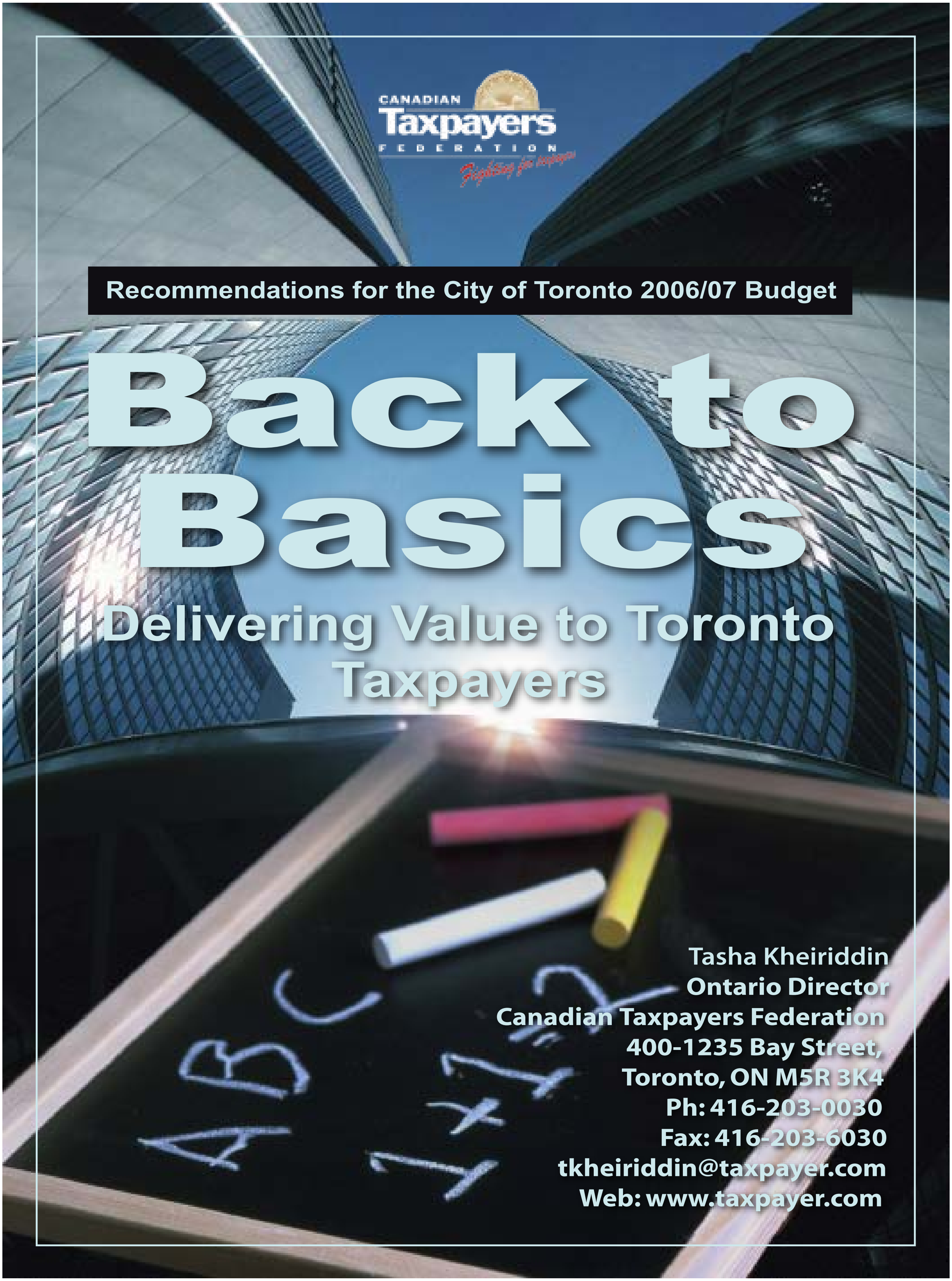

Recommendations for the City of Toronto 2006/07 Budget

Back to Basics

Delivering Value to Toronto Taxpayers

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Introduction

Mr. Mayor, Mr. Chairman, Councilors, on behalf of the Canadian Taxpayers Federation I would like to thank you for the opportunity to speak to the 2006 City of Toronto Budget.

