Recommendations for the 2005 Toronto Budget

Toronto 2005:

Living Within Our Means

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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 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has over 65,000 supporters nation-wide.

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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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 2005 City of Toronto Budget.

I would like to congratulate the mayor and members of council for their ongoing debate on the city's budget. It has become increasingly important that residents of Toronto are afforded the opportunity to engage their councilors on the very important issues that affect their daily lives.

Before I begin my formal remarks, I feel it is important to acknowledge some of the areas where city council has taken steps in the right direction, such as a commitment to better target help to the homeless and the cancellation of unnecessary frills such as "car free day".

Some directions, however, are less constructive. While the objective of the "Clean and Beautiful City" initiative sounds attractive, in Toronto's case, it is like prescribing cosmetic surgery for a patient with a life-threatening disease. Things may look better on the outside, but the program does nothing to tackle the systemic over-spending that is the cause of the $91 million shortfall in the 2005 proposed budget.

This year, as in 2004, Toronto will be asking the province to help balance its books. In recent years the city has become increasingly reliant on transfers from other levels of government to fulfill its obligation of a balanced budget. In 2005 alone, the New Deal for Cities, GST rebate, tripartite transit funding, and $92 million in provincial gas tax revenues will provide a significant influx of funds to Toronto. Instead of spending this money on new initiatives, Council should prioritize core services and reduce the tax burden on Toronto residents and businesses. This would stimulate the City's economic growth, attract investment and thereby increase its tax base and revenues down the road.

It is true that the Mega City faces some unique challenges, including pollution problems, immigration pressures, and continued fallout from provincial downloading. But Toronto must learn to live within its means, if we are to build a viable and sustainable city in the years to come. That exercise starts with council's deliberations on the 2005 City Budget.

EXECUTIVE SUMMARY OF RECOMMENDATIONS

1. The City of Toronto should freeze residential property taxes, or at most limit any increase in tax revenue to the rate of inflation. The City should prioritize a lowering of the property tax rate in future budgets.

2. To regain Toronto's competitiveness, boost the economy and stop penalizing tenants, the CTF recommends a freeze on business taxes in the 2005 Budget, with reductions in subsequent years.

3. The City must prioritize spending on core services and trim costs to balance the city's books. Unnecessary spending should be eliminated, labour costs revisited, and work outsourced to the private sector where it can be performed more cost-efficiently.

4. The City should remove the cost of garbage collection from the property tax base and charging a revenue-neutral per-bag disposal fee. The City should further work to reduce waste management costs by engaging in a competitive bidding process to get the best value for taxpayers.

5. The TTC should increase fares with a corresponding decrease in the portion of property taxes paid to subsidize transit. The move must be revenue neutral and designed to more equitably shift the tax burden to users of the transit system.

BACKGROUNDER

Residential Property Taxes

The 2005 Staff Recommended Base Operating Budget proposes a 3% increase in residential property taxes**. If this increase is adopted, the average Toronto residential property tax bill will have risen by 20% 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**

*proposed increase
Source: Globe and Mail, City of Toronto

During the last mayoralty campaign, Candidate David Miller vowed to hold property tax increases at or below the level of inflation. With the Canadian inflation rate at 1.9% in 2004, and pegged to remain around the 2% mark in 2005[1], an increase in property taxes now proposed for 2004 and 2005, is not only a broken promise but is far higher than necessary to keep pace with inflation.

It is also higher than necessary when one considers that, since 1998, residential property tax revenues have naturally grown on average by 0.85% a year, even during the years of the "tax freeze". This is due to the fact that rising assessments and new construction automatically produce an increase in revenue for the city, regardless of whether the mill rate is increased or not.

Residential Property Tax Revenues 1998-2004				
Year	$ Revenue	% increase over previous year	% increase of mill rate	% natural increase due to rising value and growth
1998	942,555,776	-	-	-
1999	951,337,530	0.9	0.0	0.9
2000	957,859,501	0.7	0.0	0.7
2001	1,010,860,020	5.5	5.0	0.5
2002	1,063,110,233	5.2	4.32	0.8
2003	1,105,680,344	4.0	3.0	1.0
2004	1,151,857,657	4.2	3.0	1.2

Source: Finance Department, City of Toronto

[1] Desjardin Economic News January 19 2005.

