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CIVIC AFFAIRS

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To the Chairman
and Members of Council
Municipality of Metropolitan Toronto

TWO MILL LEVY FOR CAPITAL PURPOSES

Ladies and Gentlemen:

On January 15th, the Chairman of the Metropolitan Council proposed in his inaugural address that a special levy of two mills be adopted by the Metropolitan Council in its 1957 budget for the purposes of paying a portion of the year's cost of capital undertakings from current taxation. On the understanding that the purpose of this special levy is not to increase the size of Metro's capital programme, the Bureau endorses the proposal and urges its acceptance when the question is brought before the Metropolitan Council. The Metropolitan Executive Committee has already recommended in favour of this procedure.

On May 30th, 1956, the Metropolitan Council approved a ten year capital works programme totalling $785 million. In reaching that figure, reductions totalling some $275 million had been made in the capital programme as first drawn up. For the year 1957, capital expenditures were estimated at just under $99 million. The special two mill levy would yield $6,148,000 and, subject to revisions that occur in processing this year's budget, would cover about six per cent of the 1957 requirements. A property owner whose house is assessed for an even $10,000 would have to pay $20 extra taxes as his share of the special capital levy.

In Ontario, as elsewhere, local governments are required to maintain balanced budgets. Each year the tax rate must be set high enough to cover all current expenditures of the year, including debt charges. Because local governments are not allowed under the Municipal Act to carry over surpluses or to engage in deficit financing, the tendency is to finance all or most of the cost of capital undertakings through long-term borrowing in order to put off the responsibility of raising the tax rate. As a result, annual debt charges have come to constitute a heavy proportion of the current budgets of most local governments.

The most recent figure for Metropolitan Toronto and its constituent municipalities, as of January 7, 1957, shows total net debt of $291.21 per person. By comparison, provincial debt is considerably lower. During the year 1956, the councils and school boards throughout Metropolitan

Toronto had to use close to one-fifth of their combined current revenues to meet debt charges.

A strong case can be made for adoption by local governments of some systematic scheme of partial pay-as-you-go financing of capital undertakings. Pay-as-you-go financing brings substantial savings in interest charges and eliminates the immediate costs of marketing debenture issues. At today's rates, the total savings by paying cash compared with borrowing over twenty years will very nearly cut the cost to the taxpayer in half. And the local operations whose capital costs are partly paid in advance are thereby placed in a sounder financial position. It is for these reasons that many Canadian municipalities have made a consistent effort to follow some system of partial pay-as-you-go financing.

Obviously, a local government that is saddled with heavy debt charges from capital spending of previous years cannot afford to swing over suddenly to pay-as-you-go financing of all new capital undertakings. Indeed, because capital requirements are likely to fluctuate considerably from year to year, only the larger municipalities could hope eventually to reach such a position. Further, most taxpayers would consider it quite unfair to be asked to pay in full today for schools, public buildings, roads, water mains and so forth which may be expected to serve a whole generation of future taxpayers. The Bureau agrees with this view. At the same time, it does not appear the wisest policy to push long-term borrowing to the limit, thereby adding greatly to the real cost of capital undertakings and threatening the future solvency of the municipality.

A number of different methods can be followed for achieving partial pay-as-you-go financing of capital undertakings. First, the term over which money is borrowed can be shortened down below the anticipated life of the capital asset. The City of Winnipeg, for example, has limited much of its borrowing to five, ten or fifteen year terms in contrast with other municipalities that have borrowed for as long as forty years. Second, under certain circumstances money can be set aside year by year in an earmarked reserve fund and spent later when the full sum required has been accumulated. The Province of Ontario authorizes this type of operation within narrow limits but few of its municipalities have made significant use of the plan. Third, some percentage or proportion of the cost of each new capital undertaking can be met from current funds, rather than through borrowing, or some of the less costly capital undertakings can be paid for entirely from current funds. Such cities as London and Toronto have been noted for their accomplishments along these lines.

