Getting Past Zero: Maintaining Services And Balancing Toronto's 2013 Budget

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Executive Summary

City councillors have important choices to make in the 2013 budget. They can allow city services to continue to erode, or they can modestly increase taxes to enhance the health of our city and Torontonians. This paper shows what it will cost to maintain city services and how to pay for it.

Gross operating expenditures increased by just 0.2 percent between 2011 and 2012, a rate far below inflation and population growth. This means that we spent less on each resident in 2012 than in 2011.

There are some Toronto city councillors who consider this reduction in real, per-capita spending a victory. This lopsided view is like a family celebrating lower grocery bills without noticing that their children are hungry.

Reducing access to services that support our health and build our communities will harm our health and our city. We need to look at both sides of the ledger. We need to consider the costs associated with reductions in public services rather than a focus only on reductions of current expenditures.

Building a healthy city that we want to live in means we must first stop the erosion of city services. Maintaining them means increasing spending to account for rising prices and population growth:

- Using 2.1 percent inflation and 1 percent population growth assumptions, we need a 3.1 percent increase in operating spending to maintain services. This would increase operating spending by $287 million.

These services can be maintained with a modest increase in taxes. Starting from the City's estimates, these steps would balance the budget:

- The 2013 opening pressure includes one-time funding from 2012 ($141 million) and increases in expenditures ($370 million, including $287 million to maintain real, per capita expenditures). This results in an opening pressure of $511 million.
- Increases in revenues that do not require any decisions from City Council ($238 million) will offset about half of that opening pressure. These include increases in revenues from economic growth and increases in transfers from the provincial government as part of the agreement to upload Ontario Works and court security costs. It is based on an assumption that other revenues will increase by the same amount as they did in 2012.
- To catch up from the freeze in property taxes in 2011, the property tax rate could be increased by 4.2 percentage points, bringing in a further $153 million in revenues.
- The proposed 5 cent TTC fare increase will further increase revenues ($18 million).

This would bring increased revenues of $409 million, leaving a shortfall of $101 million. The average surplus over the last four years has been $277 million. Putting $101 million of this year's surplus towards maintaining city services would be a wise use of these funds. There are ways to fund the city's services, and a better city budget will build a better, healthier city.

Introduction

The 2012 Budget process had important lessons for Torontonians and their city councillors.[1] It showed us that residents understand and care about the impact of the budget on their families and their communities. It showed us that communities were engaged to protect services that they value. And, it showed us that councillors are responsive to the concerns of their constituents. The result of that engagement and responsiveness was $32 million of services being saved through the budget process[1]. This was a positive lesson of the impact of successful citizen engagement.

However, there were also hard lessons from last year's budget. The impact of the cutbacks and losses to services were revealed piecemeal this year: increases in fees for sports fields with no advance notice to teams, and the embattled Hardship Fund that provides essential medical supports to low-income individuals, are just two examples [2, 3]. The costs of last year's budget to our city don't stop at the end of the fiscal year. There are longer-term health and social costs.

Gross operating expenditures increased by just 0.2 percent between 2011 and 2012 — a rate far below inflation and population growth (Table 1). This means that we spent less on each resident in 2012 than in 2011. There are some Toronto City Councillors who consider this reduction in real, per-capita spending a victory. This lopsided view is like a family celebrating lower grocery bills without noticing that their children are hungry. Reducing access to services that support our health, and build our communities will harm our health and our city[4, 5]. We need to look at both sides of the ledger, and consider the costs associated with reductions in public services rather than a focus only on reductions of current expenditures [6].

This paper looks at what it would cost to maintain the 2012 level of public services for Torontonians. Taking last year's budget as a starting point, it estimates the cost of increasing the City's 2012 operating expenditures by inflation and population growth. Using City estimates as a starting point, it also looks at how to pay for this increased spending.

How much would it cost to stop the erosion of City services?

There are many ways in which investments in our public services could enhance the health of our city and Torontonians. The Wellesley Institute provided two examples that could be implemented in this budget: a proposal to enhance access to recreation and one that would support improvements to the built environment [4, 5].

However, to build a healthy city, we must first stop the erosion of public services. To maintain the real value of city services, spending must be increased to account for both increases in prices and population growth. Using 2.1 percent inflation and one percent population growth assumptions, we would need a 3.1 percent increase in operating spending[7, 8].[2] This would increase operating spending by a total $287 million.

