

# Underinvesting in Our Future

## Revenues and Expenditures of Saskatchewan School Boards from 2004 to 2014

By Dr. David McGrane



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## **About the Author**



Dr. David McGrane was born and raised in Moose Jaw and did his undergraduate degree in Political Science at the University of Regina and his Masters' degree in Political Science at York University in Toronto. He completed his PhD in political science at Carleton University in Ottawa and is now an Associate Professor of Political Studies at St. Thomas More College and the University of Saskatchewan. He has published over 20 peer-reviewed articles, book chapters, and academic books. He is the Past President of the Prairie Political Science Association and currently serves his community through his membership on the Board of Directors of the Saskatoon Open Door Society and sitting on the City of Saskatoon's Environmental Advisory Committee. He has two children Anne (6 years old) and Gabriel (4 years old) who are now entering Saskatchewan's K-12 education system.

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# Key Findings

- During the last four years of the Calvert government (2004-2007), an average of 3.08% of Saskatchewan's GDP was spent on K-12 education. In contrast, Saskatchewan school boards spent an average of 2.6% of our province's GDP on K-12 education during the first seven years of Wall government from 2008 to 2014.
- If the Wall government had decided to continue to fund K-12 education in Saskatchewan at the same percentage of provincial GDP as the last four years of the Calvert government, there would have been approximately \$2.4 billion more spent in the K-12 system from 2008 to 2014.
- The reduction in spending on K-12 education under the Wall government is not a result of falling enrolment since there has been a slight increase in the number of K-12 students since the government took office.
- The Wall government has decreased expenditures on K-12 education as a percentage of the provincial GDP in a deceptive manner. It has raised grants to school boards from the provincial government from 1.4% of provincial GDP in 2007 to 1.6% of the provincial GDP in 2014 — an increase of 12%. At the same time, education property tax reforms decreased revenues allotted to Saskatchewan school boards from 1.4% of provincial GDP in 2007 to 0.8% of the provincial GDP in 2014 — a reduction of 43%.
- It is recommended that the Saskatchewan provincial government set a goal of spending, at a minimum, of 3% of nominal GDP on our province's K-12 education system each year.



# Introduction

Most citizens of Saskatchewan would agree that funding K-12 education is an investment in our future. The level of quality of education that our children receive will have substantial effects on their future productivity and quality of life as well as the future prosperity and economic growth of our province. A well-educated society is a happy society where all of its members thrive and are able to reach their fullest potential.

With this in mind, this study examines the funding of K-12 education in Saskatchewan from 2004 until 2014. It asks two sets of fundamental questions.

First, if we can agree that investing in K-12 education is a worthwhile and important investment in the future of Saskatchewan, how much should we be investing? What amount of Saskatchewan's overall wealth should be dedicated to educating its school aged children? How has the portion of Saskatchewan's overall wealth that we commit to K-12 education changed over the last decade? Has it gone up or down?

Second, since the 1950s, funding for K-12 education in Saskatchewan had been a combination of education property tax levies set by local school boards and grants from the provincial government out of its general revenue fund. If local school boards felt that the grants from the provincial government were inadequate, they had the power to compensate for the shortfall through increasing education property tax rates. During the early years of the Wall government, the authority to set education property tax rates

was taken away from local school boards and invested in the provincial government. Whereas the level of funding for Saskatchewan's K-12 education system had been jointly determined by decisions made at both the local level and within the provincial government, the level of funding for our K-12 system now relies solely on decisions made by the provincial cabinet and government caucus in the Legislative Assembly that supports the budget proposed by the cabinet. Since this new system of funding has been in place for some years now, what has been the effect on the overall expenditures of Saskatchewan's school boards? How do the expenditures of Saskatchewan school boards under this new system compare to the expenditures of Saskatchewan school boards in the last four years of the Calvert government? Has this new system created a situation where we are allocating more or less of our overall provincial wealth to K-12 education?

To answer these two sets of questions, one needs to get a sense of the overall growth or decline of Saskatchewan's wealth over the last decade as well as determining the amounts spent by our province's school boards and the sources of funding for our province's school boards. Fortunately, Statistics Canada keeps track of this type of data. As such, this paper primarily relies on three datasets from Statistics Canada: nominal provincial Gross Domestic Product (GDP), annual school board expenditures broken down by province, and annual school board revenues broken down by province. The data for 2015 is unavailable at this time.



