



The Toronto Board of Trade

**Strong City,
Strong Nation:**

Update: The Growing Gap

January 2006

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Executive Summary

The Toronto Board of Trade released a report in June 2002 titled **Strong City, Strong Nation**. It described the provincial and national importance of Toronto, warned the city was in jeopardy and recommended reinforcing the city's role as the country's economic engines. Three years and several elections later, the Board decided to update some of the findings from the 2002 report and assess progress on priority recommendations.

The City of Toronto's status as a net contributor to the federal government was much in evidence in the most recently available data. In 2004, the federal government collected \$20.5 billion from the City of Toronto's residents, businesses and organizations, while spending \$13.9 billion. Federal revenue exceeded spending by 47 per cent or \$6.6 billion.

2004 was no blip in the data. The federal government's surplus with the City of Toronto averaged \$6.1 billion per year over the four-year period 2001-2004. In fact, federal revenues have exceeded expenditures in the City every year since 1981 without exception. After adjusting for inflation and population changes, the data shows Toronto has been a growing net contributor to the federal government for more than a generation.

To put Toronto's net contribution in some perspective, consider that:

- In constant 2004 dollars per household, Toronto's net contribution to the federal government in 2004 was \$6648; over the 24 years, 1981-2004, it averaged \$3891.
- In 2004, the federal government took as much net revenue out of Canada's largest city as the city itself was able to spend on its entire range of public services.
- Two-thirds of the federal surplus cumulated nationally between 2001 and 2004 was collected from Toronto even while the City accounted for only one-tenth of total federal revenues.

The federal surplus derived from the City skyrocketed in the last ten years from less than \$200 to more than \$2500 per capita. Revenue per capita climbed 28 per cent between 1994 and 2004 while federal expenditures fell by more than 10 per cent. About 70 per cent of the growth in the federal surplus with Toronto over that period was due to the revenue jump while almost 30 per cent can be attributed to a decrease in real per capita federal expenditures in the City.

While Toronto's share of the burden in fighting the federal deficit may have played a part, two findings suggest that, there is a fundamental misalignment of federal resources and responsibilities in the City. One, per capita federal revenue from the City grew much more strongly than Toronto's GDP during the 1994-2004 period - 28 versus 17 per cent. Two, federal per capita spending in Toronto which was already below the national average fell farther between 1994 and 2004 than in the rest of the country - ten versus eight per cent.

Strong City, Strong Nation recommended the federal government take the lead in closing Toronto's infrastructure gap because it was the main beneficiary of the city's economic growth and had the fiscal capacity for large-scale investment. The federal government was advised to sign a five-year intergovernmental agreement directing new funding to Toronto for investments in transit, housing and the waterfront.

Over the next five years, TTC requires \$735 million/year to meet its state of good repair requirements and \$360 million for proposed system expansion – a total of just over \$1 billion each year. The federal government's contribution to Toronto's public transit in the last three years was \$13.7 million (2003), \$12 million (2004) and \$168 million (2005). The federal government should be commended for beginning to commit funding to public transit. However, part of the commitment is short term compared to the transit planning time horizon. Also, the investment required is quickly growing beyond the current commitment level.

The federal government plays too slight a role in Canadian urban transit. There have been important initiatives in the last three years but national urban transit policy and funding is critically underdeveloped. Canada is also the only G8 country without an urban transit program properly funded by its federal government. Federal investment in Toronto's public transit lags comparable cities. There is a striking difference between Canada and the U.S. in the level and predictability of the federal commitment to public transit.

Toronto's supply of affordable housing falls short of current demand and too much of its public housing is dilapidated. In 2002, the Board called for targeted federal investment in affordable housing in Toronto; in 2003, the Board called for a national housing strategy that would involve all levels of government working together to alleviate homelessness and increase the availability of housing. To date, while governments at all levels have made a number of announcements, change is not evident where it is needed most - on the streets and in the communities of Toronto.