1 See Williams, L. (2012) 'A Better Budget for a Better City: Ideas for a healthy budget process in Toronto' for examples from other cities of how our budget process could be improved.

2 Population growth forecast of 1 percent based on annual growth rate of 0.88 between 2006 and 2011. See City of Toronto Backgrounder: 2011 Census: Population and Dwelling Counts and 2.1 percent inflation forecast for 2012 in '2012 Outlook and Long Term Financial Plan Update' used for 2013.

Table 1 (below) shows increases in gross operating spending by program area.

TABLE 1 - GROSS EXPENDITURES ($ MILLIONS)

	2011	2012	2013 Forecast[1]
Citizen centred services A[2]	3,224	3,281	3,383
Citizen centred services B[3]	866	907	935
Internal services	393	392	404
City Manager	40	42	43
Other city programs	111	110	113
Council appointed programs	6	7	7
Total City Operations	4,641	4,738	4,885
Agencies[4]	3,122	3,165	3,263
CPIP	49	-	-
Capital and corporate financing	608	639	659
Non program expenditures	684	693	715
Non program revenues	121	10	10
Total- Corporate accounts	1,463	1,342	1,384
Levy Operating Gross Expenditures	9,226	9,245	9,532
Growth in Gross Expenditures	-	19	287

1. Based on inflation forecast of 2.1 percent from 2012 Outlook and Long Term Financial Plan Update and population growth forecast of 1 percent based on City of Toronto Backgrounder: 2011 Census: Population and Dwelling Counts.

2. Citizen centred services A includes: Affordable Housing Office, Children's Services, Court Services, Economic Development and Culture, EMS, Long-term Care Homes and Services, Parks, Forestry and Recreation, Shelter Support and Housing Administration, Social Development, Finance and Administration, Toronto Employment and Social Services, 311 Toronto.

3. Citizen centred services B includes: City Planning, Fire Services, Municipal Licensing and Standards, Policy, Planning, Finance and Administration, Technical Services, Toronto Building, Toronto Environment Office, Transportation Services.

4. Agencies includes: Toronto Public Health, Toronto Public Library, Association of Community Centres, Exhibition Place, Heritage Toronto, Theatres, Toronto Zoo, Arena Boards of Management, Yonge Dundas Square, Toronto & Region Conservation Authority, Toronto Transit Commission - Conventional, Toronto Transit Commission – Wheel Trans, Toronto Police Service, Toronto Police Services Board.

Sources:

2011: City of Toronto Budget Committee. Operating Variance Report for the Year Ended December 31, 2011

2012: City of Toronto Budget Committee. Operating Variance Report for the Six-Month Period Ended June 30, 2012

2013: City of Toronto Budget Committee. Operating Variance Report for the Six-Month Period Ended June 30, 2012 and author's calculations

How can we pay for it?

Provincial law requires the City to balance its operating budget every year [9]. Maintaining the value of public services, while balancing the operating budget is made more challenging because of the City's reliance on property taxes. Unlike income or sales taxes, which tend to automatically keep up with both real economic growth and inflation, property tax revenues do not grow at the same rate as the economy [10]. The assessment base does not automatically expand with economic growth or inflation. Further, legislation prohibits property reassessment from increasing revenues to the city [11]. Just to keep up with inflation, let alone economic and population growth, property taxes have to be increased each year. As a result, if we don't increase tax rates, the city's revenues fall short of the actual cost of delivering public services.

Municipal experts agree that reliance on too narrow of a tax base puts further pressure on the City's finances [12]. Mayor Ford reduced and narrowed the fiscal capacity of the city by cancelling the Personal Vehicle Tax. At an annual cost of $64 million, it was a very expensive campaign promise [13]. Mayor Ford's decision to freeze property tax rates for 2011 not only cost the city money in that year, these revenues are lost each and every year until such time as tax rates are increased enough to make up for the ongoing effects of the freeze.

Using the City's estimates of next year's budgeting challenges as a starting point, Table 2 below shows how this needed increase in spending could be paid for. Each year's budgeting process starts with what is called "opening pressure" or "budgetary shortfall." This is an estimate of the gap between next year's expenditures and this year's revenues. Because it includes expected increases in expenditures but not expected increases in revenues, the City's budgeting process always starts with a shortfall or gap. The city's budgeting process then begins a series of steps to close that gap. In addition to incorporating automatic increases in revenues, the process can also include cost-cutting measures and "other revenue" increases which require city council decisions (such as increases in property tax rates).