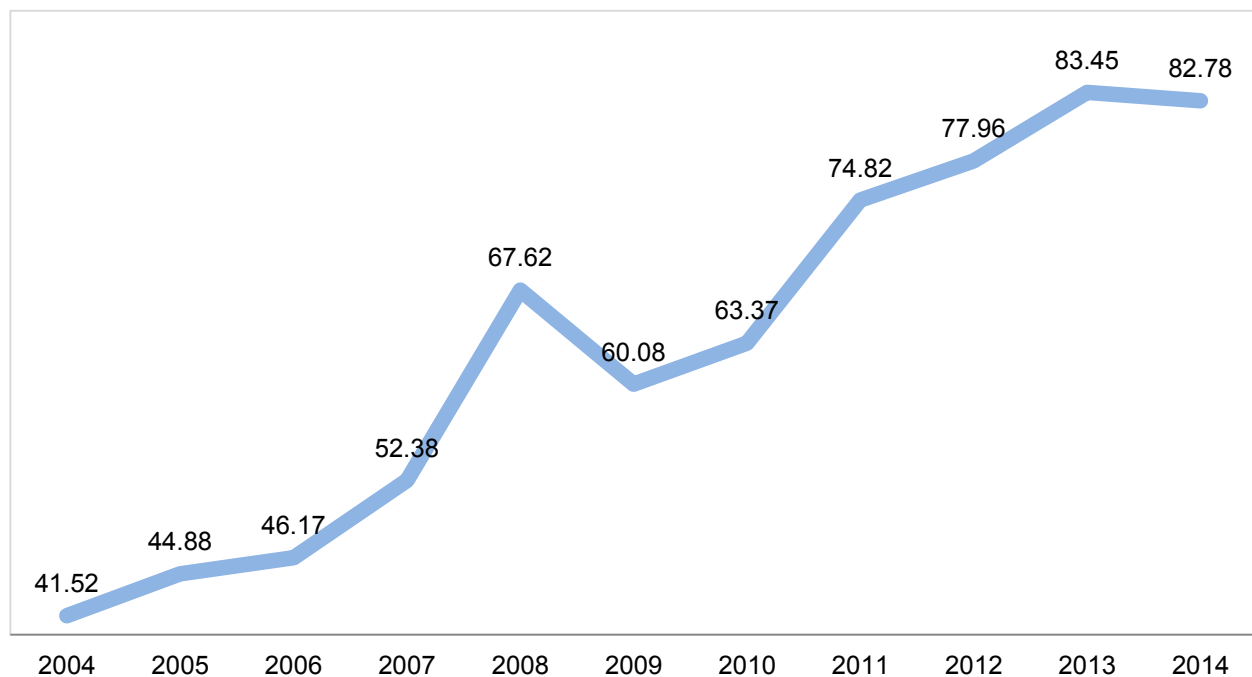
# Underinvesting in Education

Provincial GDP is best defined as an estimate of the total value of goods and services produced within a certain province. It is a commonly accepted measurement of the total wealth that a Canadian province produces each year. Indeed, in its yearly budgets the Saskatchewan's Ministry of Finance uses projections of our province's GDP to estimate how much revenues that the provincial government will take in. It should be no surprise to anyone that Saskatchewan has experienced robust economic growth over the past decade. As can be seen in Graph 1, Saskatchewan's nominal GDP<sup>1</sup> approximately doubled from \$41.52 billion in 2004 to \$82.78 billion in 2014.

Since the ground-breaking work of Frederic Pryor published in 1968<sup>2</sup>, it has become very common to measure the revenues and expenditures of governments as a percentage of their country's GDP. The idea behind this measure is quite simple. It represents government expenditure on certain policy areas or government revenue from certain streams as a portion of a society's entire wealth. For example, it allows public policy scholars to understand how much of a society's wealth is spent on government provided services like health care or education. Likewise, scholars can calculate how much of a society's wealth is brought into government coffers through sales taxes versus income taxes or natural resource

## Saskaboom: Nominal GDP Growth in Saskatchewan from 2004 to 2014

Graph 1: Saskatchewan Nominal GDP from 2004-2014 (Billions of Dollars)



Source: CANSIM Table 3840037: Gross domestic product, income-based, provincial and territorial (Gross domestic product at market prices).

royalties. I have used Pryor’s method in my own peer-reviewed academic publications on the effect of federal transfer payment fluctuations on provincial public finances<sup>3</sup> and the structure of taxation policy within Saskatchewan provincial government budgets.<sup>4</sup>

Did our spending on K-12 education keep pace with the growth of our GDP? Did we re-invest our newfound wealth in our children? The answers to these questions are clearly no. Graph 2 illustrates the spending by Saskatchewan school boards as a percentage of the provincial GDP according to data from Statistics Canada.

