email hmackenz@uswa.ca

Much of the debate over the provincial government's Bill 160 (titled in now-characteristically Orwellian fashion the "Education Improvement Act") has focused on control over classroom conditions -- specifically teacher preparation time and class size. Bill 160 takes control over these issues away from school boards and their teachers and hands it to the Provincial Government.

While these concerns have not been misplaced, the focus on these issues has served the government well. It has allowed the government to characterize the struggle as a fight with the teachers' unions — a fight which, rightly or wrongly, it believes it can win. And it has diverted public debate from other aspects of the Bill that will have a profound impact on the school system in this province long after the teachers and the provincial government have either agreed, or agreed to disagree.

In assuming control of the education system for the bureaucrats at Queen's Park, the government is doing a lot more than attacking teachers' preparation time and fiddling with class sizes. Bill 160 also alters fundamentally how education is funded -- how much we spend, where we spend it, and how we pay for it.

The current system for funding education, in which the provincial government guarantees a minimum level of funding which local school boards are permitted to supplement (by taxing local commercial and industrial and residential property), has been entirely scrapped.

In its place, Bill 160 introduces a system in which 100% of the funding available to a local school board will be determined by the province, and in which every cent raised from local property taxes for education will be determined by the province.

It argues that this new system, because it is to be uniform across the province, will be more equitable for students and taxpayers and will ensure excellence in education across the province. Whether or not this is true depends on the answers to several key questions.

- ! Will the total level of spending on elementary and secondary education be sufficient to produce the excellence the government claims to want?
- ! How is funding to be allocated among school boards and their students?
- ! How is the cost of this new system to be allocated among property taxpayers?

While we do not yet have even the beginnings of a complete answer to any of these questions, what we know so far is extremely discouraging.

Ontario's commitment to education — how do we compare?

The point of departure for the Government's campaign in Ontario in support of its

education reform initiatives is the contention that this province spends more on education than any other jurisdiction in Canada. In the Government's logic, combining this assertion with the fact that Ontario students do not fare as well as those in some other Canadian jurisdictions in standardized multiple-choice tests is proof that we are not getting value for money for our education dollars.

Although the Government has repeated its assertion about relative spending levels like a mantra, it has never provided any detail to back it up.

A study for the Ontario Alternative Budget Papers, *Education: Towards Tomorrow*, cites data which tell a very different story. The data were based on information for the school year 1995-6 compiled by Statistics Canada and the National Education Association in the United States and were validated by the respected Canadian economic consulting firm Informetrica. They show that Ontario ranks sixth in per-student spending among Canadian Provinces and Territories, not first as claimed by the Government. And tellingly, given the Government's fondness for comparisons with the United States, Ontario ranks 46th among the 63 education jurisdictions in Canada and the United States.¹

Evidently assuming that the public accepts its contention about education spending, the Government has admitted that it plans to reduce total funding for education by about \$700 million — the 5% that the Premier believes can easily be cut from the system. But that is only the beginning of the potential impacts on funding.

The government has cited discrepancies in per-student spending on education across the province as evidence that the current system is "broken". There is no question that the current system, by forcing school boards to rely on local resources for such a high proportion of total education costs, literally impoverishes some boards.

But it has completely ignored the potential impact of the "leveling down" to the average funding level that is implicit in this argument.

The Government has consistently refused to make available any data that would make possible an analysis of the combined impact of its planned \$700 million global funding cut and an equal allocation of funds among school boards. Data for 1991 updated to reflect changes since then, however, provide a clear indication of the magnitude of this

¹ Education: Towards Tomorrow in The Ontario Alternative Budget Papers, James Lorimer and Co. Ltd., Toronto, 1997 pp.110-111. Comparisons between Canadian and US figures were based on the conservative assumption of an exchange rate of \$1.30 Canadian to the US dollar (76.9 US cents to the Canadian dollar). At a more realistic exchange rate, Ontario would fall further down the list, to 49th.

impact.²

This analysis indicates that, with a \$700 million global cut combined with funding reallocation among boards, the Metro Toronto Public School Board would see its funding decline by just over \$500 million. Metro Toronto Separate School Board would lose approximately \$7 million.

The two boards in Metro, taken together, would lose about 17% of their funding. In the GTA outside Toronto, boards would lose about \$75 million, about 3% of their funding.

The only area of Ontario that would see an increase in funding under this model is rural southern Ontario, which would gain \$150 million, about 3% of their funding. Both urban (8%) and rural (12%) areas in the North would lose more than the 5% average cut.