In Table 2, the 2013 opening pressure includes one-time funding from 2012 ($141 million) and increases in expenditures ($370 million, including $287 million to maintain real, per capita expenditures). This results in opening pressure of $511 million.

Increases in revenues that do not require any decisions from City Council ($238 million) will offset about half of that opening pressure. These include increases in revenues from economic growth and increases in transfers from the provincial government as part of the agreement to upload Ontario Works and court security costs. It also includes an assumption that other revenues will increase by the same amount as they did in 2012.

As discussed above, property tax rates (unlike sales or income tax rates) must be increased each year just to keep up with inflation and economic growth. To catch up from the freeze in property taxes in 2011, the property tax rate could be increased by 4.2 percentage points, bringing in a further $153 million in revenues. The proposed 5 cent TTC fare increase will further increase revenues ($18 million)[14]. This would bring increased revenues of $409 million, leaving a shortfall of $101 million.

Because of the legislated requirement to balance its operating budget, the city has to be cautious in both its revenue and expenditure estimates. In its expenditures, it must be careful to budget for unexpected events (for example, the impact that blizzards can have on the snow clearing budget). Most years such dramatic events do not occur, and expenditures usually come in below budget. For the same reason, the city is also cautious in estimating how much revenue it will collect. The city almost always declares a year-end budgetary surplus that represents, in large part, this unused contingency room. The average surplus over the last four years has been $277 million.[3] Putting $101 million of this year's surplus towards maintaining city services would be a wise use of these funds.

3 Source: City of Toronto Budget Committee. Operating Variance Reports 2008-2011.

TABLE 2 - 2013 BUDGET BALANCING STRATEGIES ($ MILLIONS)

CITY ONE-TIME FUNDING	
Prior Year Surplus[1]	102
Reserve Draws[1]	39
Total one time funding	141
EXPENDITURE CHANGES	
Maintain real, per capita expenditures at 2012 levels[2]	287
Operating Impact of Capital[1]	9
Capital Financing[1]	37
Other[1]	37
Total Expenditure Change	370
Outlook Pressure before revenue increase	511
REVENUES	
Economic Growth[1]	-117
User Fees[1]	-15
Upload (OW/Security)[1]	-16
Reserve Draws[1]	-30
Other Revenues[3]	-60
Subtotal	-238
Future Council Decisions	
TTC Fare increases[4]	-18
Tax increases[5]	-153
Subtotal	-171
Total Revenue	-409
Remaining shortfall	101

Sources:

1. Pennachetti, J. (2012) Reflections on Toronto's Fiscal Health and the Decade Ahead: A Discussion with the City Manager p. 56-57
2. See Table 1
3. Author's calculation based on 2012 Staff Recommended Tax Supported Operating Budget and 2012 City Manager presentation. Other Revenues same as previous year, excluding updated estimates for user fees and 2013 provincial funding increase
4. Toronto Transit Commission. 2013 TTC and Wheel-Trans Operating Budgets p. 7
5. Author's Calculations of 4.2% using 2012 Property Tax Rates and Related Matters with $36.5 million for each blended percentage point increase in property taxes and inflation forecast of 2.1 percent from 2012 Outlook and Long Term Financial Plan Update.

Conclusion

A singular focus on reducing and restraining public expenditures provides a lopsided view of the challenges facing Toronto's budget. City councillors have clear choices to make in this year's budget process. They can allow the continued erosion of city services. Or, they can take the reasonable step of modestly increasing taxes to enhance the health of our city and Torontonians.

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9. The City of Toronto Act. Revised Statutes of Ontario. Part VII: Financial Administration, Section 228 (1) 2006
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12. City of Toronto, Mayor's Fiscal Review Panel. Blueprint for Fiscal Sustainability and Economic Prosperity: A Call to Action 2008 p. 11.
13. Pennacheti, J. and C. Weldon, Personal Vehicle Tax - Repeal of Tax and Termination of Collection Agreement 2010 p. 1.
14. Toronto Transit Commission, 2013 TTC and Wheel-Trans Operating Budget 2012: Toronto p. 7.