Unfortunately, the fiscal picture is bleak for Toronto taxpayers. Since the current council took office in 2003, the annual budget shortfall has increased from $344 million in 2004, to $400 million in 2005, to a projected $532 million in 2006, which has now been scaled back to $415 million at last count. The city's accumulated debt today stands at $1.9 billion.[1] Debt charges eat up over $160 in taxes per household per year[2] - more than social services, TTV, roads, parks, or waste management.

Again the city is going cap in hand to the province for a bailout, not just for this year, but for the next five. In past years, Toronto has become increasingly reliant on provincial and federal transfers to make ends meet. Last year alone it received a federal GST rebate, tripartite transit funding from the federal and provincial governments, in addition to $92 million in provincial gas tax revenues and a $45 million handout from Queen's Park.

At the same time, Toronto's spending is out of control and its budget priorities bear no relation to the issues that affect the city. In a year of rampant gun violence and a massive budget shortfall, three of the city's top four priorities are its "clean and beautiful city" initiative, a year of creativity, and the waterfront initiative. Councilors voted to spend $8 million of taxpayers' money on a soccer stadium and even wanted to give themselves a raise until Councillor Howard Moscoe withdrew that motion earlier this month.

As presented at the budget briefing January 4, 2006, spending in the proposed operating budget stands at $7.65 billion, up by half a billion dollars over 2005 – a net increase of 17.3%. That's eight times the rate of inflation. Perhaps the most egregious example of overspending is a 46% increase in the City Clerk's budget. This is chiefly to analyze what the new *City of Toronto Act* will mean for Toronto, according to comments made by Chief Administrative Officer Shirley Hoy at the briefing.

That same piece of legislation would increase the city's powers to tax and regulate business, further compounding the main problem afflicting Toronto: a high tax-and-spend mentality that prioritizes frills over essentials, and drives business out to lower-tax jurisdictions.

Instead of engaging in spending sprees, council should get back to basics. It should prioritize core services and reduce the city's tax burden, particularly on business taxpayers. This would stimulate the city's economic growth, attract investment and thereby increase its tax base and revenues down the road. It would increase Toronto's competitiveness and make it a leader among cities in Canada and the world.

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[1] "Red ink reality eludes mayor," Royson James, *Toronto Star*, February 11, 2006.
[2] "City counting on province", Jeff Gray, *Globe and Mail*, February 3, 2005

Executive Summary of CTF Recommendations

1. Toronto should limit any increase in residential property tax revenue to the rate of inflation. Multi-residential properties should be taxed at the same rate as residential properties.

2. Toronto should freeze business taxes and call on the provincial government to reduce the education portion of business taxes, in order to lower the ratio of business to residential taxes and be competitive with neighboring municipalities in the GTA.

3. Toronto should prioritize spending on core services and trim costs to balance the city's books. The city should move to zero-based budgeting to ensure all spending is reviewed during the budget process. Unnecessary spending should be eliminated, labour costs revisited, and work outsourced without discrimination against non-unionized providers where it can be performed more cost-effectively.

4. Toronto should remove as many costs as possible from the property tax base and replace them with revenue-neutral user fees, such as in the area of garbage collection and the TTC.

Residential Property Taxes

The 2006 Toronto Staff Recommended Base Operating Budget proposes a minimum 3% increase in residential property taxes. Publicly, however, city officials have not ruled out increases as high as 6% to compensate for this year's budget shortfall.[3]

If a 6% increase is adopted, the average Toronto residential property tax bill will have risen by 27% since the year 2000.

Taxes on an average Toronto house assessed at $333,000		
Year	**Average % increase**	**Taxes paid ($)**
2000	0.0	1,688
2001	5.0	1,772
2002	4.32	1,848
2003	3.0	1,904
2004	3.0	1,961
2005	3.0	2,020
2006*	**6.0**	**2,141**

*proposed increase
Source: *Globe and Mail*, "Miller sees tremendous financial challenges," February 3, 2005.

