



BC ASSOCIATION of SCHOOL BUSINESS OFFICIALS

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Honorable Colin Hansen
Minister of Finance
P.O. Box 9048, Stn Prov Govt
Victoria, BC V8W 9E2

November 2, 2009

Dear Honorable Minister;

Re: Harmonized Sales Tax - HST Rebate Structure for BC's School Districts

We are writing to share our observations about the impact of the Harmonized Sales Tax ("HST") on the Kindergarten to Grade 12 education sector ("K-12 Sector") in BC. The purpose of this letter is to open a dialogue on the need to establish a reasonable HST rebate rate for BC's school authorities so that the K-12 Sector does not suffer financially due to the new tax.

Effective July 1, 2010, BC's Social Services Tax ("PST") will be combined with GST to form HST at a combined rate of 12% (based on a 7% BC component and a 5% federal component). BC's School Districts and the BC Government will require a clear understanding of the impact of HST on the K-12 sector. BCASBO is approaching this submission in the spirit of co-operation and in confidence that BC intends the K-12 Sector to pay no additional tax due to HST implementation.

BC's K-12 Sector will face significant cost increases due to HST unless a fair and reasonable HST rebate mechanism is established to coincide with the implementation of the tax. We do not believe that a provincial model designed to offset the impact of HST through increased grants to the K-12 Sector would represent an equitable approach to the problem.

In an attempt to gauge the financial impact of BC's proposed HST, we conducted an initial, high-level review of Operating Costs for a sample of three School Districts, intended to represent the diversity of school operations across the province. Based on our review, as summarized at Appendix I, the impact of HST without a provincial component rebate will increase Operating Fund Services and Supplies costs by an estimated \$24 million or 4.1% based on fiscal 2009 expenditures.

Examples of major Operating Fund expenditures currently not subject to PST include;

- i) School Supplies – est. \$50 million – Difficult to precisely quantify, but a singularly significant expenditure base of PST exempt items that will become subject to HST;
- ii) Student Transportation – An estimated 50% of \$52 million is spent on contracted student transportation.
- iii) Facilities and Grounds Maintenance – This expenditure item includes a significant value of contracted services that will become subject to HST.

HST Impact on Capital Projects

Capital construction and renovation projects will be negatively affected by HST implementation in the absence of a reasonable HST rebate rate. The K-12 Sector conservatively estimates that capital facility costs are comprised 60% of non-taxable services, labour, overhead and profit which would not have previously attracted PST, but will become subject to the provincial component of HST. Based on annual capital project expenditures of \$330 million including related planning fees, as summarized at Appendix II, the additional cost from HST without a provincial component rebate will be \$14.7 million.

With a current inventory of capital and seismic projects of \$2.27 Billion, the HST impact on actual capital projects of BC's School Districts will be \$111 million. Capital projects in transition at July 1, 2010 will create a unique set of issues given the timing of fixed price contracts awarded prior to the announcement of the new harmonized HST. Fixed price contracts entered into prior to the announcement of the new harmonized HST will have assumed a PST cost component which will not exist after July 1st. As the transition rules are established they should include school districts and specify how existing capital projects should be handled.

Alternatives for Achieving a Reasonable HST Rebate Rate for BC School Districts

Significant GST and HST rebate rates have been required to approximate cost neutrality for school authorities during previous conversions to respective value-added sales tax systems. Ontario established a 93% HST rebate rate, for a combined net sales tax of 2.16%, based on the premise of cost-neutrality for its public school entities. Parity with Ontario schools might be approximated with a rebate of 92% of the BC component of HST.

Based on our review, HST rebate parity with Ontario schools may benefit BC's K-12 Sector. Alternatively, a "harmonized" HST/GST rebate rate of 68% would approximate cost neutrality for BC's School Districts. A harmonized rebate rate of 68% would also save administrative costs that would otherwise be incurred to track the two separate components of GST/HST. Compliance audits by CRA would be less intrusive and less costly. There is precedence for, and acceptance of, a combined 68% HST rebate rate in the Maritimes. For all these reasons, and as an alternative to the "Ontario model", BCASBO recommends that the BC Ministry of Finance implement HST with a 68% HST rebate rate for BC's school authorities.

Thank you for the opportunity to present our submission on behalf of Secretary Treasurers and other senior business officials from our 60 member School Districts who are interested in and affected by these issues. We look forward to an open dialogue with you and your staff in determining how HST will be implemented in the K-12 sector.

