

BUREAU OF MUNICIPAL RESEARCH

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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TORONTO
CANADA

White Paper No. 195

March 22, 1934

SECOND OPEN LETTER

of the

Toronto Civic Budget Estimates for 1934

To the Citizens and Taxpayers of Toronto:

The Annual Budget of any city is the most important civic document of any year because it embodies the plan of work and of the financing of that work for a year. That is, it is the annual civic programme. Also, through the debt charges and the proposed and new capital expenditures, it dovetails into the long term capital budget. *It is, therefore, worthy of prolonged study by the City Council and careful examination by the citizens and taxpayers.*

The annual budget, the most important civic document of the year.

The 1934 Civic budget provides for a current expenditure of \$34,402,109.91 and is unbalanced to the amount of the expenditure on net unemployment relief which is estimated at \$2,000,000, which is to be financed by the issue of short term debentures. The total estimated current expenditure for 1934 is therefore \$36,402,109.91 and the estimated revenue \$34,402,109.91, leaving the estimated deficit, \$2,000,000 to be financed by the issue of direct unemployment relief debentures.

The estimates for 1934 in reality budget for an estimated deficit of \$2,000,000.

Before the \$2,000,000 is retired it will have cost the taxpayers about \$2,277,915 for the 1934 estimated direct unemployment relief. If the present method of funding unemployment relief is followed until and including 1937, the taxpayers by the end of 1942 will have paid \$8,428,295, the estimated first cost of which is only \$7,400,000. This is rather an expensive way to pay for groceries, meat, clothing and rent, etc.

The 1934 budget provides for net taxation in 1934 of \$31,972,100. But this does not tell the whole story. It is estimated that there will be spent in 1934 on net direct unemployment relief, which up to 1933 was properly included in the budget, \$2,000,000 repayable during five years with interest estimated at \$277,915. That is before the results of the 1934 budget are disposed of taxes will be levied on account of 1934 expenditures amounting to \$34,250,015 less debt charges amounting to \$320,265.75 on debentures issued for net direct unemployment relief expenditures of 1933, or, \$33,920,749. The table below shows graphically the comparable figures for 1930, 1931, 1932, 1933 and 1934.

	1930	1931	1932	1933	1934
Current Taxation (Net. General)	\$30,397,619	\$33,419,253	\$34,042,394	\$33,176,845	\$31,972,100
Direct unemployment relief funded or to be funded and paid during five years	Nil. (All to be paid out of revenue)	Nil. (All to be paid out of revenue)	Nil. (All to be paid out of revenue)	2,400,791 (Actual)	2,000,000 (Est.)
Est. Int. on Direct Unemployment Relief Debentures for five years.	Nil.	Nil.	Nil.	333,500	277,915
Est. Total taxation due to current expenditures of the year.	\$30,397,619 (none postponed)	\$33,419,253 (none postponed)	\$34,042,394 (none postponed)	\$35,911,136	\$34,250,015 Less \$320,266 d.c. for direct unemp. relief. (see paragraph 3) \$33,929,749

Including postponed taxation for unemployment relief, the 1934 budget provides for less taxation than the 1932 budget by only \$121,645 and exceeds the 1930 budget by over \$3,000,000. Is this good economics or even good politics?

It will be seen that the total current and postponed taxation on account of 1934 estimated expenditures are less than the comparable figure of 1932 by only \$121,645, although the city had the benefit of net accumulated Board of Education surplus of \$638,915 this year as compared with a net surplus brought forward in 1932 of \$3,942. This total taxation growing out of the 1934 budget is \$3,523,130 greater than that provided for in the 1930 budget, although the present assessment and population are little greater than in that year. It is pretty hard in the long run to effect real savings while paying interest on money borrowed to postpone final payment of current expenditures.