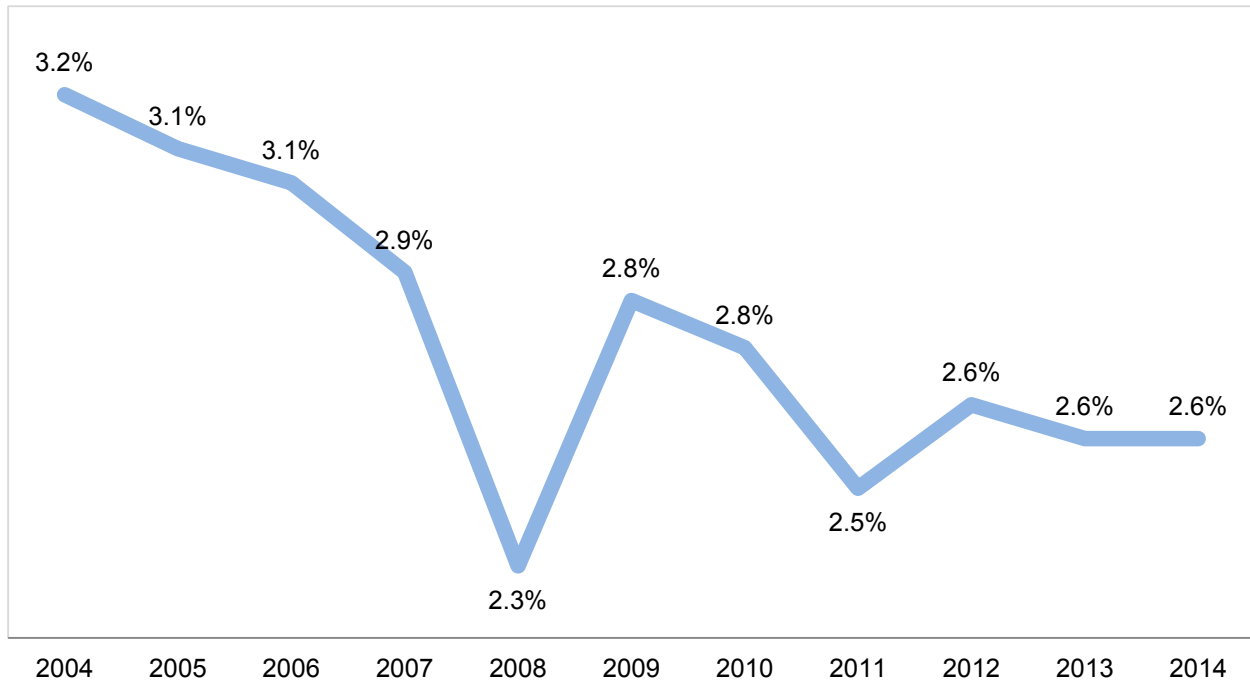
We can see that the percentage of Saskatchewan’s GDP spent on K-12 education hovered around 3% during the last four years of the Calvert government. In fact, Saskatchewan spent

an average 3.08% of its GDP on K-12 education from 2004 to 2007. Saskatchewan’s GDP was clearly going upwards during these years (Graph 1 shows that our nominal GDP went from \$41.52 billion to \$52.38 billion). As the GDP went up, the expenditures of school boards as a percentage stayed roughly the same. As such, the provincial government and local authorities were jointly deciding that our spending on K-12 education would keep pace with the growth of our GDP. Though, even during these years, we can see a little slippage taking place as the percentage of GDP spent on K-12 education declined slightly from 3.2% to 2.9%.

Certainly, the election of the Wall government in November of 2007 coincided with strong economic growth in our province. Referring

### Underinvesting in Education

**Graph 2: Expenditures of Saskatchewan School Boards as a Percentage of Provincial Nominal GDP from 2004 to 2014**



Sources: CANSIM Table 4780012: School Board Expenditures, annually (Dollars); CANSIM Table 3840037: Gross domestic product, income-based, provincial and territorial (Gross domestic product at market prices).