Revitalizing Toronto's waterfront has been glacially slow. Political uncertainties, role confusion between agencies, weak governance and financial limitations have been some of the problems hampering redevelopment efforts. The most telling symptom of the stalemate is the flow of funds. Very little of the \$500 million committed by each level of government has flowed to the agency responsible for redevelopment. The federal government's contribution to waterfront development in the last three fiscal years was \$5.2 million (2003), \$8.2 million (2004) and \$12.8 million (2005).

Beyond strangled finances, one other aspect of federal involvement in waterfront revitalization signals a reluctance to lead development - the project has never had a proper home in the federal administration. It has shifted from Transport Canada to Human Resources and Skills Development and now to Citizenship and Immigration Canada, where there is little competence in infrastructure or urban development. Support for waterfront revitalization would benefit from consistent administrative expertise such as that available in Infrastructure Canada.

Introduction

In June 2002, the Toronto Board of Trade published a report titled **Strong City, Strong Nation**. The report was the work of the Board's CEO Forum on Urban Competitiveness. The Forum, composed of business leaders, was profoundly concerned about the decline in Toronto's competitive capacity and deeply worried about the city's future. In the view of the Forum, the city's vulnerable position was the result of:

- Sustained net withdrawal of purchasing power from the city's residents and businesses by governments accustomed to seeing the city as a "golden goose",
- Persistent under investment by the public sector in the key infrastructure underpinning the city's economy,
- Misalignment between the responsibilities and resources of the three levels of government, and
- Ineffective governance structures and processes at the local government level.

The Forum developed a three-element plan for renewal. As a first priority, the Forum recommended a five-year inter-governmental agreement to deal with infrastructure deficiencies. Second, it proposed that Toronto's municipal governance structure be revamped. Finally, the Forum advised that the city's financial model be reformed.

Strong City, Strong Nation highlighted the city's infrastructure deficit and argued it was jeopardizing Toronto's competitiveness and quality of life. The Board recommended the federal government take the lead in closing Toronto's infrastructure gap for two reasons. First, the report clearly demonstrated the federal government was the main beneficiary of the city's economic growth and had a vested interest in seeing the city prosper. Second, in contrast to the provincial and local, the federal government had the surplus fiscal capacity for large-scale investment.

The Board advised the federal government to sign a five-year intergovernmental agreement by the end of 2002 providing additional funding to Toronto for critical investments, particularly:

- a) Transit capital,
- b) Affordable housing, and
- c) Waterfront revitalization.

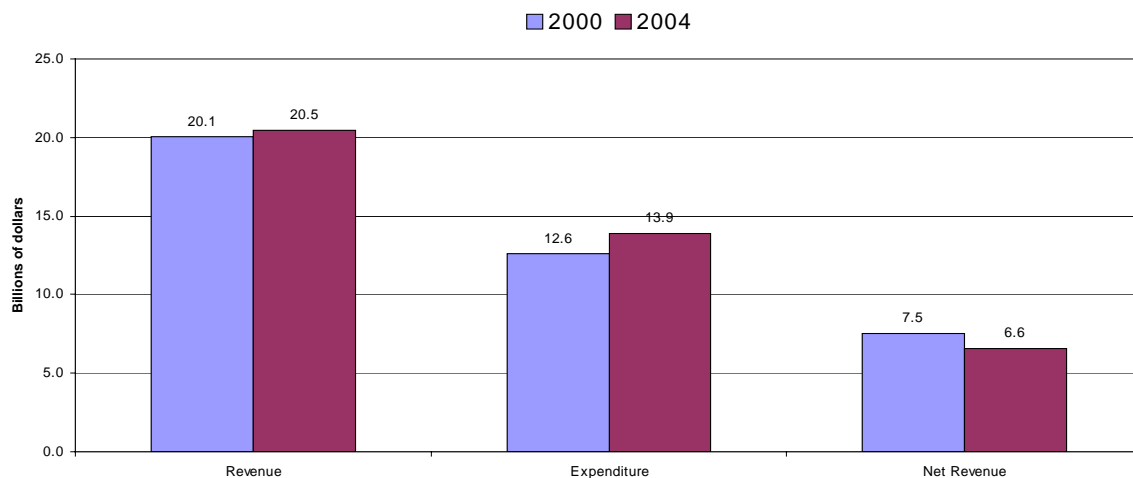
The extent to which the federal government is still a beneficiary of Toronto's economic capacity is examined in part one of the report below. Part two takes a look at each of the three recommended investment areas above and attempts a report card on governments' actions since 2002 with particular focus on the federal role.

