

Beyond the Gas Tax: Closing Toronto's Fiscal Gap

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Enid Slack

Institute on Municipal Finance and Governance
Munk Centre for International Studies, University of Toronto
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- Toronto is facing a fiscal gap. This means that the city does not have enough money to maintain existing facilities like water mains and roads or to expand services such as transit. Roads are crumbling, water mains are breaking, and the subway system has not seen a significant expansion in years.
- Why is there a fiscal gap?
 - First, the province requires municipalities to provide social services and to pay for part of the cost. This is one of the largest single expenditures that the city makes. By contrast, in all other provinces, provincial governments pay all of these costs for cities. These expenditures make it hard for the city to meet its other needs such as transit and infrastructure.
 - Second, the city's reliance on traditional methods for delivering services is costly.
 - Third, there is resistance on the part of city council to increase property taxes and user fees. While we can understand that politically, it does contribute to the fiscal gap.
 - Fourth, the city relies mostly on property taxes and user fees to raise revenue. The new City of Toronto Act permits the city to levy some other taxes but these are relatively minor taxes in terms of revenue. The city is not permitted to levy income or sales taxes.
- What can be done?
 - Let me say at the outset that there is no magic bullet; a number of solutions will be required. Let me suggest a few:
 - First, social services should be uploaded to the province. The property tax is not appropriate for funding social services; in those countries where municipalities do pay for social services (e.g. Scandinavian countries), municipalities have access to income tax revenues

- Second, Toronto should look at alternative service delivery so that the city could continue to provide the same level of service at a lower cost. There are many of examples of other cities that engage the private sector successfully to deliver local services (Joe Berridge will talk about this more)
- Third, the city could increase existing revenues: the city has to look at increasing residential property taxes (relative to other municipalities in the GTA, residential property taxes in Toronto are very low; I am not referring to property taxes on businesses which are relatively high). The city could make greater use of user fees (e.g. garbage collection fees would not only raise revenues for the city but would also contribute to the green agenda, tolls – under the new City of Toronto Act, the city can levy tolls on roads; tolls would reduce congestion and provide needed funds for transit. Tolls have been successful in other cities, such as London. In Toronto, it would be best if tolls were levied on a regional basis by the new GTTA).
- Finally, the province should allow Toronto to have access to other sources of revenue such as income and sales taxes. After all, the city of Toronto’s budget is more than the budget of six Canadian provinces and they can all levy income and sales taxes! If the city *is* given access to income or sales taxes, it should set the tax rates itself (province can collect the revenues but the city should set the tax rates). Setting its own tax rates makes the city accountable for those taxes. It also gives it more certainty, stability, and flexibility than if it shares provincial revenues. A city the size of Toronto needs to have control over its revenues.
- In conclusion, both the province and city need to take steps to close the fiscal gap. I have tried to suggest some of these steps.