*The numbers in this graph are rounded for ease of interpretation. As such, 3.06% would be rounded up 3.1% and 3.14% would be rounded down to 3.1%. This rounding accounts for the slight fluctuation in the trajectory of the line between two seemingly similar data points.*

back to Graph 1, nominal GDP rose from around \$50 billion in 2008 to approximately \$80 billion in 2014. However, it is clear that the portion of our GDP that we spent on K-12 education did not increase at the same pace as our economy. In contrast to the average of 3.08% of Saskatchewan's GDP that was spent on K-12 education from 2004 to 2007, we spent an average of 2.6% of our province's GDP on K-12 education from 2008 to 2014. As our GDP climbed, the provincial government who had taken over the sole authority to determine the funding levels of Saskatchewan school boards decided that a declining portion of our province's overall wealth would go towards K-12 education.

Is it appropriate that spending on K-12 education in Saskatchewan has not kept pace with economic growth? This is a debate that Saskatchewan needs to have. I would argue that, in a time of an economic boom, one of the best investments that a society can make is in the education of its children. Currently, we are underinvesting in our children in a way that could be detrimental to our province's future. In many ways, our future economic growth depends on the decisions that we make now. Improvements to our K-12 system will improve long-term outcomes for Saskatchewan's children. As our school system becomes more inclusive and better able to target at-risk students, fewer children will be left behind. Our children will grow up to be more productive citizens and be fully prepared to engage in a highly competitive, knowledge-based global economy. They will be more prosperous and their higher level of productivity will fuel economic growth, decrease poverty rates, and help ensure that Saskatchewan has the necessary resources to care for the baby boom generation that is beginning to move into retirement. In short, an investment in our K-12 education system is an investment in the future of Saskatchewan.

As mentioned, funding for the school boards who are responsible for K-12 education in

Saskatchewan primarily comes from two sources: grants from the provincial government and education property taxes.

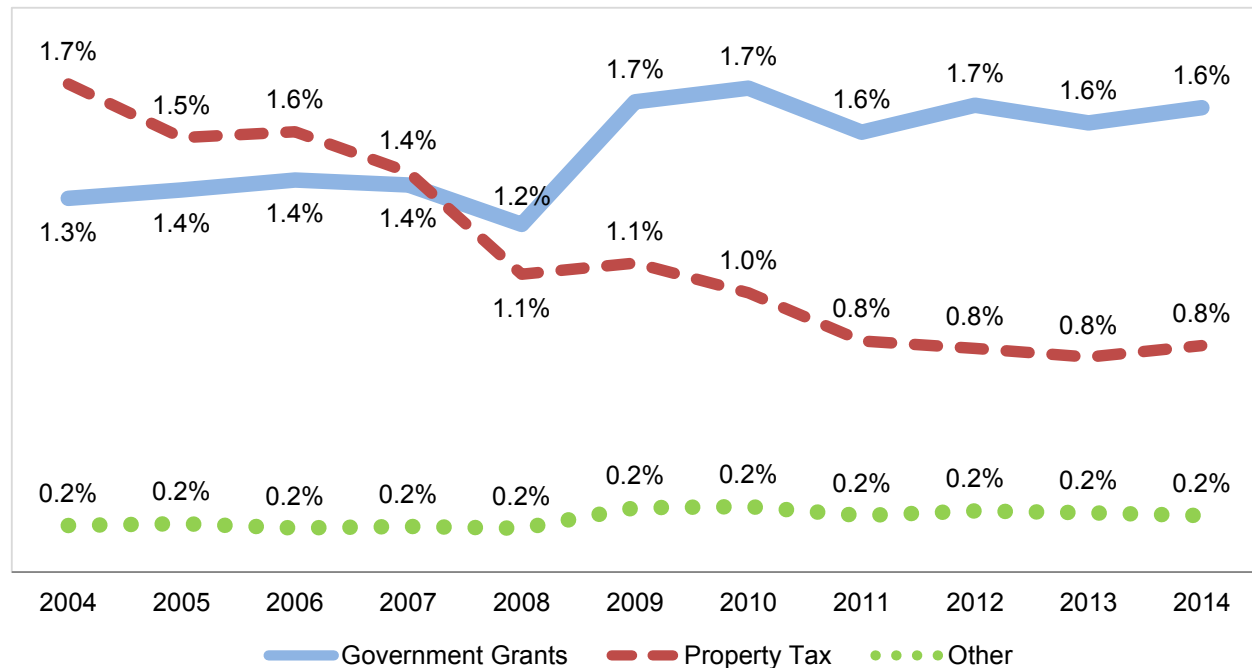
Graph 3 depicts the revenue sources of Saskatchewan school boards from 2004 to 2014. The red line represents revenue coming from education property taxes while the blue line represents revenues coming from provincial government grants. The green line represents the residual category of "other" which Statistics Canada indicates includes "federal government sources, student and other school fees, other private sector sources."