Total cuts, 1997 basis						
5% cut; equalizing average expenditures per student						
		Cut (\$million)	Estimated Current (\$million)	Enrollment	Cut/student	% Cut
Public	1	(684.0)	9,758	1,221,667	(560)	-7%
Separate	2	(16.0)	4,242	569,054	(28)	0%
Region						
Metro	1	(507.3)	3,049	342,234	(1,482)	-17%
GTA	2	(75.0)	2,232	290,411	(258)	-3%
Urban south	3	(149.9)	2,890	368,880	(406)	-5%
Rural south	4	150.4	4,571	635,627	237	3%
Urban north	5	(62.5)	793	98,398	(635)	-8%
Rural north	6	(55.7)	465	55,172	(1,009)	-12%
Total		(700)	14,000	1,790,721	(391)	-5%
Expenditures adjusted to reflect 1997 levels; enrollment uses 1993 data.						

The results of the analysis are detailed below, in table 1.

It is obvious that cuts of this magnitude would have a devastating impact on education in expensive-to-serve large urban areas in southern Ontario and throughout the North. An average cut of this order of magnitude would drop Ontario down below Arkansas in per-student spending in the US and Canada at current exchange rates.

Those would be the results if the Government implemented equal per-student funding across the Province. Even this Government, however, knows that a funding allocation formula that provides for equal per-student funding is not workable. Equal funding does

² This analysis is based on per-student spending data originally published in the report of the Ontario Fair Tax Commission in 1993.

not take into account special circumstances such as higher heating and construction costs, and higher student transportation costs in Northern Ontario, or the need for special programs where there are many students whose first language is not English, or where the incidence of child poverty is high.

To avoid the obvious criticism of an equal-funding model, the Government has proposed a new funding allocation model that it asserts will take into account differences in student populations and community characteristics that are relevant to the determination of funding needs. In other words, it contemplates a new funding model that will generate the differences in funding inputs that are needed to produce equivalent educational outcomes.

The government evidently believed that this would not be that difficult a task, since it originally announced that the funding model would be made available for public discussion and comment over the summer. It now appears that this new model will appear only in the form of funding allocations to school boards and the only impact analysis we will see will take the form of school board budgets.

The government's failure to come up with a funding model on this timetable is hardly surprising. Compensatory funding systems are complex, they are difficult to explain, and they produce outcomes that are often difficult to predict. But its failure to do so means that the public and members of the Legislature are being asked to pass judgement on Bill 160 without any idea of how funds for education are to be allocated in the future.

This is not the first time in Ontario that the provincial government has purported to take control over education funding, nor is it the first time the provincial education bureaucracy has attempted to develop a universally applicable funding model. Nearly 30 years ago, in the late 1960s, the Robarts Government announced a sweeping reform of education funding, and committed itself to funding 60% of the costs. To side-step the thorny problem of funding allocation, it adopted as a starting point for the new approach what the school boards were actually doing at the time.

The provincial government tried for 20 years to develop a formula that would work. It failed miserably. Instead, it tinkered, and froze, and tinkered, and froze to the point where provincial funding is of only marginal significance to school boards in many parts of the province. School boards were able to use resources in their own communities to address local special circumstances.

Now we are being asked to believe that a provincial bureaucracy that couldn't come up with a functional formula in 20 years can develop one in a matter of months or weeks. There are no guidelines for funding allocation. Funding levels will be completely at the Provincial Government's discretion. While that is in fact no different from the current

system, the difference is that, this time, there will be no locally-determined safety-valve. Ontario's students will be totally dependent on Queen's Park to respond adequately to special needs.

Provincial funding from property taxes — not as simple as it seems

The changes on the property tax side are just as massive, and just as inadequately developed and documented.

In the Government's first run at education finance reform a year ago, it proposed that commercial and industrial taxation for education purposes be determined equally, across the province. Residential property taxes for education were not a concern, because the government planned to eliminate them in its municipal downloading exercise.

When it backed down from its original position last spring, the revised plan called for half of the current residential property tax for education to be eliminated, with the remainder levied by the Provincial Government on a uniform basis across the Province.

In the Government's plan, just over half the current total commercial and industrial property tax, and just over one quarter of the current total residential property tax would be levied on a uniform basis across the Province. (Education makes up just over half the total property tax bill in Ontario.)

The first step towards a uniform system is a common tax base. Market value reassessment of both commercial and industrial and residential properties is supposed to accomplish that, although, as is the case with every other aspect of this exercise, it is far behind schedule and no information about its impact has been made public.

In a truly uniform system, the rate of tax would be exactly the same everywhere in the Province. Because the property tax system is essentially locally determined, even nearly 30 years after the provincial government assumed control of assessment, there are significant differences in assessments relative to market value among municipalities. These differences were highlighted in the report of the Fair Tax Commission's Property Tax Working Group in December 1992.³

Because of these differences embedded in the current system, moving to a uniform system imposes huge shifts in tax obligations among municipalities.