Please feel free to direct your questions and enquiries to me at (250) 754-5521, Mr. Mac Petrie, our Executive Director, at (604) 533-0243 or Mr. Carl Beck, CMA, our Sales Tax Advisor, at (604) 596-0095.

Yours truly,



J. David Green, C.A., President
BC Association of School Business Officials

cc: Honorable M. MacDiarmid, Minister of Education

HST Impact on the K-12 Sector

Operating Fund

Summary of our HST Impact Study:

<i>Amounts to June 30/09</i>	<i>Currently: GST-1.6% +PST-7%</i>	<i>GST-1.6% + HST- 7% (No Rebate)</i>	<i>GST-1.6% + HST- 2.24% (68% Rebate)</i>	<i>HST Impact No Rebate (Unfavourable) / Favourable (B) – (A)</i>	<i>HST Impact 68% Rebate (C) – (A)</i>
	(A)	(B)	(C)		
<u>Operating Fund – Sample of 3 SDs:</u>					
<i>i) Costs NOT subject to PST, e.g. School supplies, contracted services, contracted transportation, building rentals, etc:</i>					
	41,023,999	762,283	3,409,158	1,523,700	(2,646,876) (761,417)
<i>ii) Costs subject to PST, e.g. Heat, electricity, supplies, maintenance, equipment leases, etc:</i>					
	27,738,269	2,282,921	2,282,921	1,019,351	- 1,263,570
<i>iii) Continuing Education:</i>					
	<u>(2,432,886)</u>	<u>(121,644)</u>	<u>(291,946)</u>	<u>(291,946)</u>	<u>(170,302)</u> <u>(170,302)</u>
Total Sample-3 SDs	<u>66,329,381</u>	<u>2,923,559</u>	<u>5,400,133</u>	<u>2,251,104</u>	<u>(2,817,178)</u> <u>331,851</u>
			<i>NO Rebate</i>	<i>- % of Costs</i>	(4.1%)
			<i>68% Rebate</i>	<i>- % of Costs</i>	0.5%

PROVINCE - WIDE Operating Expenditures – 2009 – Services & Supplies: 592,061,426

<i>NO Rebate</i>	@ (4.1 %)	<u>(24,000,000)</u>	
<i>68% Rebate</i>	@ +0.5 %		<u>3,000,000</u>

Appendix II

HST Impact on the K-12 Sector

Capital Projects

	<i>Capital Spending</i>	<i>7% PST</i>	<i>7% HST (No Rebate)</i>	<i>2.24% HST (68% Rebate)</i>	<i>HST Impact No Rebate (Unfavourable) / Favourable</i>	<i>HST Impact 68% Rebate (Unfavourable) / Favourable</i>
	(A)	(B)	(C)	(B) – (A)	(C) – (A)	(C) – (A)
<u>Capital Projects – Province-wide:</u>						
<i>i) Annual Capital Spending - \$300,000,000 plus Planning Fees :</i>						
Labour - 60%	180,000,000	-	12,600,000	4,032,000	(12,600,000)	(4,032,000)
Materials - 40%	120,000,000	8,400,000	8,400,000	2,688,000	-	5,712,000
Planning Fees - 10%	<u>30,000,000</u>	=	<u>2,100,000</u>	<u>672,000</u>	<u>(2,100,000)</u>	<u>(672,000)</u>
<i>Total Annual Capital</i>	<u>330,000,000</u>	<u>8,400,000</u>	<u>23,100,000</u>	<u>7,392,000</u>	<u>(14,700,000)</u>	<u>1,008,000</u>
 <i>ii) Current Inventory of Capital & Seismic Projects - \$2,270,000,000 plus Planning Fees:</i>						
Labour - 60%	1,362,000,000	-	95,340,000	30,508,800	(95,340,000)	(30,508,800)
Materials - 40%	908,000,000	63,560,000	63,560,000	20,339,200	-	43,220,800
Planning Fees - 10%	<u>227,000,000</u>	=	<u>15,890,000</u>	<u>5,084,800</u>	<u>(15,890,000)</u>	<u>(5,084,800)</u>
<i>Total</i>	<u>2,497,000,000</u>	<u>63,560,000</u>	<u>174,790,000</u>	<u>55,932,000</u>	<u>(111,230,000)</u>	<u>7,627,200</u>