When running for Mayor, David Miller vowed to hold property tax increases at or below the level of inflation. With the Ontario inflation rate at 2.2% in 2005[4], and pegged to remain the same in 2006[5], an increase in property taxes anywhere beyond this is not only a broken promise but is higher than necessary to keep pace with inflation. This illustrates an underlying fundamental flaw in fiscal management which has not been addressed.

Higher taxes drain money out of the local economy. Each 1% residential property tax hike siphons over $11 million from taxpayers. Were this money to be left in their pockets to be spent in Toronto, it would instead generate increased demand for services and products, and create more jobs for Torontonians.

Higher taxes on multi-residential buildings than on residential buildings also raise rents and penalize tenants. Toronto renters, who tend to be poorer, less educated, and more likely to be single parents than homeowners, already pay disproportionately high property taxes which are hidden in their rent.[6] According to the Federation of Rental-housing Providers of Ontario, Toronto tenants pay four times the taxes of homeowners – an

[3] "Miller won't dismiss 6% hike", Vanessa Lu, *Toronto Star*, January 5 2006.
[4] Ontario Economic Update January 2006, Ministry of Finance Website, http://www.fin.gov.on.ca/english/economy/ecupdates/upjan06.html
[5] Ontario Economic Outlook and Fiscal Review 2005, Background Papers, Ministry of Finance, p.24.
[6] A tenant living in an apartment worth $75,000 pays the same amount of property tax as a person who owns a $295,000 home, even though the average Ontario tenant's household income is half that of a homeowner: "Toronto Tenants Get Less But Pay More," Kerry Gillespie, *Toronto Star*, October 21 2001.

average of $100 a month more.[7] That's the cost of one adult TTC Metropass, every month. This situation is unfair and should be addressed. Municipalities in British Columbia and Quebec currently tax residential and multi-residential properties at the same rate and other jurisdictions including Regina, Calgary, Saskatoon and the province of Manitoba are looking at doing the same.

CTF Recommendation #1: The City of Toronto should limit any increase in residential property tax revenue to the rate of inflation. Multi-residential properties should be taxed at the same rate as residential properties.

Business Taxes

In 2003 the provincial government removed its business tax cap and allowed Ontario municipalities to increase business taxes. A 1.5% increase was imposed in Toronto both in 2004 and 2005 and this year's budget proposes a similar increase.

Increasing Toronto's business taxes will worsen an already significant gap between the city and surrounding municipalities and continue to undermine its competitiveness. As can be seen in the following chart, Toronto's commercial tax ratios are currently the highest in the region.

2005 GTA Tax Ratio Comparison[8]

Class	Durham	Halton	Peel	Peel	**Toronto**	York
			Mississauga	Brampton /Caledon		
Residential	1.0000	1.0000	1.0000	1.0000	**1.0000**	1.0000
Multi-Residential	2.0750	2.2619	1.6322	1.7050	**3.7617**	1.0000
Commercial	1.4500	1.4565	1.4085	1.2971	**3.8018**	1.2070
Industrial	2.2598	2.3599	1.5577	1.4700	**4.2735**	1.3737

In addition, as the chart on the following page shows, commercial education property taxes are higher in Toronto than in most municipalities in Ontario.

[7] FRPO Toronto pre-Budget submission 2005, p.3, http://www.frpo.org/pdfs/whatsnew/FRPO%202005%20Pre-Budget%20Submission.pdf
[8] York Region Website, http://www.region.york.on.ca/Services/Regional+PropertyTaxes/Property+Tax+Ratios.htm

Commercial education property taxes expressed in taxes paid per $100,000 of assessed value[9]

Armour Township	$ 981
Halton Region	$1,529
Durham Region	$1,645
York Region	$1,683
Peel Region	$1,738
Ottawa	$1,960
Hamilton	$2,024
Kingston	$2,124
Toronto	**$2,216**
Thunder Bay	$2,611