The graph illustrates that the manner in which the Wall government reduced the spending on K-12 education in Saskatchewan was rather misleading. The current underinvestment in K-12 education relates to the education property tax reforms enacted by the Wall government during its first years in office. In the last year of the Calvert government in 2007, government grants and property taxes were equal revenue sources for Saskatchewan's school boards. The Wall government raised its grants to school boards from 1.4% of the GDP in 2007 to 1.6% of the GDP in 2014 — an increase of 12%. This relatively small increase in provincial government grants to school boards allowed the Wall government to trumpet its so called "strong record" of investing in K-12 education every year when the provincial budget was released. However, at the same time that the Wall government was slightly increasing its grants to school boards, it was overseeing a major decrease in funding that school boards receive from property taxes. In fact, the Wall government gradually reduced the revenue of school boards coming from property taxes from 1.4% of provincial GDP in 2007 to 0.8% of provincial GDP in 2014 — a decline of 43%.

In essence, the Wall government decided to only partially "backfill" the money that was leaving the system due to reduced education property taxes with new revenue coming from the provincial

## Taking Away More with One Hand than You Are Giving with the Other

**Graph 3: Sources of Revenues of Saskatchewan School Boards as Percentage of Nominal Provincial GDP (2004-2014)**



Source: CANSIM Table 4780010: School board revenues, by direct source of funds, annually (Dollars); CANSIM Table 3840037: Gross domestic product, income-based, provincial and territorial (Gross domestic product at market prices).

government. This strategy of “taking away more with one hand than you are giving with the other” meant that the funding of Saskatchewan’s K-12 school system did not keep pace with the rate of growth of our overall wealth. This fact helps to explain why the government’s rhetoric of making “strong investments” in education contrasted strongly with the reality of the elimination of band programs, full-day Kindergarten programs, and educational assistant positions. Taking everything into account, the net effect of the Wall government’s property tax reform was that we were spending approximately 0.4% less of our provincial GDP on K-12 education in 2014 than during the final year of the Calvert government. Further, this decision to spend less of our provincial GDP on education was not jointly made by local school boards and the provincial government as in the past. School boards no longer have the power

in Saskatchewan to compensate for decreases in their revenues through raising local property tax rates. Rather, the decision to spend less or more of our province’s overall wealth on education was made by the provincial cabinet and supported by the government’s caucus in the Legislative Assembly. It was their decision alone — all that local school boards could do was lobby the government and hope for the best.

It may make sense to spend less of our GDP on K-12 education if student enrolment went down during the time of the Wall government. In a situation where a society’s GDP rises and the number of children living in that society decreases, it could be understandable if the portion of society’s wealth that it spends on K-12 education goes down. However, data from the Saskatchewan’s Ministry of Education depicted in Graph 4 illustrates that the number of students enrolled in our province’s schools



increased during the Wall government's time in office from 159,457 in 2008 to 173,548 in 2014. Indeed, K-12 school enrolment during the Wall government's time in office is slightly higher than during the last four years of the Calvert government's mandate, yet we are spending less of our GDP within the K-12 system.

