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CANADIAN CENTRE for POLICY ALTERNATIVES ONTARIO OFFICE

Deputation to Toronto City Council Budget Committee
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Toronto's Elephant in the Room:

Taxes are the key to the city's budget woes

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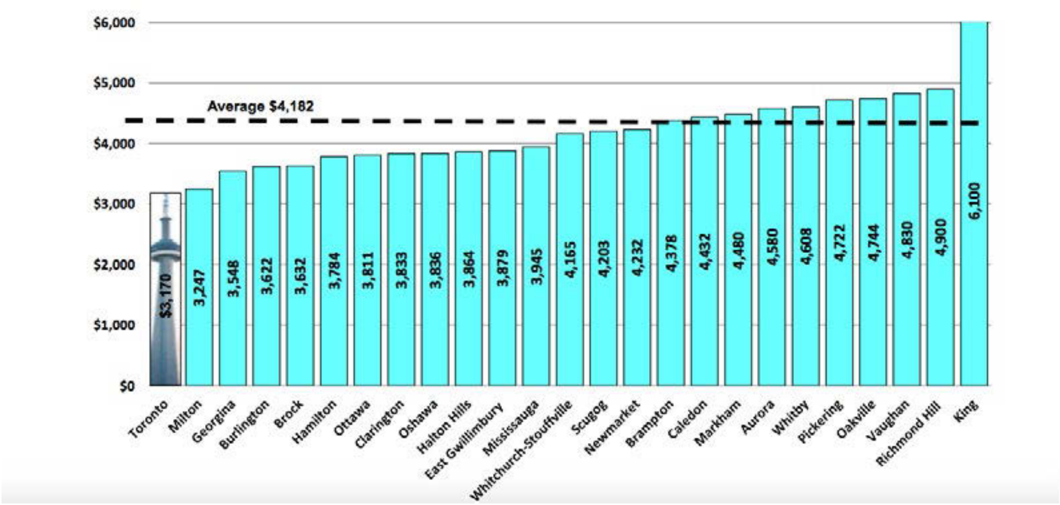
Background

Toronto is a low property tax jurisdiction both in terms of the property taxes paid and the rates of increase as compared to our neighbours.

FIGURE 1 Comparison of 2015 Average Property Taxes, GTHA Municipalities and Ottawa, $1,000 less Than Average



Source Preliminary Operating Budget and 2016-2025 Capital Plan, City of Toronto, December 15, 2015

This graph shows that Toronto has the lowest average property taxes in the GTHA and Ottawa. Average property tax rates are more than $1,000 below the average of these municipalities.

The gaps in funding

Staff has identified that the city is facing a net operating budget funding gap of $57.4 million. Staff has also identified that city council has committed a further $67.4 million in spending that is currently not funded. That leaves city council with the need to raise $124.8 million in additional revenues to meet the city's obligations and commitments for this year's operating budget.

A wide range of city builders—ranging from the Board of Trade to the United Way—support a proposal to invest an additional $75 million to reduce poverty in Toronto. The preliminary budget has only $6.7 million earmarked for poverty reduction. Stepping up to reduce poverty on a greater scale would increase the funding gap between the city's needs and existing revenues.

On the capital side, city staff has identified $22 billion in unmet needs. These range from the city's share of SmartTrack to the Toronto Community Housing Corporation's state of good repair backlog.

What are the solutions?

Admirably, Mayor John Tory is proposing a 0.5 per cent property tax dedicated to capital investments. That is an important first step.

City councillors have a tougher job than do politicians at other levels of government. Senior levels of government can rely on tax sources that grow with the economy, and therefore with inflation and population growth.

Property taxes, which account for a third of city revenues, do not grow with inflation and population growth. So, each and every year, municipalities are faced with the decision to either increase property taxes or squeeze the services that residents rely on.