These high tax rates are steadily driving businesses from Toronto to surrounding municipalities where the tax burden is lighter. According to the city's own staff report, *Enhancing Toronto's Business Climate*, 100,000 jobs have been lost to the 905 from the 416 over the past 15 years. The Toronto Board of Trade reports that between 1986 and 2001 35 head offices left Toronto, while 30 located in the 905. Office vacancy rates are rising to double digits from less than 5% three years ago. And office construction outside the city continues at a brisk pace, with 12.5 million square feet being built in the 905 in the past six years versus 1.6 million square feet in Toronto.[10]

The recommendation made to the city in the *Enhancing Toronto's Business Climate* report, to add an annual $10 charge to each residential property taxpayer to gradually narrow the gap between residential taxpayers and business taxpayers, is not the answer. Business taxes should be frozen by the city and lowered by the province, in respect of the education portion of taxes that business currently pays.

CTF Recommendation #2: Toronto should freeze business taxes and call on the provincial government to reduce the education portion of business taxes, to lower the ratio of business to residential taxes to compete with neighboring municipalities in the GTA.

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[9] "Businesses argue for lighter tax load", *Toronto Star*, February 1 2006, p.E1, data from Ontario Regulation 373/05.

[10] Toronto Board of Trade News Release, April 22 2004. http://72.14.207.104/search?q=cache:UoOAJ3sl3pQJ:bot.com/ContentIslands/PublicPages/FloatingPages/Press_04_22_2004.asp+%22toronto+board+of+trade%22+37,000+jobs&hl=en&ct=clnk&cd=1

Spending Reductions

As in all previous years since Toronto's amalgamation, the city forecasts a budget shortfall, currently to the tune of $415 million. Toronto continues to blame the province for this problem, specifically in downloaded program areas such as social housing and welfare where the city claims that Queen's Park is not paying its fair share of the costs.

While there is some truth to the city's claim, it does not tell the whole story, and cannot be used as an excuse for continued budget shortfalls. Toronto's spending on non-priority areas as well as on areas of responsibility it had before downloading continues to rise.

The first step the city should take is to move to zero-based budgeting for all departments. This would be an effective way to ensure a thorough review of spending instead of simply rubber-stamping and adding to existing funding for programs which may be unnecessary, out of date or inefficient. Toronto's deputy city manager Farid Amin is to be commended for already supporting this idea. Unfortunately, it appears that the policy may only apply to so-called "hard services" as opposed to all city departments. This is not enough. Zero-based budgeting is used across the board by the provincial government, as well as many Ontario cities including London and Windsor. There is no reason Toronto should not do the same.

The proposed Toronto budget as presented on January 4, 2006 projects an overall spending increase of 17.3% - eight times the rate of inflation. When one examines some of the line items, it becomes clear that many should not be in the budget at all, considering that the city cannot meet its basic needs.

The city is currently proposing to spend $24 million on culture, economic development (read: subsidies to business) and tourism. In the case of the culture budget, it is getting a 19% increase over the previous year. The city is also spending $197,000 on the Clean and Beautiful City Secretariat, and $829,000 on the Waterfront Secretariat (a 17% increase over the year before) – together, another million dollars' worth of unnecessary bureaucracy.

If the city were to cut spending on these non-essential items, it would be in a position to freeze or even lower business taxes. A 1.5% tax on business is equivalent to $27 million, roughly the same amount of money the city would save if it took these items out of the budget. The CTF submits that economic development would be far better served by lowering the business tax rate to encourage businesses to locate and flourish in Toronto than by throwing taxpayers' money at projects selected by bureaucrats at City Hall.

Core service areas of spending need attention too. In that respect, we refer specifically to several of those outside the scope of provincial downloading:

2006 Proposed Budget – Selected Departments (Core Services)[11]

Solid Waste Management	$174 million
Parks, Forestry and Recreation	$212 million
Fire Services	$326 million
Transportation Services	$190 million
Toronto Police Services	$735 million
Toronto Transit Commission	$299 million
TOTAL	**$1.9 BILLION**

Together, these spending envelopes total $1.9 billion, just under a third of Toronto's entire budget. They represent core services of the city, for which it was responsible before provincial downloading occurred, and for which it would retain responsibility were any uploading to occur.

