



# CIVIC AFFAIRS

A BULLETIN ISSUED BY THE BUREAU OF MUNICIPAL RESEARCH, 32 ISABELLA STREET, TORONTO 5

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## METROPOLITAN DEBT STORY

Since January 1, 1954, when Metro began operations, the debenture debt load of the area has been rising sharply. It will shortly have more than doubled. The dead-weight portion of debt has increased more rapidly than the debt to be serviced from revenue-earning enterprises. The debt is unevenly spread among the constituent area municipalities and, what is more, the distortion is growing. The Bureau recommends an improved ten year capital budget presentation which would help us to discern the future debt position and keep it under control.

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At the opening of the year, Metropolitan Toronto's net debenture debt obligations totalled 434 million dollars. If the load were spread evenly over all the people--which it is not--every man, woman and child would have a capital obligation amounting to \$314, and interest charges to pay in addition. Measured against the value of property, the indicated burden upon the owner of a home assessed at \$10,000--and worth perhaps \$25,000--was \$1,429 plus interest. The fact that the load is not spread evenly in either of these ways means that the obligations upon many of our citizens are much heavier than these indicated averages.

### The Recent Trend

Since January 1, 1954, when Metro began actual operations, the local government debt load has grown considerably every year. The present capital works programme envisages new debt creation in 1958 amounting to \$96 million. Against this figure, however, must be offset the debt which is being redeemed. The average annual increase over the past four years has been a little under \$49 million. Throughout the same period, the percentage increase in the total net debenture liability has been 81.4%. Two months hence, when Metro concludes its fifth year its people will find that their municipal debt load has more than doubled over the period. Plainly, this trend cannot continue for very much longer.

One theory on battling economic recessions is that governments should spend heavily on public undertakings when times are slack and employ the check rein when economic conditions improve. Municipal governments are not in a position to engage in such manoeuvres because, for one reason, they are forbidden by law from going into deficit financing on current account. The province imposes this restriction, quite properly, in recognition of most municipalities' limited capacity and all municipalities' heavy reliance upon the real property tax for current financing.

Instead of reducing debt in prosperous times, local governments tend to increase it thereby entailing heavier annual debt charges (payment of interest and repayment of principal installments) whose full effect may not be felt until after an obvious recession has set in.

Faced with a backlog accumulation of necessary public works and a remarkable rate of population growth and community expansion, the Metropolitan Municipality and its constituent area municipalities have been adding greatly to debt in good times and seem prepared to go on doing so in spite of the recent downturn in economic activity.

Early in 1957, backed by the Bureau and other organizations interested in good government, the Council of Metropolitan Toronto voted to put two mills on the tax rate for the specific purpose of curbing new debt while pushing ahead with capital projects. For 1957, it meant that \$6,366,000 which would otherwise have been borrowed was paid from current taxes. Even so, the total debt responsibility of the Metropolitan Corporation and its member municipalities combined was higher by some \$66 million at the end of 1957 compared with the year previous. The increase was approximately eighteen per cent. When full allowance is made for debt incurred for public utilities and similar enterprises which are expected to be self-supporting, total combined dead weight debt increased by some \$45 million, representing a rise of some twenty-one per cent.

Between the 1957 and 1958 levies the Metro assessment for general purposes increased by only some five per cent. Thus debt was being increased more than the expanded tax base warranted and the heavier load was destined to push taxes up in future years unless ways are found to effect economies sufficient to offset the increased annual debt charges.

#### The Overall Position in Review

Table I appended to this bulletin indicates how the Net Debenture Debts of Metropolitan Toronto and the thirteen area municipalities have grown since December 31st, 1953, the eve of Metro's birth as an operating municipality. Included in these figures are all outstanding debt issued by both the area municipalities now forming part of Metro and by the Metropolitan Corporation since its inception. The total takes in the debt undertakings on behalf of all the associated "local boards" including the Metropolitan Separate School Board.