Furthermore, this natural increase has grown in recent years and now stands at 2/3rds the rate of inflation. If new construction trends and rising home prices are any indication, the city can anticipate even higher natural revenue growth from residential property taxes in the coming years, mitigating or eliminating the need to increase these taxes. In fact, the city should lower the mill rate, not raise it, as property values rise.

CTF Recommendation #1: The City of Toronto should freeze residential property taxes, or at most limit any increase in tax revenue to the rate of inflation. The City should prioritize a lowering of the property tax rate in future budgets.

Business Taxes

In 2003 the provincial government lifted the business tax cap and allowed Ontario municipalities to increase business taxes. A 1.5% increase was imposed in Toronto that year and the 2005 Budget proposes a similar increase.

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

2004 Tax Ratio Comparison within the GTA						
Class	Durham	Halton	Peel Mississauga	Peel Brampton Caledon	Toronto	York
Residential	1.0000	1.0000	1.0000	1.0000	**1.0000**	1.0000
Multi-Residential	2.1274	2.2619	1.6322	1.7050	**3.7617**	1.0000
Commercial	1.4500	1.4565	1.4085	1.2971	**3.8093**	1.2070
Industrial	2.2598	2.3599	1.5577	1.4700	**4.2739**	1.3737

Source: York Region Website

These high tax rates are driving businesses out of Toronto, as it becomes more economical to locate in surrounding municipalities. According to the Toronto Board of Trade, companies leaving the Mega City have taken 37,000 jobs with them since 2000. 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 is increasingly taking place outside the city, with 12.5 million square feet being built in the 905 in the past six years versus 1.6 million square feet in Toronto.

Higher taxes also take more money out of the local economy. A 3% residential property tax hike will drain $34 million from homeowners while a 1.5% increase in business taxes will siphon $27 million. Had this money been spent in Toronto, it would have created more demand for services and products, and generated more jobs for Torontonians.

Higher taxes on multi-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. A tenant living in a $75,000 apartment 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.[2]

CTF Recommendation #2: To regain Toronto's competitiveness, boost the economy and stop penalizing tenants, the CTF recommends a freeze on business taxes in the 2005 Budget, with reductions in subsequent years.

Priority Spending

Mayor Miller has said, "To solve our structural deficit, Toronto needs revenues that grow with the economy." This is a truism: Toronto already has these revenues, and, if it managed them prudently, would not have to raise taxes. The current budget projects a spending increase of 5.1% - more than twice the rate of inflation.

Growth is not the problem: non-priority spending is. The city must focus on core services, such as safety, infrastructure and cleanliness. There is no point funding festivals and fancy street signs if the roads are full of potholes and the fire department is threatened with cuts. Mercifully, such senseless ideas as a $150,000 "car-free day" have been scrapped, but there is still a long way to go.

In a year with a $91 million shortfall, the City is proposing new spending of:

1. $29,000,000 for 552 new employees (that's $52,500 per employee, when the average Torontonian's income is between $39,000 and $45,000)

2. $2,783,100 in additional funding for unionized grass cutters and litter pickup

3. $953,700 to "rejuvenate horticultural beds".

4. $431,000 for additional staff to enforce the "private Tree" bylaw

5. $150,000 for a "Shop St.Clair Campaign"

6. $1,498,300 for an "International Profile, Branding and Brand Launch Project"

The Budget also includes a 4.9% increase to Economic Development, Culture and Tourism. The CTF submits that instead of earmarking $214,859,300 for this item,

[2] Toronto Star, October 21, 2001

economic development would be far better served by lowering the business tax rate to encourage businesses to locate and flourish in Toronto. As for cultural spending, it should be reduced insofar as core services are not being properly provided and the books balanced without resorting to provincial handouts.

The main area of spending which must be trimmed is labour costs. The city currently has 46,129 people on the 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.