These areas all present opportunities for savings in the area of labour costs. According to figures received under the Freedom of Information Act by the *Toronto Sun*, city wages increased 19% between 2000 and 2004.[12] Compare that to the average Ontario wage increase of 10.5% in the same period,[13] and it is clear that city workers are getting a better deal than others at taxpayers' expense.

In 2003 census, the last time they compiled this data, Statistics Canada reported that the salary of the average Torontonian, of all education levels, was $35,800. Unless you worked for the city, that is. According to the *Sun*, in 2004, on average, the city's 29,964 unionized staff made $41,165 apiece (without benefits), including wages for part-time workers in homes for the aged and recreational programs. Among full-time workers, the city's 9,544 full-time inside workers in CUPE Local 79 -- cleaners, clerks, bylaw officers, hostel workers and case workers -- made on average $47,537 (without benefits). Outside workers in CUPE Local 416 -- some 4,764 garbage collectors, mechanics, parks employees and water treatment plant workers -- collected $48,144 on average. Some 70 tradespeople on the city payroll averaged $57,153 each (without benefits).

Let's not forget senior staff either. The City paid its Chief Administrative Officer, Shirley Hoy $282,173.14 in 2004.[14] That's more than the Prime Minister of Canada. Add to that 3,700 other middle managers and six-figure bureaucrats, who earned an average $74,650 apiece that year, not including another 20% in benefits. And as we know, in 2005 council passed a motion to give the same benefits and salary increases to its non-unionized employees as to unionized ones.

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[11] City of Toronto 2006 Operating Budget Briefing Papers.
[12] "We pay for their raises," Sue-Ann Levy, *Toronto Sun*, April 27, 2004.
[13] Statistics Canada, Labour Force Survey, February 2005 (3/2005)
[14] Ontario Salary Disclosure, Ministry of Finance Website, 2005
http://www.fin.gov.on.ca/english/publications/salarydisclosure/2005/munic05.pdf

This problem is compounded by the fact that the city will not do business with non-unionized external service providers. This is a discriminatory political decision which burden taxpayers with these unnecessarily high wages. It results in absurdly high rates of pay, such as $17.45 an hour for cutting grass in public parks. It also places citizens at the mercy of unions such as CUPE, currently threatening a wildcat strike which would affect garbage pickup and schools.

To effectively manage its finances, the city should open a competitive bidding system for all service providers, unionized or non-unionized, to contract out services in areas of core responsibility. Waste management is one such service. South of the border, cities and towns across the United States have implemented competitive bidding for waste management and saved taxpayers millions of dollars in the process.

- Since 1979, the city of Phoenix, Arizona, has put residential solid waste collection up for bid six times, with private firms winning 50% of the time, resulting in an estimated savings to taxpayers of $30 million.

- In Flint, Michigan, faced with competitive bidding, city workers negotiated to reduce waste management spending by 31%.

- In 1993 the employees of the city of Clearwater, Florida were obliged to bid against private companies for a recycling contract. Clearwater's recycling program is now so efficient it services neighboring towns as well, and makes an annual profit of $250,000 to $750,000.[15]

Overall, the city must reexamine how many people it needs to run its affairs. As of 2005, the city had 46,129 people on its payroll. $2.4 billion, or 45% of annual spending, goes to salaries and benefits, excluding pay to police and employees of municipal agencies and commissions. The city must both reduce the number of employees and negotiate fair salaries with unionized workers that are in line with those of the private sector. If fair salaries cannot be negotiated, then the city should outsource services to the private sector in a competitive bidding process.

Finally, city councilors should forego gratuitous perks such as tens of thousands of dollars in free TTC passes and golf passes until they manage to balance the city's books without bailouts and get the city back on its financial feet.

CTF Recommendation #3: Toronto should prioritize spending on core services and trim costs to balance the city's books. The city should move to zero-based budgeting to ensure all spending is reviewed during the budget process. Unnecessary spending should be eliminated, labour costs revisited, and work outsourced without discrimination against non-unionized providers where it can be performed more cost-effectively.