Since 1953 total debenture debt in Metro has increased from \$239 millions to \$434 millions, a rise of 81.4 per cent. Were this increase in debt mainly for revenue-earning enterprises the picture might not look too bad, but such debt increased only 67 per cent while the remaining dead weight debt which must be serviced directly by property taxes, increased by 92.8 per cent. Of the dead weight debt, the amounts entered into for general municipal purposes other than schools increased by 77 per cent, noticeably more than the 67 per cent rise for revenue-earning enterprises.

The largest increase among the components of Metro debt was in school debt, which jumped 115.8 per cent between 1953 and 1957. Because of the form in which capital assistance is provided by the province for school expenditures, the local position appears worse than it is. On other undertakings, such as roads, the province pays out a lump sum which reduces the amount that the municipality must borrow. On school construction, the municipality borrows the entire sum and the province undertakes to pay an agreed share of the annual debt charges as they fall due. The province is committed to help service some \$86 millions Metro portion of the \$117 million of metropolitan school debt. Yet changes in construction costs and in the grant policy from year to year alter the percentage of approved costs which the province will accept as its share. In 1954, the province absorbed 27 per cent of the approved Metro total for the year whereas by 1957 the figure had shrunk to 17 per cent.

In terms of annual increases, the rise in school debt between 1956 and 1957 was the largest percentage increase of any of the components in any of the years covered in Table I. An unqualified comparison, however, is misleading. For instance, from its inception until the end of 1957, Metro alone took on a capital commitment of over \$29 million for roads, and yet was able to keep the debenture load to a figure of some \$14 million. The remainder was financed beforehand in two ways--by direct grants from the Province of Ontario and from the special two mill capital levy in 1957.

If there can be criticism of the two mill capital levy it is of the way in which it is allocated. In 1957 over \$3.9 million of the \$6.4 million capital expenditure out of revenue went for roads. Thus examination of debt increases without proper appreciation of how certain capital expenditures are financed can lead to unwarranted anxiety over the rise in education debt. On the other hand, would diversion of the two mill levy to subway financing lead to a corresponding increase in total borrowing?

#### Per Capita and Assessment Comparisons

To help gauge the significance of debt figures, it is common to express them in amounts per capita and amounts per \$10,000 of assessment. Both comparisons can be useful if properly understood.

For the dead weight portion of debt, the basis of repayment is largely taxation on all assessed property, and subject to recognition of the level of assessed values which exists at any particular time, the assessment comparison is helpful. Part of this debt, of course, will be local improvement debt payable by owners of abutting properties on the streets where the improvements are made. For revenue-earning debt, repayment is expected to come from the people using the service and the per capita comparison discloses something of the size of the market. Taxpayers, however, become liable for repayment of revenue-earning debt if the income of the enterprise is insufficient. An example is the so-called "grant" of \$2,300,000 to the T.T.C. during the transition period. The taxpayers of Metropolitan Toronto footed the bill.

In Metro financing, the per capita and assessment comparisons require further qualification. First of all, the debt is split between metropolitan obligations which are spread over the whole area and individual obligations of each area municipality. Within the former category are included separate school debts where the tax responsibility falls solely on separate school supporters. In the latter category the weight of debt varies greatly from municipality to municipality.

## How the Debt Burden is Divided Between the Two Levels

Table II shows how the overall debt load is divided between the metropolitan and the local area municipalities. We see, for example, that only sixty per cent of the total debt is apportioned evenly throughout the broader area. The remaining forty per cent has been assumed by the various area municipalities in widely varying proportions. The percentage of debt held by the area municipalities is such that one area municipality can be in serious difficulties while another maintains quite a safe position.

Turning to dead weight debt, it can be seen that the area municipalities are directly liable for an even higher percentage of the combined total--43 $\frac{1}{4}$  per cent.