Toronto's Net Contribution to the Federal Government

The Board of Trade's 2002 report, **Strong City, Strong Nation**, estimated the City of Toronto¹ contributed approximately \$7.5 billion net revenue to the federal government in 2000. In this update, attention turns first to the questions, "Is the City of Toronto still a net contributor to the federal government and, if so, by how much?"

Chart 1 answers those questions clearly. The City of Toronto's status as a net contributor to the federal government was very much in evidence in the most recently available data. In 2004, the federal government collected \$20.5 billion from the City of Toronto while spending \$13.9 billion. Federal revenues exceeded spending by 47 per cent or \$6.6 billion. Compared to 2000, federal expenditure in the City increased relatively more than revenue. As a result, the City's net contribution to federal revenue in 2004 was \$900 million or 12 per cent less than in 2000.

Chart 1
Federal Revenue, Expenditure and Net Revenue
City of Toronto
2000 and 2004



The modest drop in the City's balance with the federal government since 2000 was encouraging but \$6.6 billion still represented a huge withdrawal of spending power from the City, equivalent to more than six per cent of the City's gross domestic product (GDP).

It is hard for most people to grasp the significance of billion dollar numbers. To put the 2004 net contribution to the federal government in perspective, note that the 2004 gross approved operating budget for the municipal government of Toronto was, coincidentally, \$6.6 billion². Remarkably, in the year the "cities" agenda featured prominently for the first time in a federal Throne Speech, Budget and general election, the federal

¹ In this report, the phrase "municipal government of Toronto" will be used in reference to the local government. All other words or phrases such as "Toronto", "City of Toronto", "the City", etc., should be read as referring generally to the households, businesses and organizations resident in the city.

² Operating and Capital Budget Summary, p.21, http://www.toronto.ca/finance/pdf/budget_2004.pdf

government took as much **net** revenue out of Canada’s largest city as the city itself proposed spending on its entire range of public services.

Confirming the Picture

Looking at one or two year’s data in isolation can be misleading. Economic or policy changes can cause significant yearly variations in federal revenues and expenditures. To verify the trend, the Board extended its analysis by:

- i. Including data not examined in **Strong City, Strong Nation**,
- ii. Examining again the federal surplus with the city over a long time period, and
- iii. Adjusting the data for the effects of inflation and population changes.

Each of these extensions is presented and discussed below.

Blip or Trend

Between 2001 – 2004, the Board estimates that the federal government collected an average of \$19.5 billion/year from the City of Toronto through various forms of revenue including direct and indirect taxes, contributions to social insurance plans, investment income and transfer payments. Over the same period, the federal government spent an average of \$13.4 billion/year in the City in the form of purchases of goods and services, transfers to persons, businesses or other levels of government and interest payments on the public debt. In short, the federal government surplus with the City of Toronto taxpayers averaged \$6.1 billion per year over the four-year period.