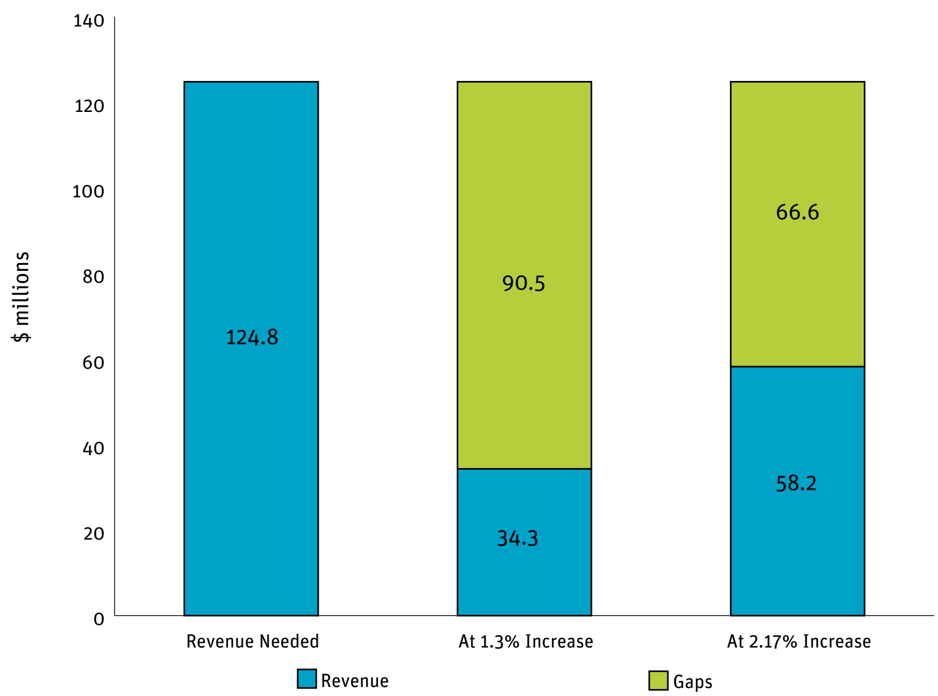
To honour the commitments that city council has made, and to maintain the services that Torontonians rely on, there is only one option: to increase revenues.

Because of the city's commitment to balance residential and non-residential tax increases, any given increase in residential property taxes will result in a smaller increase in non-residential taxes. As staff has illustrated, an increase in residential property taxes at inflation of 1.3 per cent will result in a total increase in tax revenues of only 0.88 per cent—a $34.3 million increase in revenue. This will fall far short of the $124.8 million that is needed.

A residential tax increase of 2.17 per cent will increase total revenues by 1.46 per cent, for a total increase of $58 million in additional revenues. That is just over half of what staff has indicated is required. City council will have to do more.

Council could aim higher with property taxes: a commitment to increase property tax revenues by 4.5 per cent would increase revenues by $175 million.

FIGURE 2 Budgetary Gaps at Different Residential Property Tax Increases

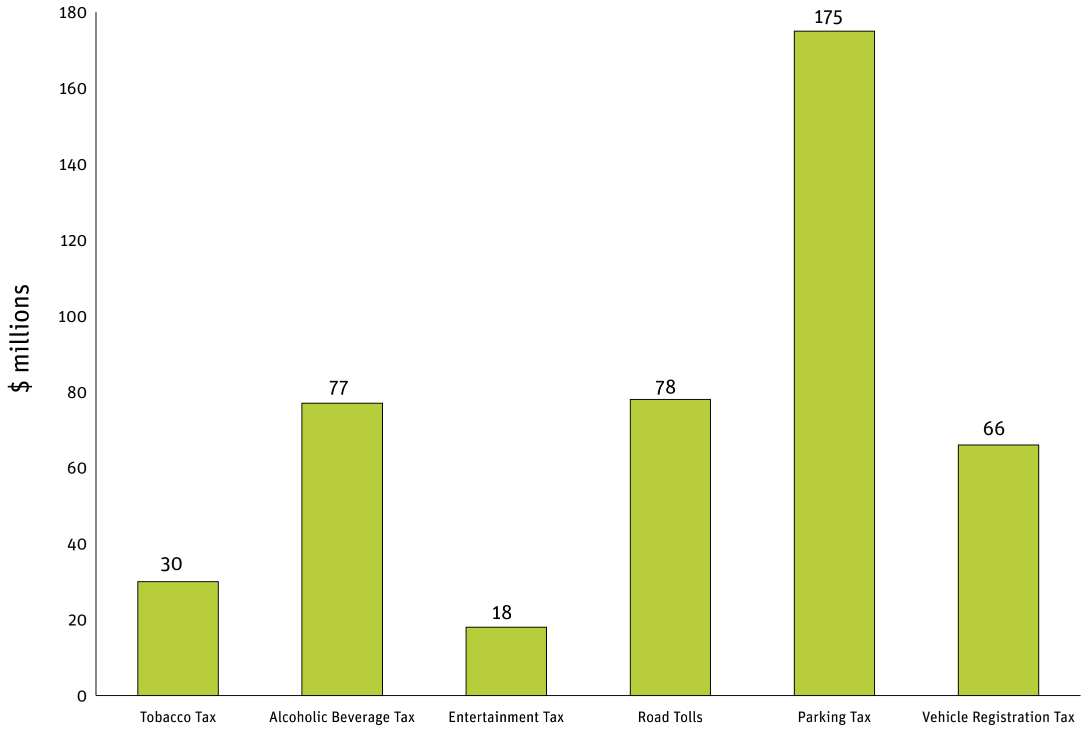


Source Preliminary Operating Budget and 2016-2025 Capital Plan, City of Toronto, December 15, 2015

But the city does not have to stop at property taxes. There is a consensus that the city needs to broaden its revenue base. There is a longer-term conversation about broadening the city's taxing powers to access new municipal taxes, like sales and income taxes, or a hotel tax.