Not so the school debt portion. Area municipalities are responsible for only 27 per cent of the total. But the surprising fact is not that their share of school debt is so small, rather that it is so large. When Metro began it took over all existing school debt and it has continued to finance what might be called the essential minimum new capital outlays, with the help of provincial grants. The area school debts of over \$31 million are all new since January 1, 1954, and no part of the repayment of such debt is met by provincial funds.

The area school debts illustrate dramatically that local authorities are not prepared to confine school construction to what the province describes as essential classroom and administrative facilities. Does the entire difference represent unbridled extravagance? The answer would seem to be no, especially since the greatest increases in area school debts are in those suburban municipalities faced with the greatest necessity to limit capital expenditures.

For the total school capital undertakings, apart from local approvals, there is the necessity to obtain authorization from the Metropolitan School Board and the Metropolitan Council. At the provincial level there are the approvals required of the Department of Education and the Ontario Municipal Board. Nevertheless, the school construction programme warrants continued scrutiny with total debt so heavy and new school debt of the area municipalities mounting so fast.

### The Local Area Debt Load

The area portion of the combined debt is further separated, according to municipality responsible, in Table III. For each debt classification, each area municipality's position is stated as a proportion of the total for all the area municipalities. The percentages obtained can be compared both with the per cent of Metro's population in each municipality and with the per cent of the Metro assessment in that municipality for general purposes as used for the 1958 tax levy. In combination, this presentation indicates how the burden of area debt is spread among the municipalities, and also the relative ability of the different municipalities to carry the load.

Toronto has over 47 per cent of Metro's population, nearly 44 per cent of the total area debt, and over 52 per cent of Metro assessment to support that debt. As a contrast, Scarborough with eleven per cent of the population has nearly fifteen per cent of the total direct debt of the area municipalities and only 8.6 per cent of the Metro assessment.

Scarborough and Etobicoke prove to be worst off relative to their assessments, while Leaside and New Toronto, with their high ratio of industrial and commercial assessments, find the burden least onerous on all their properties.

In spite of a high revenue-earning debt, Scarborough still has the unwelcome distinction of having the worst ratio of dead weight debt and assessment, although it is not much worse off than Weston, Etobicoke and Long Branch. Mimico, by keeping its dead weight debt low, managed to earn the most favourable position. Leaside and New Toronto were next best off.

For school debts the table shows how the "Big Three" suburban townships, with 32.23% of the population have 62.87 per cent of the area school debts. These are the areas of greatest growth since Metro and hence of greatest need for new schools; under Metro they are carrying an increasing burden for school capital costs while those municipalities whose main period of expenditure was prior to Metro have all of Metro's resources to assist in the payment of debt charges on their older school plant.

We Must See Where We Are Heading

Among the various parts of Metro, there is a growing distortion in the debt load, as Table III plainly shows. The situation threatens more than the well-being of particular area municipalities, it strikes a blow at the credit standing and the solidarity of Metro itself. The debt position points up in yet another forceful way the fact that the creation of Metro has not wiped out the problems which accompany the expansion of a single big metropolis and which are most acute for the suburban municipalities where growth is most rapid. On the contrary, it is perpetuating problems which by now would have produced outright amalgamation, had Metro not been established when it was.

As for area wide debt the picture is also cloudy. The Municipality of Metropolitan Toronto now maintains a ten year capital works programme which effects a certain amount of control over proposed capital expenditures. But there are no figures showing the effect on outstanding debt totals as and if the programme is implemented. Does this capital works "budget" tell us enough about the direction in which we are heading? The Bureau suggests it does not, and urges that a complete plan for capital spending be developed:

- (a) Covering Metropolitan Toronto and each area municipality; and
- (b) Disclosing the annual debt charge burden to which taxpayers of each local municipality will be committed for the ten year period ahead.

In 1957 nearly \$35 million were paid out for principal and interest on municipal debt by Metro and the area municipalities. The estimated debt charges for 1958 amount to over \$41½ million. Let us find out where Toronto is heading in its accumulation of debt before irretrievable damage is done.