Chart 2
Federal Revenue, Expenditure and Net Revenue
City of Toronto
2001-2004

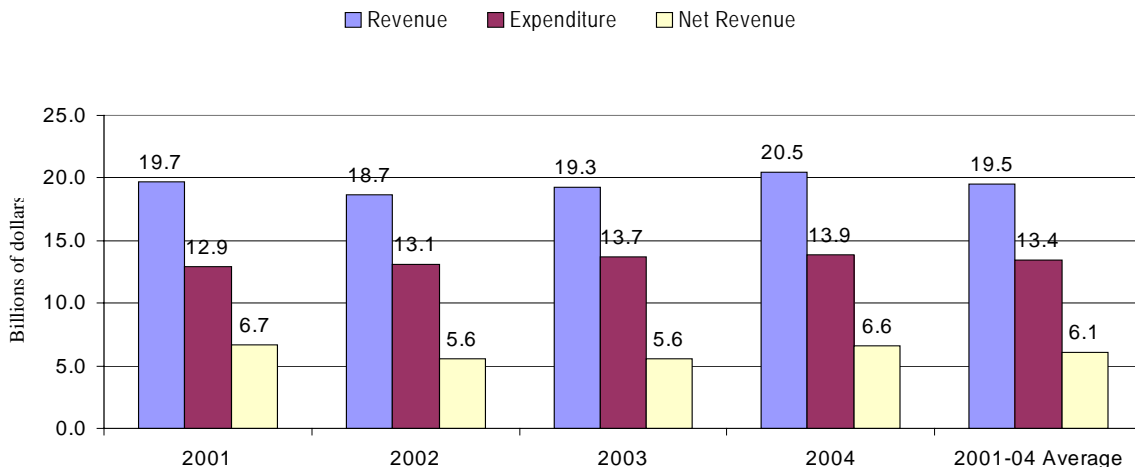


Chart 2 shows federal City of Toronto revenue, expenditure and net revenue for each year 2001-2004 and the annual average over the four years. Note:

- a) The pattern **Strong City, Strong Nation** reported finding during the years 1997-2000 where federal revenue significantly exceeded federal expenditure in the city continued throughout the more recent period.
- b) The relationship between the financial flows has been remarkably stable. Federal revenue consistently exceeded federal expenditure by more than 40 per cent.

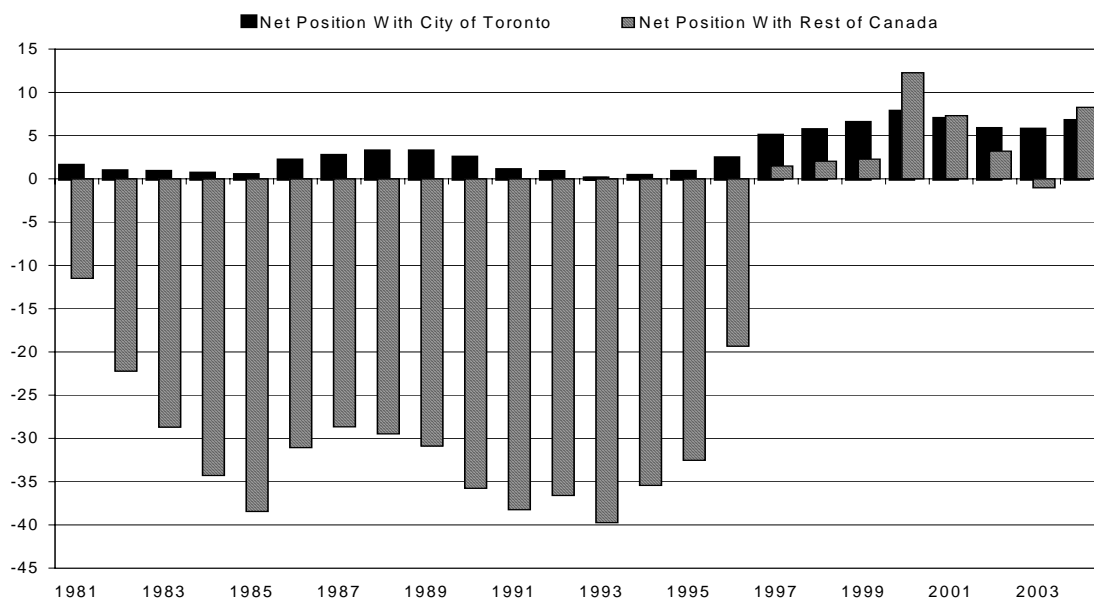
Two observations help put the relative importance of the last four years of federal surplus from Toronto into perspective. First, two-thirds of the federal surplus cumulated nationally between 2001 and 2004 was collected from the City of Toronto even though during that period the City accounted for only one-tenth of total federal revenues.

Second, the municipality of Toronto's gross approved operating budget averaged \$6.3 billion per year from 2001-04. While there is no logical relationship between the two numbers, it is thought provoking to contrast the circumstances over the four years between a municipal government struggling to cope with service and infrastructure demands and a federal government taking as much net revenue out of the city as the city planned to spend on all services.