However, in the meantime, the city is not using all of the powers at its disposal. The graph below shows the potential revenues available thanks to the City of Toronto Act. These are revenue tools that the city is currently not utilizing.

FIGURE 3 Revenue Estimates ($ millions)



Source Sheila Block, Toronto's Taxing Question, Canadian Centre for Policy Alternatives' Ontario Office (January 2015)

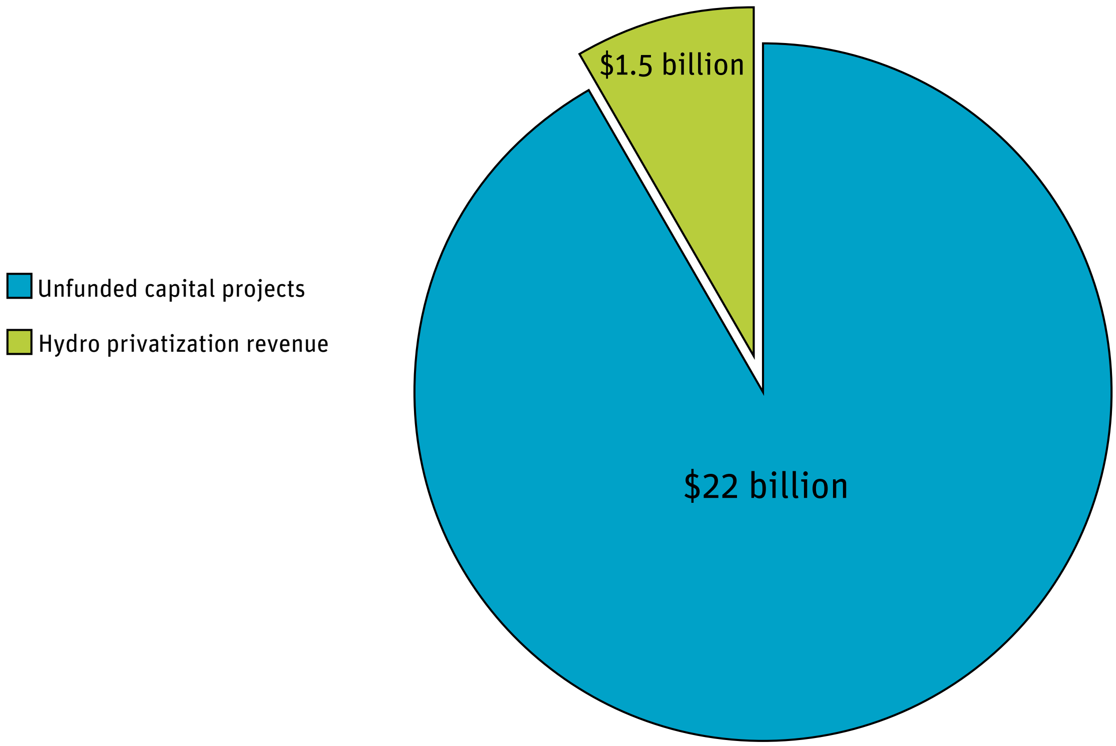
As this chart shows, reviving the city's vehicle registration tax could yield $66 million in additional revenue and would go a long way toward closing the city's funding gap in 2016-17.

Implementing a parking tax could generate even more revenue: $175 million a year—making it an attractive option that's well worth considering.

Road tolls could yield $78 million in new revenue. A tax on alcoholic beverage sales could raise $77 million. A tobacco tax could yield an additional $30 million. And an entertainment tax could raise $18 million.

Clearly the city wouldn't want to leverage every tax option available to them under the City of Toronto Act, but pick a tax or pick a couple—under this Act, the City of Toronto is uniquely positioned to leverage new revenues; something that is unavailable to other municipalities in Ontario. As councillors, you have the authority, and you can exercise it.

FIGURE 4 Unfunded Capital Projects vs. Potential Proceeds from Hydro Privatization



Sources Preliminary Operating Budget and 2016-2025 Capital Plan, City of Toronto, December 15, 2015 and "Toronto eves privatization of Hydro, parking, as Tory hunts for cash," The Globe and Mail, January 8 2016.

Selling off assets is not the answer

A final word on revenue-generating opportunities: selling off vital city assets, such as Toronto Hydro, is not the answer.

Selling city assets is at best a short-term solution. It trades off a one-time payment for revenues that support city services year in and year out. In the case of Toronto Hydro, it also surrenders control of an essential service.

The answer to Toronto's 2016 funding gap lies within a range of tax options that would position the city to pay for public service improvements that benefit everyone who lives in this city—and it makes Toronto a better place to live.

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