BUREAU OF MUNICIPAL RESEARCH

(1) The combined total of debt for the twelve suburbs amounted in 1953 to \$1,871,861,600. The figure is not comparable with years when a uniform assessment system was in effect throughout the whole area.

A. H. LEMMON  
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Director

T A B L E I

NET DEBENTURE DEBT  
METROPOLITAN TORONTO AND THE THIRTEEN AREA MUNICIPALITIES  
As at December 31st - In Thousands of Dollars

|  | <u>1953</u> | <u>1954</u> | <u>1955</u> | <u>1956</u> | <u>1957</u> | %                                |
|--|-------------|-------------|-------------|-------------|-------------|----------------------------------|
|  | \$          | \$          | \$          | \$          | \$          | Increase<br>1957<br>over<br>1953 |
| 1. Total Debt                                | 239,118     | 280,723     | 320,333     | 367,727     | 433,709     | 81.4                             |
| <u>Less</u>                                  |             |             |             |             |             |                                  |
| 2. Debt of<br>Revenue-Earning<br>Enterprises | 106,135     | 122,297     | 144,918     | 156,259     | 177,290     | 67.0                             |
| <u>Equals</u>                                |             |             |             |             |             |                                  |
| 3. Dead Weight Debt                          | 132,983     | 158,426     | 175,415     | 211,468     | 256,419     | 92.8                             |
| <u>Composed of</u>                           |             |             |             |             |             |                                  |
| (a) General Muni-<br>cipal Debt              | 78,616      | 97,428      | 100,002     | 120,619     | 139,118     | 77.0                             |
| <u>and</u>                                   |             |             |             |             |             |                                  |
| (b) School Debt                              | 54,366      | 60,997      | 75,413      | 90,849      | 117,301     | 115.8                            |
| Population                                   | 1,172,556   | 1,250,773   | 1,302,758   | 1,356,468   | 1,380,000   | 17.7                             |
| Total Taxable<br>Assessment                  | (1)         | 2,361,304   | 2,573,865   | 2,832,682   | 3,034,496   | (1)                              |

|  | <u>Indicated Per Capita Debt</u> |             |             |             |             | <u>Indicated Debt per<br/>\$10,000 Assessment</u> |             |             |             |             |
|--|----------------------------------|-------------|-------------|-------------|-------------|---|-------------|-------------|-------------|-------------|
|  | <u>1953</u>                      | <u>1954</u> | <u>1955</u> | <u>1956</u> | <u>1957</u> | <u>1953</u>                                       | <u>1954</u> | <u>1955</u> | <u>1956</u> | <u>1957</u> |
|  | \$                               | \$          | \$          | \$          | \$          | \$  | \$          | \$          | \$          | \$          |
| 1. Total Debt                                | 203.85                           | 224.40      | 245.84      | 271.19      | 314.28      | (1)   | 1,189       | 1,245       | 1,298       | 1,429       |
| 2. Debt of<br>Revenue-Earning<br>Enterprises | 90.48                            | 97.76       | 111.22      | 115.24      | 128.47      | (1)   | 518         | 563         | 552         | 584         |
| 3. Dead Weight Debt                          | 113.37                           | 126.64      | 134.62      | 155.95      | 185.81      | (1)   | 671         | 682         | 747         | 845         |
| (a) General<br>Municipal<br>Debt             | 67.02                            | 77.88       | 76.75       | 88.95       | 100.81      | (1)   | 413         | 389         | 426         | 458         |
| (b) School Debt                              | 46.35                            | 48.76       | 57.88       | 67.00       | 85.00       | (1)   | 258         | 293         | 321         | 387         |

(1) The combined total assessments of the City and the twelve suburbs amounted in 1953 to \$1,671,981,609. The figure is not comparable with those of later years when a uniform assessment was in effect throughout the whole area.



