Errata—White Paper No. 231
Bureau of Municipal Research

Page 1. Fourth line—Insert " Accumulations and " before " surpluses."

Page 2. Tenth line from bottom—Insert " Accumulations and " before " surpluses."

Sixth and seventh lines from bottom—For " nearly $33,000,000 " insert " much."

Please correct text or attach slip.

OPEN LETTER

To the Citizens and Taxpayers of Toronto:

Producing a Nest-Egg

Between 1919 and 1937, the City of Toronto, as an approximation to a pay-as-you-go policy, retired, out of sinking fund " surpluses " unexpended capital balances, sale of assets, etc., almost thirty-three million dollars of debenture debt before maturity with a resulting reduction in debt charges from 1920 to 1937 of over fifteen million dollars and from 1938 to 1963 of about fourteen and a half million dollars. This year, 1938, the reduction in debt charges affecting taxation will exceed $1,100,000 or over a mill on the tax rate. This is the present from taxpayers of previous years to those of this. Now the representatives of this years' taxpayers not only accept this present, but propose to make application to the Provincial Legislature for legislation providing that it shall not be necessary for the City Council of Toronto in any year to levy for the purpose of any existing sinking fund any sum exceeding in amount a sum to be certified by the City Auditor as sufficient to be raised in the year to maintain the sinking fund in a position to pay at maturity the debentures in respect of which it has been established.

AU OF MUNICIPAL RESEARCH

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

.INGTON ST. W.
ONE EL. 1904

TORONTO
CANADA

per No. 231

March 10, 1938

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In Plain English

the City proposes **not** to calculate its sinking fund on the 3% basis, at present the legal rate, but at a rate which, while keeping the sinking fund technically sound, would enable Council to reduce the current levy by, say, $350,000 or 1/3 of a mill on the tax rate; that is, instead of taking $350,000 out of the sinking fund accumulated in the past, to reduce by an equivalent amount the levy in 1938. It substitutes for a crude method advocated and once adopted in the past in Toronto and often elsewhere, but always condemned by the best authorities, a method perfectly respectable and marked by much greater finesse. It enables the City to utilize the savings of the past and at the same time to save now, at the expense of the future. Such acumen and magnanimity are impressive.

The Vanishing Nest-Egg

Killing Sinking Fund Surpluses Gracefully

Two other cities in Ontario have already their applications in for a similar permission or worse. No doubt in future years the practice, at present illegal, will be honored in general observance. If permission can be obtained to cut down contributions to the sinking fund, why could permission not be obtained to use unexpended capital balances, etc., to reduce the tax rate in any year or years? When City Councils elected under Ontario conditions ask for permissive legislation, it is always advisable to look into the matter.

First, where would we be if the same and similar policies had been followed in other years? If since 1919 sinking fund surpluses, unexpended capital balances and proceeds of the sale of assets, etc., turned over to the sinking fund had been used, with legislative permission for reducing the current tax rates the debt would be nearly **$33,000,000 larger than it is** and the annual debt charges over **$1,100,000 greater than they are**, and the mill rate 1 mill **greater than it is.**

Secondly, what would the adoption of such a policy mean to the taxpayer in future years? It would mean debt and debt charges **larger** than they otherwise would be. It would mean that all constructive as opposed to destructive or marking-time policies, would have a harder time to maintain themselves.

If a policy would have been bad in the past and would be bad in the future, how can it be good now? Someone has asked, "Why worry about posterity? Posterity has no votes". But next year's electors will have.

Thirdly, the ability of the City to borrow money at unusually cheap rates is due to the City's conservative policy of financing in the past. This ability to borrow cheaply is worth annually to the taxpayers of Toronto very large sums of money. If the City is to embark upon policies similar to the one proposed, what will be its effect on the interest rates of new borrowing which cannot be avoided and what will the effect on the normal tax levy be?

Fourthly, is the rate **earned** by the sinking fund going down or up? (As a matter of fact we are informed that it is going down.) Do all recent investments of the fund net a three per cent. return, and if a wrong forecast of the amount of earnings of the sinking fund is made what will be the effect on the tax levy of extra contributions to the sinking fund?

In 1929 the budget estimates provided for the payment of almost $750,000 of capital expenditures out of current funds. By 1932 this item had fallen to $182,500, and in 1933 it disappeared entirely. In 1933, also, we paid or arranged to pay, the whole of current expenditures on direct relief, $2,400,000, out of debenture funds, ostensibly to tide us over to a good year and help the taxpayer of that day. In varying degrees, after absorbing a certain amount of net current relief costs in current budgets we have followed the same policy ever since. Now it is proposed to reduce payments into the sinking fund and thus **increase interest charges in future years.**

Jerry Building

Supposing a family had accumulated or could set aside $500 in excess of the amount they were legally obligated to pay on the mortgage on their home, and were in a position to use the $500 for reduction of the mortgage, but were to use the actual or potential surplus mortgage money instead to maintain an uneconomic and unnecessary standard of living, could it be claimed that the family was exercising true economy? Certainly not.

The policy advocated is not one of saving but of **dissipating savings.** It is not thrift, but **opportunism.** It is not constructive but **destructive.** Money might be saved in current operations, if thoroughgoing studies were made. Why are they not made? If the studies had been made last year, any possible savings disclosed would have been available this year. If made this year, they will be available next year. But what is wanted, apparently, is something **this year** which looks enough like saving to reduce **this year's** tax rate without raising disturbing questions or making reductions unwise politically. As long as the public can be induced to fix its eyes on the annual tax rate, devices will be sought to reduce the current tax rate without real savings, and thus make impossible real long-range economies. The hand is quicker than the eye. Toronto's financial and administrative history is like beads on a string rather than a river, and this will continue to be the case as long as we think and plan and elect for **one-year periods,** with little or no concern for the future and little or no regard for the past.

Why not attempt to effect large real savings?

The truth of the matter is that the adoption of one unsound policy leads with fatal necessity to another. Now that a better day is here, it is proposed to use potential mortgage money for current purposes. Where will it end? What "wriggle" will be discovered next year? If we adopt the policy of paying nothing until we must, where will we be twenty years from now?

One false step makes a second false step easier.

For years Toronto has had permissive legislation to do right in the way of town planning. We have never used it. Now we are asking for permissive legislation to do wrong. Will we use it—if we get it; or will we have an excellent alibi for an increased tax rate—if we don't get it? At this rate when will we make a beginning on a real pay-as-you-go policy? It is for the electors to supply the **answer.**

THOMAS G. ROGERS,
President.

HORACE L. BRITTAIN,
Managing Director.