The city should also implement better oversight and auditing measures to curb waste. Overspending, like the recently-unearthed $630,000 in excess payments to city employees, and $835,000 spent on hotel rooms for the homeless that were never used, are inexcusable. It is hoped that the ongoing inquiry into the multi-million dollar MFP scandal will also bring about new measures that will help prevent future fraud and misuse of taxpayer dollars.

Finally, city councilors should set an example for other Torontonians and forego perks which costs taxpayers thousands of dollars. Last year these included: $14,000 spent on free golf passes, $16,000 for tickets to community events, $51,000 for council donations, $20,000 in free yearly TTC passes, and $26,500 in gas reimbursement for councilors to get to and from work.

CTF Recommendation #3: The City must prioritize spending on core services and trim costs to balance the city's books. Unnecessary spending should be eliminated, labour costs revisited, and work outsourced to the private sector where it can be performed more cost-efficiently.

Garbage User Fees

The 2005 Budget proposes imposing a two-bag limit on garbage collection, and charging a user fee of $1.50 for each additional bag.

Imposing user fees for a service citizens already pay for through their taxes is unacceptable. The current annual average household cost for Toronto homeowners for solid waste management is $106.50, regardless of how many bags are thrown into the street. If the objective is to lower costs and encourage conservation, this cost should be completely removed from the property tax base and citizens charged a revenue-neutral per-bag user fee for all garbage.

The city should also examine more cost-efficient means of collecting and disposing of garbage. This would involve looking at private garbage collection operations as opposed to the city's monopoly of Solid Waste Management Services. 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.[3]

CTF Recommendation #4: The City should remove the cost of garbage collection from the property tax base and charging a per-bag disposal fee. The City should further work to reduce waste management costs by engaging in a competitive bidding process to get the best value for taxpayers.

TTC Fare Increases

Another fee increase under consideration involves the TTC. Despite a strong infusion of new federal and provincial funds, as well as $92 million in new gas tax money, the TTC is still searching for additional revenue, and thus a fare increase is under consideration.

As the table below indicates, Toronto property taxpayers currently subsidize transit users to the tune of $0.53 a ride. When you multiply the cost by the number of rides taken, the TTC ride subsidy costs taxpayers almost $215 million a year.

Toronto Transit 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 ($)
1.62	871,589,993	405,412,000	2.15	0.53

Source: Canadian Urban Transit Association

Increasing TTC fares to put more of an onus on users is a sensible move. Paying for a service increases the user's sense of ownership and responsibility towards that service. It is also unfair to property taxpayers who do not use the TTC to subsidize it for others. **However, such a move must be revenue neutral, in that any increase in fares should correspondingly reduce the average annual cost of $136.75 borne by residential**

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

property taxpayers. The goal is not to hike taxes, but apportion them fairly on those who use and benefit from city services.

Increasing TTC fares by 10 or 25 cents would not bring them out of line with what is charged in Canada's major cities. Only Calgary currently charges less than Toronto for single trip fares.

Individual Fares – Major Canadian Cities Single Trip ($)	
Calgary	2.00
Toronto	**2.25**
Montreal	2.50
Vancouver	**2.50**
Ottawa	2.60

Source: Canadian Urban Transit Association

In the longer term the TTC should consider restructuring its fare system to reflect the different distances commuters travel within the city. Riders currently pay the same fare to take the TTC four blocks from Dundas to Queen Station as to cross the city from High Park to Pape. This is inequitable, and again disproportionately taxes riders who make less use of the transit service.

CTF Recommendation #5: The TTC should increase fares with a corresponding decrease in the portion of property taxes paid to subsidize transit. The move must be revenue neutral and designed to more equitably shift the tax burden to users of the transit system.

Conclusion

As Canada's largest city, Toronto should strive to lead the way in best practices and municipal government efficiency. The city must hold the line on property taxes, both residential and commercial, as this is the most effective strategy both in terms of increased tax revenues and job creation. It must focus on its core priorities, such as public safety, infrastructure, and basic city cleanliness. It must explore innovative service delivery and funding options that better connect citizens to the services they use. 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.

In today's society, Toronto taxpayers must live within their means. It is time that their city government did the same.