Pattern for Over a Generation

It is possible that the City of Toronto's large net contributions in the last seven or eight years resulted from the federal government's efforts to get its financial house in order. Might a long-term perspective show that financial flows between the City and the federal government have been more balanced than recent evidence suggests?

Chart 3
Federal Surplus (+) or Deficit (-)
Relative to the City of Toronto and to the Rest of Canada 1981 to 2004



The Board examined data from 1981 to 2004 and found the recent past was no anomaly – the federal government’s revenues from the City exceeded its expenditures in the City in each of the 24 years without exception. In sharp contrast, the federal government spent significantly more on the rest of Canada than it collected from the rest of Canada in each of the first 16 years of the period. Net federal revenues from the rest of Canada were positive in only seven of the last eight years of the 24-year period.

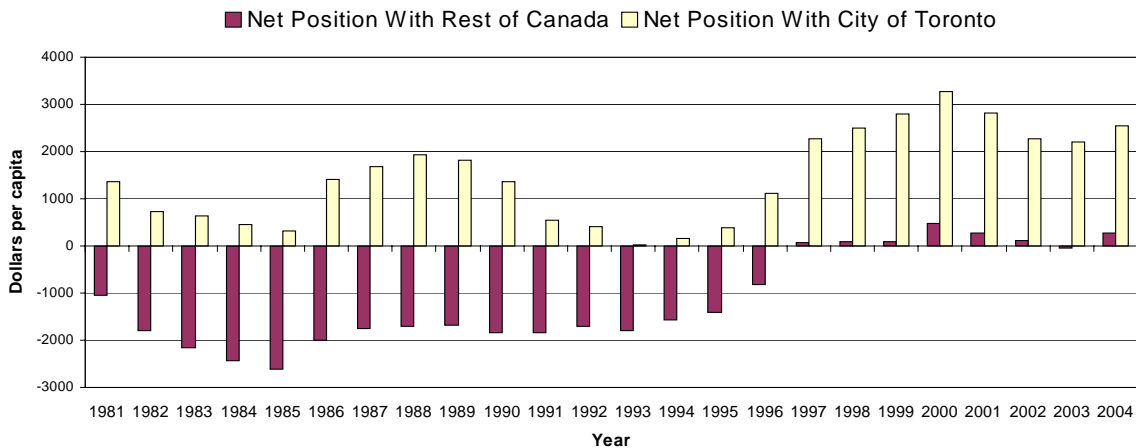
The Board calculated that over the 24 years the federal government accumulated a surplus of \$73 billion relative to the City of Toronto while accumulating a debt of \$457 billion relative to the rest of Canada.³ Chart 3 illustrates in a compelling way that:

- a) The pattern of federal revenues and expenditures in the City of Toronto is fundamentally different from the rest of Canada.
- b) The federal surplus with Toronto, while relatively larger in recent years, has persisted for two and one-half decades regardless of economic cycles, demographic changes, policy trends or electoral dynamics.

Real Per Capita Contribution Keeps Growing

Finally, have inflation or population growth affected the underlying trend in the net position of the federal government with respect to the City of Toronto? The Board calculated the federal government’s surplus with the City in 2004 dollars to eliminate the effect of inflation and on a per capita basis to account for population changes.

Chart 4
Per Capita Federal Government Surplus (+) or Deficit (-)
with the City of Toronto and the Rest of Canada
1981-2004
(Constant 2004 \$'s)



³ Chart 3 was generated from data including capital as well as current account transactions to provide a more inclusive estimate over the long time period of financial flows between the federal government and sub-national jurisdictions. On a current revenue and expenditure basis (used in Charts 1 and 2) Toronto’s net contribution to the federal government was slightly larger at \$74 billion while federal net expenditures in the rest of Canada were slightly lower at \$440 billion.

