Intelligence MEMOS

From: William B.P. Robson

To: Toronto taxpayers

Date: January 10, 2020

Re: **Toronto's Property Tax Hike – Because a $1.4 Billion Surplus isn't Big Enough?**

Late last year, Toronto City Council approved an extraordinary property tax hike – an additional 1.0 percent in 2020 and 2021 on top of a previously approved 0.5-percent increase, and a full 1.5 percent for four years starting in 2022. The vote went 22-3 in favour – a convincing margin. Even some fiscally conservative commentators praised the hike as necessary. Which makes me wonder how many on council, in the media, or the city at large know anything about Toronto's numbers. Does anyone?

Here's a test. What was the City of Toronto's actual bottom line in 2018 – the last year for which it has published its financial results? Here's a hint: Toronto ran a surplus. How big? Here's another hint: its expenses in 2018 totalled $12.3 billion.

So how big was Toronto's 2018 surplus? You might have guessed something around $1 million. Maybe $10 million. Surely not more than $100 million. Why else would we have this extraordinary hike? Why else would this breaking of a foundational promise by the mayor garner widespread applause? Surely Toronto needs the money to avoid cuts to services, and deterioration of its transit, roads and sewers.

Yet Toronto's actual surplus in 2018 – the amount by which its revenue exceeded its expenses – was more than $1.4 billion. You can look it up. The city's audited financial statements show that it realized more than $13.7 billion in revenue, which covered the $12.3 billion in expenses just mentioned, leaving a surplus upward of $1.4 billion.

That is a startling number. It means that, for every dollar of revenue Toronto received, it needed less than 90 cents to cover expenses, with the rest going to build up its net worth. That's as if Ontario, with $153.7 billion in revenue in its latest (2018/19) fiscal year, posted a $16-billion surplus, instead of its actual $7.4 billion deficit. Or the federal government, with $332.2 billion in revenue in 2018/19, posting a $34.7 billion surplus, instead of its actual $14.0 billion deficit.

We should pause to give Toronto credit for running in the black. It would be good for Ontarians if their province did the same, and good for all of Canada if the feds ceased their chronic borrowing.

But there's a key difference. If Ontario or Ottawa were running way in the black, their beginning-of-year budgets would prefigure the good news, and the budget debates would feature potential program increases and tax cuts. People in Toronto can only see the true picture by looking backward. Hardly anybody does, so hardly anybody knows that Toronto ran a gigantic surplus in 2018. Or that surpluses around 10 percent of revenues are typical of the city's performance over the past five years (see table).

How can this be? Each of those years featured high-anxiety debates about cuts in services and maintenance just to balance the budget. The weird answer – which also helps explain the city's inadequate infrastructure – is that Toronto does not present budgets that match its year-end financial statements. City budgets do not show capital investments as assets and amortize them as they deliver their services. That would be sensible: that is how they appear in its financial statements – and how they appear in provincial and federal budgets and financial statements. Instead, Toronto's budgets show them as cash outlays. That makes capital spending look hard to afford – so Toronto builds less infrastructure, and more slowly, than it could.

The healthy overall fiscal position – positive net worth of $19.7 billion at the end of 2018 – features something else council members probably do not know about: $11.3 billion of financial assets. Some of that money should have been invested in physical assets – better transit, roads and sewers. And some of it should not have been taxed at all.

When Toronto sets its 2020 budget, including the revenue from the new levies, councillors and city residents should insist on seeing projections that match what the city will publish at year-end. Those projections will show that Toronto is on course for another big surplus. Which will come as a surprise – to both the councillors who just voted for a tax increase, and the pundits who applauded them for doing it.

Toronto's Financial Results, $Billions

	2014	2015	2016	2017	2018
Revenue	11.4	12.1	12.2	12.6	13.7
Expense	10.5	10.9	11.0	11.3	12.3
Surplus	*0.9*	*1.2*	*1.2*	*1.2*	*1.4*

Source: 2018 City of Toronto annual financial report

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