METROPOLITAN TORONTO - NET DEBT AND DEBT SERVICE BY THE METRO AND LOCAL AREA MUNICIPALITIES  
 As at December 31, 1957  
 In Thousands of Dollars

| Municipality and Population                  | % of Metro Pop. |       | % of Total Area Debt |        | Metro Portion \$ | Area Portion \$ | Area Portion as % of Total |
|--|-----------------|-------|----------------------|--------|------------------|-----------------|----------------------------|
|  | Area            | Metro | Area                 | Total  |                  |                 |                            |
| Toronto - 656,250                            | 47.57           | 52.15 | 40.56                | 10,147 | 42,432           | 28,25           | 32.25                      |
| North York - 152,942                         | 15.25           | 13.23 | 11.74                | 6,595  | 15,328           | 14.25           | 21.01                      |
| Scarborough - 151,885                        | 11.00           | 6.51  | 10.65                | 7,061  | 15,764           | 14.15           | 22.46                      |
| Ethiopia - 110,306                           | 7.99            | 9.77  | 8.50                 | 5,088  | 16,253           | 15.17           | 19.40                      |
| York - 117,505                               | 6.51            | 5.66  | 7.93                 | 1,017  | 8,779            | 4.31            | 3.24                       |
| East York - 59,321                           | 5.02            | 3.21  | 4.37                 | 511    | 1,111            | 1.76            | .11                        |
| Forest Hill - 20,107                         | 1.45            | 1.78  | 1.39                 | 19     | 1,111            | 1.01            | .06                        |
| Lansdale - 15,415                            | 1.15            | 1.84  | 1.26                 | 116(2) | 1,111            | 1.01            | .38                        |
| Mimico - 15,538                              | 1.00            | .72   | .61                  | 190(2) | 400              | .56             | .61                        |
| New Toronto - 11,559                         | .64             | 1.10  | .98                  | 79(2)  | 676              | .51             | .25                        |
| Long Branch - 10,532                         | .76             | .51   | 1.58                 | 48     | 572              | .76             | .16                        |
| Boston - 9,404                               | .68             | .51   | .57                  | 511    | 325              | .76             | .16                        |
| Seneca - 9,710                               | .53             | .41   | .57                  | 511    | 557              | .52             | .11                        |
| All Area Municipalities Combined - 1,250,775 | 100.            | 100.  | 100.                 | 51,389 | 110,594          | 100.            | 100.                       |

**TABLE II**  
**APPORTIONMENT OF NET DEBT BETWEEN METROPOLITAN MUNICIPALITY AND LOCAL AREA MUNICIPALITIES**  
 As at December 31, 1957 - In Thousands of Dollars

|  | Total \$ | Metro Portion \$ | Area Portion \$ | Area Portion as % of Total |
|--|----------|------------------|-----------------|----------------------------|
| 1. Total Debt                          | 433,709  | 260,115          | 173,594         | 40.03                      |
| Less                                   |          |                  |                 |                            |
| 2. Debt of Revenue-Earning Enterprises | 177,290  | 114,589          | 62,701          | 35.37                      |
| Equals                                 |          |                  |                 |                            |
| 3. Dead Weight Debt                    | 256,419  | 145,525          | 110,894         | 43.25                      |
| Composed of                            |          |                  |                 |                            |
| (a) General Municipal Debt             | 139,118  | 59,614           | 79,504          | 57.15                      |
| and                                    |          |                  |                 |                            |
| (b) School Debt                        | 117,301  | 85,912           | 31,389          | 26.76                      |

(1) Includes C.S.S. and Housing and Parking Authorities.  
 (2) Attributed share of Lakeshore Board of Education Debt of \$306,972.