Commercial and industrial taxation

³ *Working Group Report, Property Tax, Ontario Fair Tax Commission*, December 1992 pp. 29-32.

Using available data for 1994 for commercial and industrial property, analysis shows reductions in tax in the 5-10% range in Toronto, with increases reaching as high as 15-20% in the GTA. In many smaller municipalities, the swings are even greater.

Table 2 summarizes the pattern of change in commercial and industrial taxes. The first

Impact of uniform rate on C & I taxes for education		
	Municipalities	% of equalized assessment
All municipalities		
Cut of more than 100%	0	0%
Cut of 50% to 100%	16	0%
Cut of 25% to 50%	56	0%
Cut of 5% to 25%	188	25%
Change less than + or - 5%	148	45%
Increase of 5% to 25%	193	28%
Increase of 25% to 50%	107	1%
Increase of 50% to 100%	53	0%
Increase of over 100%	8	0%
	769	100%
Not in database	9	0%

column shows the percentage change by the number of municipalities affected. For example, it shows that 193 municipalities will experience an increase of between 5% and 25% in C & I taxes for education. The second column shows the percentage change by the proportion of Ontario's commercial and industrial assessment base (at market value) affected. For example, it shows that 45% of Ontario's commercial and industrial assessment

base will experience a change of + or - 5%.

Table 2

Table 3 shows how these changes are distributed among municipalities of different populations.

Residential

Because the required data have never been made available for residential property, it is impossible to do this kind of detailed analysis in the residential sector. The evidence in the report of the Property Tax Working Group of the Ontario Fair Tax Commission

Impact by population of municipality	
less than 1000	-4%
1,000 to 5,000	-1%
5,000 to 10,000	-9%
10,000 to 25,000	-2%
25,000 to 50,000	5%
50,000 to 100,000	5%
100,000 to 250,000	2%
250,000 to 500,000	1%
500,000 +	-3%

(1992) suggests that shifts in this sector would be at least as large. Variations among municipalities in single family and multiple-unit residential assessment as a percentage of market value are similar to those for commercial and industrial property. In addition, the potential impact of combining the single family and multiple residential property classes varies between municipalities, introducing an additional source of variability.

The legislative response

Evidently, the Government had done some analysis by the time it had introduced Bill 160, because it is clear from the sections of the Bill dealing with taxation that the idea

of a uniform system across the Province has gone out the window.

For both the residential and commercial and industrial systems, the Government is giving itself the power, by regulation, to set different rates of tax by municipality, by assessment class and subclass within the municipality, as well as for any type of property for which municipalities are permitted to set different tax rates. In addition, the Government can set different tax rates for areas affected by municipal restructuring and for areas established for other purposes under the Municipal Act. Stripped of the jargon, this means that tax rates can differ among regions, school board areas or individual municipalities, and within municipalities, among different types of property.

In draft regulations, the Government has indicated that it plans to establish eight classes and 22 sub-classes of property under the Assessment Act, although it is not limited by the legislation in the number of classes and sub-classes it can create.⁴

The government could decide, for example, to set different rates of tax in Toronto than in North Bay or Mississauga. It has the power to establish different rates of tax for farm property slated for development, depending on what stage the property is in the development process. Since it has unrestricted powers in the Assessment Act to establish classes and subclasses of property, there is virtually no limit to its ability to fiddle with the system. It can also establish a separate tax rate for any type of property for which a municipality is permitted to set a separate rate for its own purposes.

With 611 taxing municipalities in the Province, the currently contemplated list of classes and sub-classes alone would permit the Government to establish, by regulation, up to 18,330 different property tax rates. And this does not account for the Government's powers to establish new property classes and to piggyback on any additional discretion granted municipalities. There is no accountability mechanism. Tax rates will simply be published by the Government in the Ontario Gazette.

For all of its shortcomings, the current system of local decision making at least requires that tax rates be set in a public forum by public officials who are accountable to the local electorate.

With no guidelines in the legislation to limit the government's discretion, the process of establishing tax rates is almost totally arbitrary. Bill 160's property taxes for education

⁴ The eight property classes are: residential/farm; multi-residential; commercial; industrial; pipe line; farmlands; managed forests; and new multi-residential.

In addition, there are: 12 sub-classes for farm property currently zoned as residential, commercial or industrial and in various stages of the development process but currently used as farm land; 8 sub-classes for vacant land; and one sub-class each for vacant units or excess land in the commercial and industrial classes.

may well be the most arbitrary ever levied at the Provincial level in Ontario.

