

Citizen Control of the Citizen's Business

TORONTO'S CITIZENS CAN CONTROL TORONTO'S AFFAIRS ONLY THROUGH FREQUENT, PROMPT, ACCURATE AND PERTINENT INFORMATION WITH REGARD TO TORONTO'S BUSINESS.

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OPEN LETTER

TO THE CITIZENS AND TAXPAYERS

OF TORONTO

ON

BUDGETING FOR A DEFICIT

To the Citizens and Taxpayers of Toronto:

Ladies and Gentlemen:

On April 12th, 1915, the Bureau of Municipal Research issued its first White Paper. It was on "Government by Deficit". For many years before that date each annual estimates had to provide for a deficit from the year before. The introduction to the 1914 estimates contained the following sentence, with figures changed almost a replica of a similar statement in previous estimates: "The rate of 19½ mills in the dollar imposed last year did not meet the requirements of the City. After the passage of the estimates the Council found it necessary to make supplementary appropriations to the amount of \$177,487. This amount is increased by a deficit in the revenue of 1913 amounting to \$269,449, making a net deficit of \$446,936, or about a mill on the assessment". The continued reiteration of such sentences showed that the Council had been accustomed to the deficit habit by the familiar devices of under-estimating expense, over-estimating the revenue, or both. That is in reality they budgeted for a deficit, although the estimates were always neatly balanced without showing a deficit—because they did not want to pay for two deficits in one year and thus have a large tax rate in their year. In those days twenty mills was a large tax rate.

There are four ways of budgeting for a deficit:

1. By showing the known and probable expenditures on one side, and the known and probable revenues on the other, with the deficit showing in black and white. This is straightforward, but possibly would not comply with the provisions of the Municipal Act.
2. By pretending that not as much will be spent as it is really intended or expected to spend.
3. By pretending that more revenue will be received than is really expected to be received.
4. By combining the two previous methods.

The last three methods provide for a technically balanced budget. No budget is really balanced, however, unless it provides sufficient revenue to meet anticipated expenditures. There can be no concealed deficit in a truly balanced budget.

These principles were recognized after 1914, so that accumulated deficits which varied between \$31,000 and over \$1,000,000 between 1906 and 1914, both inclusive, were converted into accumulated surpluses, varying between about \$220,000 and \$1,750,000, to be carried forward in the years between 1915 and 1930. Some of these years were war and after the war years, when burdens were heavy. During this period also annual net interest paid to the banks on current account loans disappeared, large sums of

debenture debt were repaid in advance of maturity from Sinking Fund accumulations, and notwithstanding heavy borrowing, much of it, however, on public utility account, the city's credit rose to an enviable position.

That 1931 closes with a deficit of \$880,288 is no reflection on anyone's judgment. No one could foresee the New York Exchange situation, or the huge increase in relief expenditures. The Finance Commissioner is quoted as stating: "Unfortunately, Unemployment Relief and New York Exchange are still present-day major problems to be faced." In 1932 the City is faced with the necessity of selling debentures amounting to over \$15,000,000. Considering recent interest of the Province of Ontario, paying investors 6 and 5.9%, of Alberta and British Columbia paying 6½%, it is going to be sufficiently difficult to get full value for the City's securities, particularly as the United States market is practically closed to Canadian public borrowers. A balanced budget for 1932 would assist in attaining this end, and a reduced tax rate would be of further assistance. Of course, more than one or two years of current deficits would be required to affect seriously the excellent credit position which Toronto enjoys at present as the result of past policies.

It would appear from the press that the 1932 exchange payments, estimated by the Finance Commissioner at \$706,000, are not included in the estimated expenditures, either, we presume, because the Board of Control knows that the Canadian dollar will return to par in New York before any payments have to be made or because they do not want to have two deficits paid in one year. The City, we are told, has been advised not to gamble on the exchange—very sound advice. Why not, therefore, include it at the figure estimated by the Finance Commissioner? Why leave this item out any more than any other item of anticipated expense? It is to be noted that curiously the draft estimates include an item of \$150,000 for exchange on funds for debenture interest in connection with bonds of the Toronto Harbour Commissioners guaranteed by the City. If it were possible to estimate this item and include it in the draft estimates, why not the larger item for the City itself?

It would also appear that whereas the City spent on relief in 1931, \$889,646, the 1932 estimates include only \$400,000. The Finance Commissioner estimates the relief expenditure for 1932 at \$1,125,000. The difference may, we are told, be reduced by about \$307,000 if the 2% contribution of the Civic Employees is continued for a year and is amplified by a possible similar contribution from employees of outside Boards and Commissions and, we understand, by gifts from wealthy citizens. The three Federations have had no easy task in raising sufficient funds to support their work. Will it be any easier if the City makes an additional appeal?

It is also to be noted that the draft appropriation for indigent patients sent to public hospitals on City order is reduced by \$170,218 from the approximate actual expenditure for 1931. Is it

safe to assume that there will be less call for this service in 1932 than in 1931, or is it expected that improved administration will reduce the effective demand? At the same time as the draft appropriations for relief and similar objects are reduced from the 1931 approximate actual expenditure, the estimates of departments employing much labor are also reduced from the approximate actual expenditure of 1931—the Street Cleaning Department by \$189,847; the Works Department by \$515,970 (including, however, a reduction of \$279,862 for snow removal—the appropriation therefor being \$50,000) and the Parks by \$158,725. Is it possible that some casual labor will be supported by City relief rather than by wages from the Departments of Street Cleaning, Works and Parks?

The revenue estimates, which are in the domain of the Finance Commissioner, appear conservative. They include an increase of \$222,772 over the 1931 approximate actual figure in the reserve for "Taxes Uncollectible—Allowances, Reductions, Losses, etc." and on the estimated figure of 1931 an increase of \$107,823.

No city has ever got into financial trouble or injured its credit by continuously facing the facts, or got out of trouble by ignoring them. The Bureau, in the interest of citizens and taxpayers, is simply anxious that all the people of the City face the facts. It is not too late to insert, or re-insert, the necessary items. It is still not too late to reduce estimated expenditure in the places where this can be done without affecting the soundness of the budget. It is not too late to avoid any action which may make the capital financing of the City more difficult and expensive.

The Finance Commissioner is quoted as stating: "The principal problems which must be constantly borne in mind, are as follows:

1. Substantially increased debt charges in prospect for 1933 and 1934 incidental to Capital funding this year and in 1933.
2. Until building activities are resumed there can be no hope of increased revenues from increased assessment.
3. Unemployment relief.
4. Cost of U.S.A. Exchange to provide for debt maturities in New York.
5. Higher rates of interest upon new Capital issues.
6. Increased tax delinquencies."

WHY NOT FACE ALL OF THESE PROBLEMS NOW?

Respectfully submitted,

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President.

HORACE L. BRITTAIN,
Managing Director.