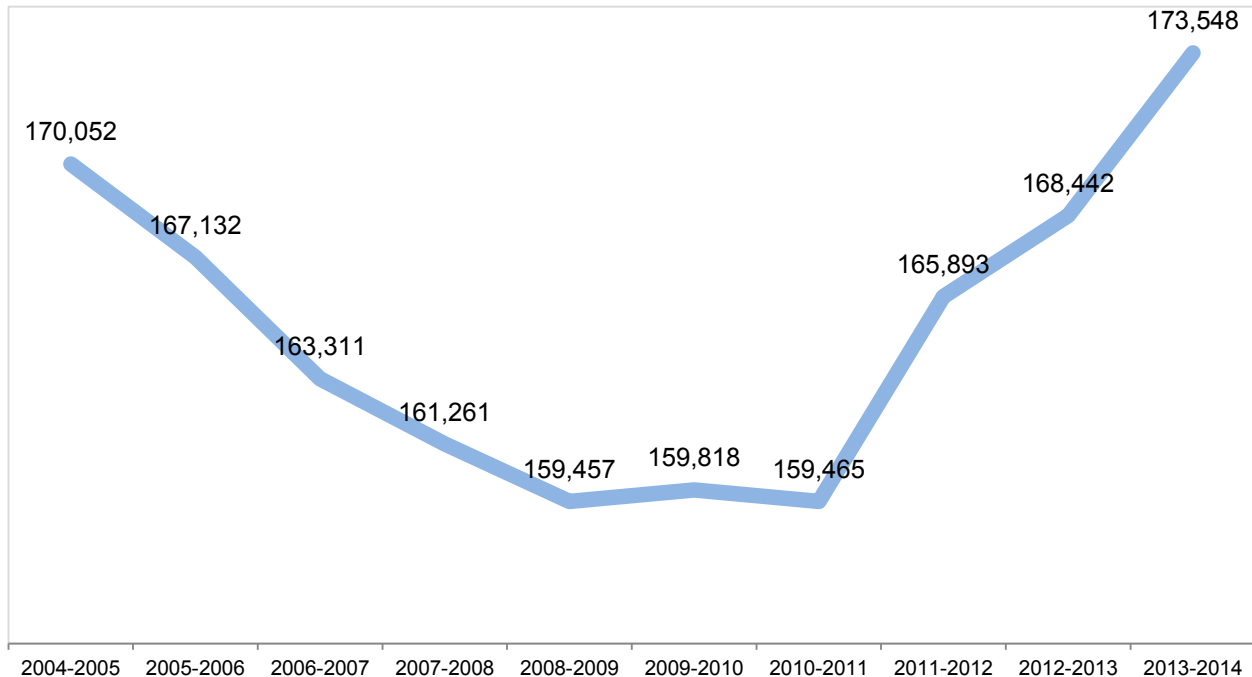
Saskatchewan's economic growth over the last decade has evidently attracted a number of new families with school-aged children from other Canadian provinces and other countries. Additionally, the children of Saskatchewan's baby boomers are now starting to have children themselves. Demographers refer to this phenomenon as the "echo" of the postwar baby boom. That economic growth and more children go hand in hand should come as no surprise to anyone in Saskatchewan. Indeed, this is a good thing. In the long run, more children in a society means that its dependency ratio (the number of working aged

people and number of non-working aged people) remains balanced. Societies where the number of working aged people is not properly balanced with the number of non-working aged people can have trouble generating the wealth needed to look after its youngest and oldest members.

However, what is disconcerting is that there is a growing number of school-aged children in Saskatchewan and we are investing less of our overall provincial wealth within the K-12 education system. Again, it is a question of how much we want to invest in our children and how much we want to invest in our future. With more students and more economic growth, we should be looking for ways to increase how much of our provincial wealth we are investing in the K-12 system. Instead, there were more students in 2014 but we were investing less of the provincial GDP in K-12 education than we were seven years before that.

### Is Decreased Spending on K-12 Education Due to Lower Enrolment?

Graph 4: Enrolment in Saskatchewan Public School Boards (2004 to 2014)



Source: Saskatchewan Ministry of Education.

What would have happened if the Wall government had decided to continue to fund K-12 education in Saskatchewan at the same percentage of GDP as the last four years of the Calvert government? As we saw in Graph 2, we funded our K-12 system at an average of 3.08% of our GDP from 2004 to 2007. During the first seven years of the Wall government from 2008 to 2014, we have funded our K-12 system at an average of 2.6% of our province's GDP. Graph 5 shows what the funding of the Saskatchewan K-12 system would have looked like at 3.08% of our GDP from 2008 to 2014 compared to the actual amount that our school boards spent during this time period. As we can see, there is a noticeable gap.