[15] Independence Institute's Issue Backgrounder, "Waste in Denver", by Beth Skinner, June 2004.

User Fees

The value of user fees stems from a basic principle: paying for a service increases the user's sense of ownership and responsibility towards that service. User fees should be imposed as an *alternative* to property taxes, not as an *additional* tax burden. Any increase in user fees should be revenue-neutral, and shift the burden from the general population of taxpayers to those who actually use the service. In Toronto, this could be done for services such as garbage and public transit.

According to the city's 2005 budget papers, the annual average household cost for Toronto taxpayers for solid waste management is $106.50, regardless of how many bags are thrown into the street. To lower costs and encourage conservation, this cost should be removed from the property tax base and citizens charged a revenue-neutral per-bag user fee. 100 other municipalities across Ontario currently charge such fees.

Another area where a user-fee approach could be implemented is the TTC. According to the Canadian Urban Transit Association, as the table below indicates, in 2004 Toronto property taxpayers subsidized transit users to the tune of $0.53 a ride. When you multiply the cost by the number of rides taken, the TTC operating ride subsidy cost taxpayers almost $222 million in that year (figures for 2005 have not yet been released).

Toronto Transit Operating Costs				
Average Fare ($)(revenues divided by trips)	**Total Direct Operating Expenses (Total Cost)**	**Regular Service Passenger Trips (Ridership)**	**Cost per rider ($) (Total cost divided by ridership)**	**Taxpayer subsidy per trip ($)**
1.63	901,149,495	418,099,000	2.16	0.53

This does not include the cumulative capital subsidy from the city and province, which sits at $5.7 billion. *Financial Post* editor Terence Corcoran estimates that this adds another $1.20 per trip, which is also subsidized by the taxpayer.[16]

Increasing TTC fares to put more of an onus on users is a sensible move only if it is accompanied by a revenue-neutral reduction in property tax. According to the city, in 2004 each residential taxpayer subsidized the TTC by $136.75[17]. While increasing TTC fares by 25 cents would not bring them out of line with what is charged in most major Canadian cities, a fare increase is not acceptable unless it accompanies a general tax decrease. The goal should not be to hike taxes, but to apportion them fairly on those who make the most use of city services.

CTF Recommendation #4: Toronto should remove as many costs as possible from the property tax base and replace them with revenue-neutral user fees, such as in the area of garbage collection and the TTC.

[16] "Sick transit", Terence Corcoran, *National Post*, April 7 2005, p.FP23.
[17] City of Toronto Fact Sheet, Budget Papers 2005.

Conclusion

As Canada's largest city, Toronto should strive to lead the way in best practices and municipal government efficiency. It should be a model for other municipalities, particularly in light its desire to attain a more mature status under the new *City of Toronto Act.*

The city should start by getting its fiscal house in order. It should not increase residential property taxes beyond the level of inflation. It should freeze commercial taxes and call on the provincial government to reduce the education portion of commercial property tax. It should implement zero-based budgeting, to ensure all spending is in fact necessary and efficient. It should forego frills and focus on its core priorities, such as public safety and infrastructure, and get value for money in its labour costs for services. It should explore innovative service delivery and funding options that better connect citizens to the services they use. It should replace general taxation with user fees on a revenue-neutral basis where appropriate.

Taxpayers hate to see their money wasted, whether it is through mismanagement or bad public policy. Council must realize this and ensure that the city's spending practices and policy planning respect and value the taxpayers who fund and receive its services. Instead of grasping for more taxing powers, and spending on non-priority items, Toronto should get back to basics, and deliver taxpayers the quality services they deserve.

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 and today has 72,029 supporters nation-wide. 12,317 of these live in Ontario, and 1,081 reside in Toronto.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a Centre for Aboriginal Policy Change in Calgary dedicated to monitor, research and provide alternatives to current aboriginal policy and court decisions. Provincial offices and the Centre conduct research and advocacy activities specific to their provinces or issues in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

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