During the last five years the arrears of taxes at the beginning of the year has much more than doubled. The reduction in the general tax levy has not been sufficient to check the increase in accumulated tax arrears as shown by the following table:

Year	Population	Gross tax levy including ratepayers' shares of local improvements	Provision for Uncollectible taxes in current estimates	Accumulated Arrears at January 1st
1929	606,370	\$31,449,922	\$608,660*	\$5,420,980
1930	621,596	\$33,634,839	\$484,547*	\$5,496,762
1931	627,231	36,820,958	379,822*	6,518,842
1932	626,674	37,522,157	487,647*	8,034,358
1933	623,562	36,378,545	443,222	10,134,166
1934	623,000 (Est.)	34,848,890**	515,169	12,065,416

*As appearing in estimates for the year. **Appropriate

That a reduction in taxation, if sufficient, does reduce arrears is indicated by results where it has been tried, as is shown by the following table, summarizing experience in Manitoba.

	Rural Municipalities	Towns	Vilages	Suburban Municipalities
Percentage reduction in taxation 1929-1933.....	39%	5%	24%	5% (Increase)
% of total taxes collected in relation to taxes imposed in 1933.....	102.41%	89.25%	99.35%	78.25%

What will work in Manitoba with large drouth and grasshopper stricken areas ought to work in Toronto. "A stitch in time saves nine."

This is not an easy letter to read. It is not intended to be. But the reading and digestion of it will not be found as difficult as paying the taxes of 1942 may be found, if there is not, and that quickly, a radical change in form of some important phases of Toronto's financial policy.

Yours very sincerely,

THOMAS G. ROGERS,
President.

HORACE L. BRITTAIN,
Managing Director.

FIRST OPEN LETTER ON THE 1934 CIVIC BUDGET ESTIMATES RELEASED TO THE PRESS ON THE DAY BEFORE THE PASSING OF THE ESTIMATES AND PRINTED HEREIN AS A RECORD FOR THE USE OF BUREAU SUPPORTERS.

March 5th, 1934

To the Citizens and Taxpayers of Toronto,
Ladies and Gentlemen:

The budget, the most important document of the year.

The draft estimates for the City of Toronto for the year 1934 to be submitted to Council on March 6th, 1934, have just been issued. As the budget is the most important administrative and financial document of the civic year, it merits close attention of the City Council.

In looking over the draft estimates one cannot fail to be impressed with the careful preparation of the revenue estimates which appear to be on a very conservative basis. It also appears to be true that in many cases the estimated expenditures are on a thoroughly sound basis and it is quite evident that every item has been very carefully considered. There are certain features, however, which seem to call for further comment.

The most prominent fact which thrusts itself on the attention is that the real deficit last year was \$2,587,425 made up of the official deficit of \$186,634 and the net direct unemployment relief expenditure, to be funded, amounting to \$2,400,791. (Possibly service costs and items on which government does not pay percentages, amount to \$257,720.11 are not to be funded). This is not to be taken as a statement that the direct unemployment relief expenditure should not be funded, but it is a statement that, not being a capital expenditure, it should have been shown in the revenue expense statement and should have appeared as part of the current deficit. It may be permissible to issue debentures for current expenditures. It is not sound to omit a current expenditure because money is borrowed through debentures or otherwise to meet it. The fact that other governmental authorities follow the same practice may make it more respectable but certainly not more worthy. Unemployment relief expenditures may be capitalized, but no use of magic words can make them capital expenditures. Capitalized (funded) and capital are not the same thing.

The huge actual deficit for 1933.

Expense may be capitalized, but it is still expense.

Should the reduction in taxation be sufficient to reduce, or halt the increase of, accumulated tax arrears.

The next fact which sticks out is that the 1934 civic budget is not balanced. It may be on a "strictly 'balanced' basis". That is the columns devoted to current appropriations total the same as those which show the estimated income, and other current expense, not shown in the revenue-expense budget, is balanced by authorization to borrow funds to meet it. The arithmetic is, we presume, quite unimpeachable. If, however, one may call "balanced" a budget which provides for borrowing on debentures to meet expenses which leave behind no balance sheet asset, then all budgets which have been issued in Canada since, say, 1867, have been "balanced", or could have been "balanced" by including on the revenue side the amount of borrowed funds. No one and no government, having good credit, need have an "unbalanced" budget and the only one who could have an "unbalanced" budget is one who could not borrow. Indeed if one could not borrow he would have to balance his budget in the old fashioned, now unorthodox, way by not spending more than he could collect in income. If Canada has a few more years of "balanced" budgets it may become convinced that what goes up must come down.