Chart 4 reflects those calculations⁴ and offers a telling picture of a city that, on a real per capita basis, has been a growing net contributor to the revenues of the federal government for more than a generation. Note:

- a) In 2004, the City of Toronto contributed \$2541 more per person to the federal government than it received in the form of program spending, transfer payments and interest on the public debt. In household terms, Toronto's **net** contribution to the federal government in 2004 was \$6648 per household.
- b) Over the entire time span, 1981 to 2004, the City contributed an average of \$1458 more per capita per year in 2004 dollars to the federal government than it received in services - on a per household basis the City's net contribution to the federal government has averaged \$3891 per year for 24 years.

The bars in Chart 4 representing the federal surplus with Toronto display a wave-like pattern. Each subsequent peak in the data is higher than the last. Real net federal revenue per capita from the City of Toronto hit a maximum in 2000 at \$3268 after seven years of steady increases. Previously, net contributions reached a maximum in 1988 at \$1924. Before that, the highest value was in 1981 at \$1365. The pattern is doubly worrisome. First, federal net revenue from the City shows a tendency to grow over time. Second, since the federal surplus started to climb again in 2004 after falling off slightly since 2000, it raises the question as to what new level the per capita surplus might rise?

Federal Surplus with Toronto – Big, Persistent and Growing

The data and analysis above confirms the city of Toronto has consistently occupied a unique position in federal government finances. The city has been a substantial and growing source of surplus revenue for the national government for two and one-half decades⁵. While it is obvious that a major role played by the federal government is reallocating incomes from the more to the less wealthy parts of the country, the magnitude of the City of Toronto's contribution to that national goal across time through economic boom and bust is no less than astounding. In the interest of national economic well being, protecting and enhancing the vitality of the City of Toronto ought to be a major concern of the federal government.

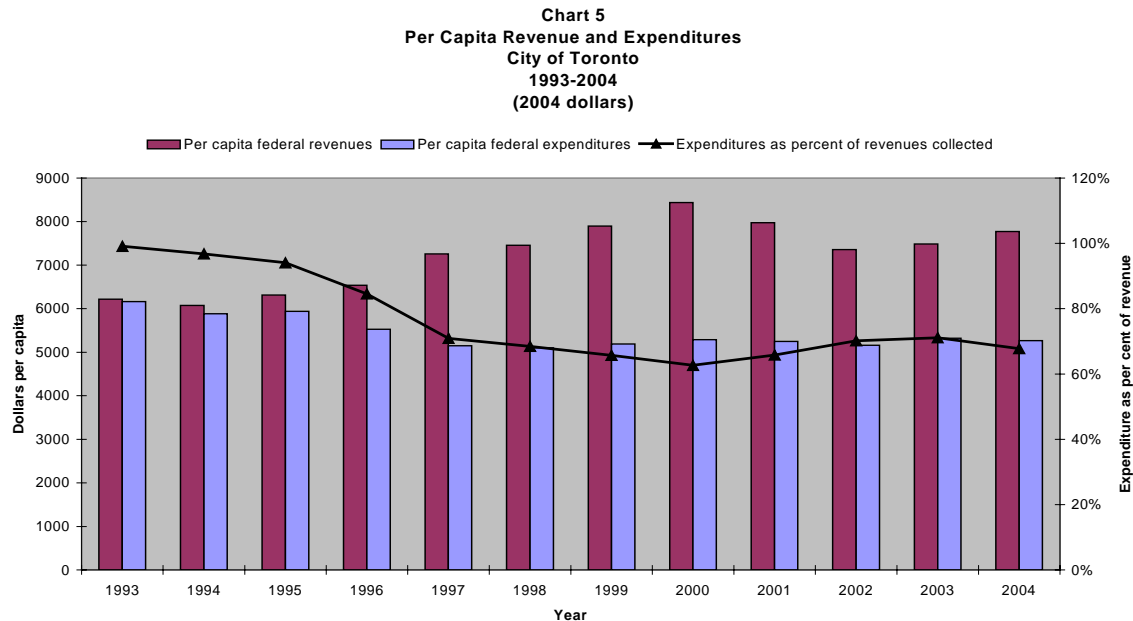
Ballooning Surplus

What underlies this pattern of net contributions from the City of Toronto to the federal government that has persisted for more than a generation? More particularly, why has the federal surplus with Toronto ballooned during the last decade? Part of the explanation may be found by looking closely at the separate paths taken by federal revenues and expenditures as the City has grown since the early 1990's.