There is one curious exception to the general lack of any restriction on the power of the Government to tax, arbitrarily, by regulation. The legislation specifically requires the Government to set a single tax rate for the residential/farm property class and the multi-residential property class.

The effect of this provision is to guarantee a massive shift in taxes away from residential landlords towards single family residential property in almost every municipality in Ontario. In Toronto alone, the requirement that there be a single rate for all residential property will produce a tax windfall for landlords of over \$100 million — all of it at the expense of single family residential property owners — primarily in the former Cities of Toronto and North York.

Table 4 highlights this impact. It is based on assessment and equalized assessment data for 1992 and current tax rates for education.

Table 4

Impact of single-class residential taxation in Metropolitan Toronto				
	Current Education Tax	Single-Rate Education Tax	Education Tax Change	Impact on total tax
	Taxes on class 0, single family residential			
Scarborough	87,393,937	94,969,468	7,575,531	2.4%
Toronto	90,543,649	147,790,271	57,246,621	17.5%
East York	14,376,387	19,914,954	5,538,567	10.4%
North York	105,178,077	129,478,138	24,300,061	6.7%
York	17,741,013	23,421,903	5,680,890	8.2%
Etobicoke	59,522,765	67,275,271	7,752,507	3.8%
	374,755,828	482,850,006	108,094,178	8.1%
	Taxes on class 1, multiple, 2-6 units			
Scarborough	290,538	260,612	(29,927)	-2.9%
Toronto	6,493,305	8,673,770	2,180,465	9.2%
East York	239,117	178,275	(60,842)	-6.9%
North York	1,228,531	799,714	(428,818)	-10.1%
York	1,606,207	1,270,591	(335,616)	-5.4%
Etobicoke	1,516,743	1,090,031	(426,712)	-8.2%
	11,374,441	12,272,992	898,551	2.2%
	Taxes on class 2, multiple units, 7+			
Scarborough	22,944,376	7,232,541	(15,711,835)	-19.2%
Toronto	56,128,015	21,335,572	(34,792,443)	-17.0%
East York	11,258,307	3,339,299	(7,919,008)	-19.0%
North York	43,536,985	13,530,938	(30,006,047)	-19.9%
York	9,726,332	3,811,373	(5,914,959)	-15.7%
Etobicoke	20,555,727	6,053,051	(14,502,676)	-20.6%
	164,149,742	55,302,775	(108,846,967)	-18.6%

Similar tax shifts will take place in every large urban area in Ontario.

Every study that has been done of the property tax system in Ontario has flagged the inequity of higher effective rates of taxation on multiple-unit residential properties than on single-family residential properties. But these studies, unlike the Government's proposal in Bill 160, have acknowledged the difficulties that would be created moving to a single residential assessment system and tax rate, and have recommended both specific measures to ensure that tax savings are passed through to tenants and a long phase-in period.

Bill 160 includes neither of these measures. It in fact requires the creation of a massive windfall for residential landlords, funded by single-family residential taxpayers.

Summary

The proposals dealing with education finance in Bill 160 will create chaos in the funding of our schools. They replace a system in which decisions were made locally, by elected officials, in public fora with one in which literally every aspect of funding, from the determination of the global total, to the allocation of funding among school boards, to the determination of property taxes for education is arbitrary and under the complete control of the Provincial Government and the Ministry of Education.

We are now barely two months away from the start of the local taxation year, and no concrete information has been made available about any aspect of the system. We don't know what the rules will be, if any, for the allocation of funding among boards. We don't know how the Government plans to exercise its authority to set tax rates, by regulation. We have no idea what the impact of these measures will be on the funding available for education.

The only things we know about the way the Government intends to use its new authority is that it plans to reduce total funding for education by about \$700 million, and that it intends to force single family residential taxpayers to fund a windfall of over \$200 million for residential landlords.

Although the changes in Bill 160 are sweeping, they do not begin to describe fully the scope of the Government's assault on the system of local Government finance in Ontario. Market value assessment is still supposed to be effective for the 1998 local tax year, although the assessment roll will not be available now until April 30, 1998 — four months into the year. Municipalities are now attempting to deal with the implications of downloading, without the details needed to establish budgets for next year.

This is not a case of moving too quickly. This is doing the wrong thing, for the wrong reasons, with inadequate information, little or no public debate and, in the end, no

public accountability.

If this is what happens when we put the children of Ontario first, if this is an example of introducing accountability into government, one shudders to contemplate what the alternative might look like.

Not only should Bill 160 be withdrawn, but the implementation of its entire local government finance reform package should be delayed for at least a year.