In a period of high interest rates when the need to proceed with new capital works is pressing, the third alternative has distinct advantages over the other two. By specifically earmarking part of the current levy for spending on capital purposes, the realization of the desired objective is not left to chance.

The immediate circumstances in which the Municipality of Metropolitan Toronto finds itself adds strength to the general arguments for adopting a planned pattern of partial pay-as-you-go financing of capital undertakings:

1) Metro is faced with a backlog of essential capital construction. Such undertakings were postponed first as a result of the depression and second in the interests of the war effort. Prior to Metro, failure to work out inter-municipal agreements held up a number of essential

undertakings although money and manpower had become available. The establishment of the metropolitan federation was designed to break the log jam on capital undertakings. In addition, the current volume of capital requirements is due in no small measure to Metro's remarkable rate of growth. Since the federation plan for greater Toronto was first announced, the additional population that has flowed in almost equals the entire population of the City of Ottawa. For all these reasons, it does not seem fair to shift the entire burden to the taxpayers of the future.

2) The total net debt of the local governments in the metropolitan area has shot up sharply in recent years. As at December 31, 1955, the grand total was $315 million. As of January 7, 1957, it had reached $381 million. In relation to the wealth represented throughout the Toronto area, the debt load has not reached dangerous proportions. It has climbed high enough, however, to justify taking any reasonable steps that will help to hold down debt.

3) In the past, most of the local municipalities composing Metropolitan Toronto have paid some part of the cost of capital undertakings out of current funds. The same is true of the local school boards. Most frequently, the money has been found in unanticipated surpluses that developed through the year as a result of conservative budgeting. To-day, the weight of taxation is sufficiently heavy and the demands on local governments are sufficiently strong to make any substantial accomplishment along these lines an unlikely prospect.

4) Interest rates on long-term borrowing have reached the highest point in many years. The extent of the savings that can be realized from pay-as-you-go financing is likewise at a long-time high.

Against the adoption of the special two mill levy, three main arguments can be advanced. Yet in the circumstances that now exist stronger reasons can be discovered offsetting each of these arguments:

1) It has been contended that Toronto taxpayers are paying enough already without worrying about extra taxes that will help the taxpayers of the future.

   In reality, many present taxpayers will also be future taxpayers. Business concerns, in particular, expect to continue in business. A conservative policy on borrowing will support property values, and the interest savings will benefit those who intend to remain here as property owners. Moreover, the present electorate must take some responsibility for the delay in proceeding on necessary capital works which is responsible for the magnitude of the present programme. Again, failing a planned programme, the local governments are likely to cut back the proportion of capital spending that would have customarily been paid for from current taxation. Finally, when an undertaking is financed entirely through debenture borrowing, the taxpayers reap some benefit before being asked to pay anything because the first interest charges and contributions towards principal repayment do not fall due until perhaps one year after the money is spent.

2) While the two mill levy is being promoted as a one-time emergency measure, taxpayers are concerned that it may become a regular feature of metropolitan budgeting.

But what is wrong with that? When times are good and circumstances will permit, prudent policy calls for some down payment in the financing of capital undertakings. The future use of the practice would be subject to annual review and approval by our elected representatives. If they hope for re-election, they are hardly likely to impose taxes merely for the pleasure of seeing the taxpayers squirm.

3) It has been suggested that the problem would never have arisen if the provincial government had provided adequate relief to the property taxpayer in light of the large and growing burden of school costs and other social service expenditures.

This argument can be pressed much too far. It is a known fact that the province has greatly stepped up its grants and payments to local municipalities and, moreover, has favoured the Metropolitan Municipality in the rates set for the unconditional subsidy and the road and school grants. The province also paid part of the cost of launching the metropolitan federation. What is more, unless further grants were weighted in favour of the Toronto area, an increase in provincial grants would require more to be drawn from this area in provincial taxation than would be returned as local subsidies. Surely, also, no one would expect the Metropolitan Municipality to over-extend itself on debt merely to force the province to increase its grant payments.

The Bureau believes that the thoughtful citizen should favour the special two mill levy and that his elected representatives should back such a plan in council.

Yours faithfully,

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President

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Director