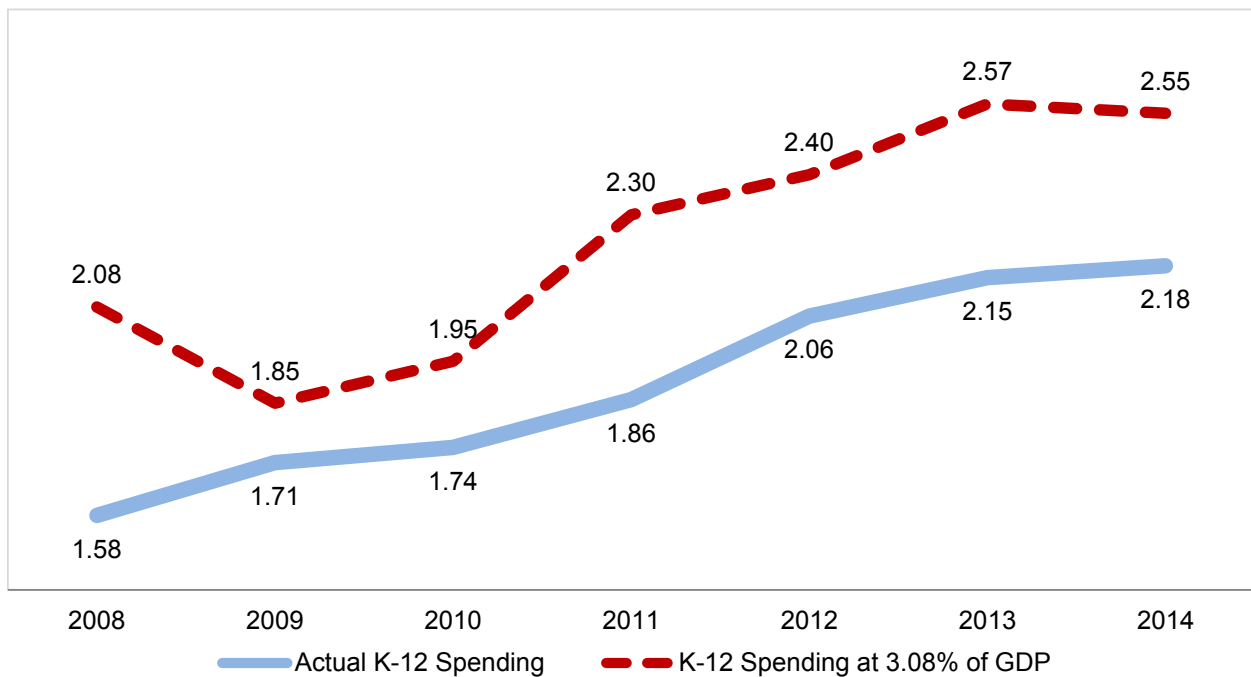
The difference between the spending levels in the K-12 system during the last four years of the Calvert government and the first seven years of

the Wall government averaged approximately \$350 million annually. Taken as a whole, this means that there would have been approximately \$2.4 billion more spent in the K-12 system from 2008 to 2014 if the Wall government would have maintained the structure of funding that existed from 2004 to 2007.

Simply put, the decision of the Wall government to not fully backfill the loss of funding incurred by school boards as a result of its reform to the property tax system left a \$2.4 billion hole in our K-12 system. Data is not yet available for 2015 so this number will be even higher taking that year into account. Indeed, the Wall government froze education property taxes for the second year in a row in its 2015-2016 budget. As such, there is little evidence to suggest the data for 2015 will illustrate a closing of the gap illustrated in the graph below.

### What Would Have Happened if ...

**Graph 5: K-12 Spending at 3.08% of Saskatchewan GDP Versus Actual K-12 Spending from 2008 to 2014 (In Billions)**



Sources: CANSIM Table 4780012: School Board Expenditures, annually (Dollars); CANSIM Table 3840037: Gross domestic product, income-based, provincial and territorial (Gross domestic product at market prices).

# Recommendations

In closing, I have two recommendations that flow from the analysis in this study.

First, the Saskatchewan provincial government should set a goal of ensuring that, at minimum, 3% of the province's nominal GDP is spent within the K-12 education system. The goal of 3% of GDP should be seen as a floor not a ceiling. Indeed, we were spending 3% of the provincial GDP from 2004 to 2007 on less K-12 students.

Is spending 3% of Saskatchewan's GDP on K-12 unrealistic?