T A B L E III

NET DEBENTURE DEBT BORNE DIRECTLY BY THE THIRTEEN AREA MUNICIPALITIES

As at December 31, 1957

| Municipality<br>and Population                  | % of<br>Metro<br>Popu-<br>lation | % of<br>Metro<br>Asses-<br>ment | Total<br>Debt | % of<br>Total<br>Area<br>Debt | Debt of<br>Revenue-<br>Earning<br>Enter-<br>prises | % of<br>Total<br>Area<br>Debt | Dead<br>Weight<br>Debt | % of<br>Total<br>Area<br>Debt | General<br>Municipal<br>Debt | % of<br>Total<br>Area<br>Debt | School<br>Debt | % of<br>Total<br>Area<br>Debt |
|---|----------------------------------|---------------------------------|---------------|-------------------------------|--|-------------------------------|------------------------|-------------------------------|------------------------------|-------------------------------|----------------|-------------------------------|
|   |                                  |                                 |               |                               |  |                               |                        |                               |                              |                               |                |                               |
| Toronto - 658,250                               | 47.67                            | 52.13                           | 76,106        | 43.84                         | 33,634(1)  | 53.74                         | 42,412                 | 38.25                         | 32,265                       | 40.58                         | 10,147         | 32.33                         |
| North York - 182,942                            | 13.25                            | 13.23                           | 25,813        | 14.87                         | 9,889  | 15.77                         | 15,925                 | 14.36                         | 9,330                        | 11.74                         | 6,595          | 21.01                         |
| Scarborough - 151,885                           | 11.00                            | 8.61                            | 25,755        | 14.84                         | 10,092   | 16.10                         | 15,664                 | 14.13                         | 8,613                        | 10.83                         | 7,051          | 22.46                         |
| Etobicoke - 110,306                             | 7.99                             | 9.77                            | 24,577        | 14.16                         | 7,752  | 12.36                         | 16,825                 | 15.17                         | 10,736                       | 13.50                         | 6,088          | 19.40                         |
| York - 117,503                                  | 8.51                             | 5.88                            | 8,833         | 5.09                          | N11  | N11                           | 8,833                  | 7.97                          | 7,816                        | 9.83                          | 1,017          | 3.24                          |
| East York - 69,321                              | 5.02                             | 3.21                            | 5,523         | 3.18                          | 744  | 1.19                          | 4,779                  | 4.31                          | 4,742                        | 5.96                          | 36             | .11                           |
| Forest Hill - 20,107                            | 1.46                             | 1.78                            | 1,905         | 1.10                          | 24   | .04                           | 1,881                  | 1.70                          | 1,881                        | 2.37                          | N11            | N11                           |
| Leaside - 16,418                                | 1.19                             | 1.84                            | 1,155         | .67                           | 32.7   | .05                           | 1,122                  | 1.01                          | 1,103                        | 1.39                          | 19             | .06                           |
| Mimico - 13,838                                 | 1.00                             | .72                             | 497           | .29                           | 97.5   | .16                           | 400                    | .36                           | 282                          | .35                           | 118(2)         | .38                           |
| New Toronto - 11,559                            | .84                              | 1.10                            | 676           | .39                           | N11  | N11                           | 676                    | .61                           | 486                          | .61                           | 190(2)         | .61                           |
| Long Franch - 10,532                            | .76                              | .51                             | 872           | .50                           | 10.8   | .02                           | 861                    | .78                           | 782                          | .98                           | 79(2)          | .25                           |
| Weston - 9,404                                  | .68                              | .61                             | 1,325         | .76                           | 258  | .41                           | 1,067                  | .96                           | 1,019                        | 1.28                          | 49             | .16                           |
| Swansca - 8,710                                 | .63                              | .61                             | 557           | .32                           | 107  | .17                           | 450                    | .41                           | 450                          | .57                           | N11            | N11                           |
| All Area Municipalities<br>Combined - 1,380,775 | 100.                             | 100.                            | 173,594       | 100.                          | 62,701   | 100.                          | 110,894                | 100.                          | 79,504                       | 100.                          | 31,389         | 100.                          |

(1) Includes C.N.E. and Housing and Parking Authorities.

(2) Attributed share of Lakeshore Board of Education Debt of \$386,972.