The third item which obtrudes itself is, that apart from deficits, the 1934 estimates apparently provide for more expenditure than those of 1933 by \$45,858.44. The year 1933 started with an official deficit brought forward of \$1,258,328, being 1.29 mills on the general assessment while 1934 started with an official deficit of only \$186,634 which represents approximately only .20 mills on the assessment. That is the 1934 Budget started with an advantage over the 1933 Budget of over one mill on the tax-rate and ended with only two-fifths of a mill.

The fourth salient feature appearing on the surface is that there seems to be a difference of opinion between the City authorities and at least one of the three eminent financiers called in to advise on the financing of direct unemployment relief expenditures as to the meaning of the phrase "the transference of a fair share of the burden" of direct unemployment relief to future taxpayers. The estimates intimate that the three consultants unanimously approved with the City Council, of "the policy of extending financial relief to present taxpayers and the transference of a fair share of the burden to future taxpayers". In August, 1933, before the annual meeting

Calling black white however confidently or frequently does not make it so.

of the Ontario Municipal Association Mr. Thomas Bradshaw, formerly Finance Commissioner of the City and one of the three financiers consulted, stated that, "The last three years have seen a comparatively new item of current expenditures in municipal budgets; that is, relief for those unfortunately thrown out of gainful occupations. Fortunately for the municipality, federal and provincial governments have borne the major share of these expenditures. *Those which the municipality assume are a current item and should be met out of current revenue.*" Mr. Bradshaw was willing "to temper the wind to the shorn lamb". He stated that, "In some of the major cities, where unemployment has been very large, the whole burden of the year has been found almost too heavy for the ratepayers to provide during that year. In these cases, there is *perhaps* justification for borrowing through the issue of short-term debentures, running not more than five years, for an amount *not more* than twenty-five per cent to fifty per cent of the city's

Toronto not yet in a position where funding direct unemployment relief is necessary.

net relief cost. Apparently 100% relief through 100% funding was not Mr. Bradshaw's idea of a "fair share of the burden for future taxpayers". It is to be noted that Mr. Bradshaw does not state that funding direct unemployment relief expenditures changes the fundamental character of these expenditures from current to capital, or that any part of them may properly be funded except in very special cases. In any event what proportion of future taxpayers expect not to be "present" four years from now when the debt charges for direct unemployment relief are expected to reach their peak, even if members of the City Government do not? Evidently the authorities expect that prosperity will be at the peak in 1936, 1937 and 1938. It is to be hoped that the new prosperity will not be getting ready to disappear around the corner by 1938 and also that the bills for repair of plant, such as streets and sidewalks, as well as necessary capital expenditures such as for sewage disposal, will not have also reached a peak at that time. The joy of spending little or nothing on direct unemployment relief in 1933 and less than \$600,000 in 1934 may be turned into mourning in 1936, 1937 and 1938 in which years together over \$4,000,000, it is estimated, must be paid.

The future may have its own troubles. Why not bear ours.

in 1936, 1937 and 1938 in which years together over \$4,000,000, it is estimated, must be paid.

The fifth item which appears on the surface is that civic salaries up to and including \$5,000 are to be reduced 4 1/4% for the year, those between \$5,000 and \$7,500, 6 1/4% and those over \$7,500, 8 1/4%. The sympathy of the authorities for the taxpayers seems to be at least equalled by their solicitude as to the desire of the Civic Employees' Association to assist the Board of Control and Council in the difficult task of striking a suitable tax rate. The taxpayers appreciate this effective assistance of the Civic Employees' Association.

There are several minor features, such as appropriations for upkeep of roadways, pavements and sidewalks and for snow removal which naturally raise some inquiries in the minds of readers.

Yours very sincerely,

"THOMAS G. ROGERS,"
President.

"HORACE L. BRITTAIN,"
Managing Director.