⁴ Population estimates were applied to the data used in Chart 3 to create Chart 4. It reflects the more inclusive capital and current account transactions.

⁵ The appendices present summary estimates of financial flows for the recent period, address the question of accuracy in the estimates and discuss the data sources and methodology used to develop the estimates.

The upright bars in Chart 5 (read from the left axis) show per capita federal revenues from, and expenditures in, Toronto since 1993. The solid line in the chart (read from the right axis) shows federal expenditure as a per cent of federal revenues.



In 1993, federal revenues and expenditures in the City were approximately equal to \$6200. In percentage terms, the latter was almost 100 per cent of the former. Note that while it is not displayed here, the trend between 1981 and 1993 was toward federal spending in the City increasing as a percentage of revenue collected.

The picture after 1993 is dramatically different. The federal surplus with the City skyrocketed in the subsequent years from less than \$200 to more than \$2500 per capita. Two effects were at work.

- a) It's obvious from Chart 5 that total federal revenue per capita from the City surged after 1993. Between 1994 and 2004, it climbed 28 per cent. More than 70 per cent of the growth in the federal surplus with Toronto over that period was due to the jump in revenue.
- b) What is not as obvious from Chart 5 is that the federal government has steadily scaled back its effort in the City over the last ten years. Federal expenditures fell by more than 10 per cent between 1994 and 2004 with the result that a significant portion – almost 30 per cent – of the growth in the federal surplus with Toronto can be attributed to a decrease in real per capita federal expenditures in the City.

The late 1990's saw the national government fighting to bring the deficit under control. Most Canadians supported that fight and were prepared to accept some loss of government services. While the burden of deficit fighting was disproportionately settled on Toronto, two aspects of the data raise more fundamental concerns.

The first concern is on the revenue side. Personal income taxes, indirect taxes (such as GST and taxes on alcohol, tobacco or gasoline) and direct taxes from corporate and government business enterprises have been the dominant federal revenue sources for many years (accounting for 87 per cent of the revenues collected by the federal government in the City of Toronto in 2004). Revenue from these sources should have no location bias; tax bases and rates are generally defined and set for Canada. Revenue is usually raised in direct proportion to economic activity and should track GDP.

Why then did federal revenues from the City of Toronto grow more than 50 per cent faster than the city's economy between 1994 and 2004?

Table 1 compares federal revenue, expenditure and GDP growth in Toronto⁶ and the rest of Canada. Note per capita federal revenue from the City grew much more strongly than Toronto's GDP during the 1994-2004 period - 28 versus 17 per cent. While personal tax rates are progressive and revenue from this source may grow faster than income (or GDP), can progressive tax rates alone explain the large discrepancy in growth between federal revenue and the city's economy?

In contrast to the situation in Toronto, Federal revenue grew more slowly than GDP in the rest of Canada between 1994 and 2004 though the two were (as one would expect) much more closely aligned, growing at 25 and 27 per cent respectively.

Table 1
Comparison of Per Capita Federal Revenue, Expenditure and GDP Growth
Toronto and the Rest of Canada
1994 to 2004

	(1997 dollars)		1994 to 2004	
	1994	2004	Percentage change	Compound annual rate of growth in per cent
Toronto, per capita:				
Federal revenue	5,398	6,904	28	2.5
Federal expenditure	5,224	4,680	-10	-1.1
GDP	33,625	39,444	17	1.6
Rest of Canada, per capita:				
Federal revenue	4,543	5,658	25	2.2
Federal expenditure	5,894	5,439	-8	-0.8
GDP	25,285	32,116	27	2.4

⁶ GDP data is courtesy of City of Toronto Economic Development and Culture Division and was provided in constant 1997 dollars for 1987 and subsequent years. For comparability in this discussion, federal revenue and expenditure data was converted to constant 1997 dollars.