The Statistics Canada datasets<sup>5</sup> used in this study allow us to track spending on K-12 education as a percentage of the nominal GDP from the 1960s onwards. This data indicates that we are currently spending the lowest amount on K-12 education, measured as a percentage of GDP, in modern Saskatchewan history. Indeed, we have historically spent around 4% of our GDP on K-12 education. The average spending on K-12 education for each decade from 1960 to 2000 is as follows: 4.1% for the 1960s; 4.3% for the 1970s; 4.1% for the 1980s; and 3.7% for the 1990s. However, it is important to realize that this higher spending was driven by the fact that Saskatchewan had a younger population during these time periods. Indeed, the slight shift downwards in spending on K-12 education during the 1980s and 1990s can probably be attributed to the school aged children making up about 23% to 25% of the population as opposed to the 1960s and 1970s when school-aged children made up 25% to 30% of the population.<sup>6</sup> What is disturbing about our current era is that we are spending less on K-12 education as a percentage of GDP in 2014 than during the mid-2000s even though enrollments have gone up. Further, the

dynamics of our province's classrooms have become more complex over the last ten years with more integration of special needs students, more demand for English as a Second Language Instruction, and the fast pace of technological change. In an increasingly complex world and in time of population growth and economic growth, the percentage of our economic wealth that we invest in our children's future through the K-12 education should be going up or staying the same. If not, we are short-changing our children and preventing them from reaching their full potential.

One may argue that recent K-12 education spending is adequate in Saskatchewan because it has kept up with inflation and there have even been budgets where increases were slightly more than the rate of inflation to reflect increased enrollment. Such an argument begs the question: should we expect K-12 education funding to keep pace with inflation, enrolment, or economic growth? Ensuring that K-12 education spending merely keeps up with inflation and with enrolment essentially means that no new money is coming into the system. It means there will be little in the way of innovation or improvements in the education system. While our economy grows, the education system effectively remains stagnant. Setting a goal of 3% of GDP dedicated to K-12 education will allow us to make the necessary improvements and innovations to ensure a world class education system in Saskatchewan.

Second, we need to have a debate once again in our province about the mix of property taxes and provincial government revenues in funding K-12 education. The result of the Wall government's

reforms of education property taxes has been a drain of money out of the system and there is nothing that local school boards can do about it. Either local school boards should be provided with stable, long term funding out of the provincial government's general revenue fund or they should be given the power to raise education property tax rates. It is unacceptable that the provincial government refuses to backfill the loss of revenues to school boards incurred because of its property tax reforms when these school boards are facing the pressures of increasing enrollment. Perhaps, it is time to discuss more creative ways of funding K-12 education through increased income taxes, increased corporate taxes, or a dedicated portion of the provincial sales tax that goes towards education. At the same time, the

solution could also be to review the provincial government's spending priorities. The Wall government has had strong revenues due to our growing economy, but K-12 students have not fully benefited from those rising revenues. There could be dollars that are being spent in other policy areas, like infrastructure or health care, that could be better spent on K-12 education. Saskatchewan has quite a low debt-to-GDP ratio, which could allow the province to run short-term deficits in order to allow education funding to catch up with our economic growth. All options should be put on the table and an open debate on how we can prevent Saskatchewan's drift towards continuing to underinvest in our children should take place.

## Endnotes

- 1 Nominal GDP simply means that these numbers are not adjusted for inflation. This contrasts with 'real GDP', which means that the value of the GDP has been adjusted for inflation. Since we are using percentage of GDP in analysis below, it makes absolutely no difference if we adjust for inflation or not. The rate of inflation for K-12 school boards' expenditures is exactly the same as the rate of inflation for the GDP. The percentages in this study did not change at all when I ran the analysis with real GDP as opposed to nominal GDP.
- 2 Frederic Pryor, *Public Expenditures in Communist and Capitalist Nations* (London: Allen and Unwin, 1968).
- 3 David McGrane, "Limiting Fiscal Capacity?: The Relationship between Transfer Payments and Social Spending in Canadian Provinces from 1988 to 2002" in *Constructing Tomorrow's Federalism*, edited by Ian Peach, Winnipeg: University of Manitoba Press, 2007, pp. 51-88.
- 4 David McGrane, "Balancing Conflicting Purposes: Saskatchewan Taxation Policy from 1991 to 2011" in *New Directions in Saskatchewan Public Policy*, David McGrane (ed.), Regina: University of Regina Press, 2011, pp. 91-120.
- 5 CANSIM Table 4780012: School Board Expenditures, annually (Dollars); CANSIM Table 3840037: Gross domestic product, income-based, provincial and territorial (Gross domestic product at market prices); CANSIM Table 3840014: Provincial gross domestic product (GDP), income-based (Provincial gross domestic product at market prices).
- 6 CANSIM Table 510001: Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annually (Persons); CANSIM Table 510010: Estimates of population, by marital status, age group and sex for July 1, Canada, provinces and territories, annually (Persons).