The second concern is on the expenditure side. Referring again to Table 1, consistent with a policy bias toward deficit fighting, federal per capita spending declined in real terms between 1994 and 2004 in Toronto and in the rest of Canada.

But why did federal per capita spending in Toronto which was already well below the national average (\$5224 versus \$5894) fall farther than in the rest of the country – ten versus eight per cent? Given the lower level and the nature of federal spending in the city, it isn't obvious why deficit fighting cut backs would have greater impact in Toronto than elsewhere, particularly since the City was recovering more slowly than the national economy from the recession of the early 90's.

In summary, it is difficult to accept that aggressive federal deficit fighting explains the extraordinary surpluses the federal government has been able to run with the City of Toronto. The discrepancy between federal revenue and GDP growth in Toronto and the disproportionate decrease in federal spending over the last ten years suggest a fundamental misalignment of federal resources and responsibilities in the City.

Report Card on Recommendations

The Board of Trade's 2002 report **Strong City, Strong Nation** highlighted the city's infrastructure deficit and argued that deficit would jeopardize Toronto's economic competitiveness. The Board recommended the federal government take the lead in closing Toronto's infrastructure gap because it was the major beneficiary of the economic growth in the city and had the fiscal capacity for large-scale investment. In particular, the Board advised the federal government to complete a five year intergovernmental agreement before the end of 2002 providing additional funding to Toronto for critical investments including:

- a) Transit capital upgrades and expansion,
- b) Affordable rental housing, and
- c) Waterfront revitalization.

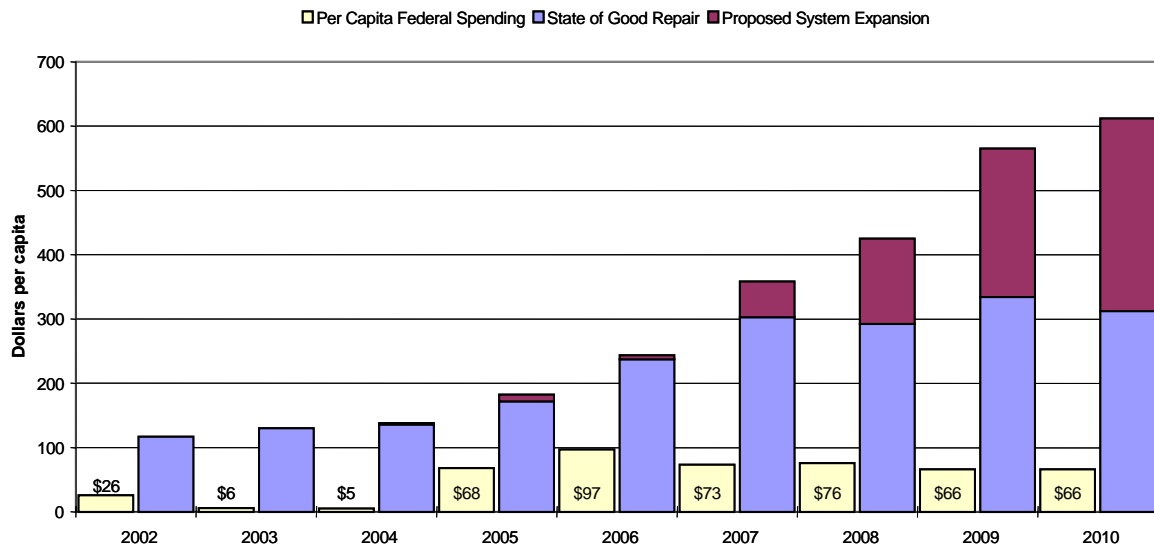
This section of the update takes a look at each of the three areas above and attempts a report card on governments' actions since 2002 with particular focus on the federal role.

Transit Investment is the Key to Gridlock

The Toronto region's population and economy continue to grow but transportation infrastructure doesn't. Getting around and doing business in Toronto increasingly means dealing with the challenge of traffic gridlock. The state and lack of transportation infrastructure is fast becoming a competitive *disadvantage*.

Toronto's investment in roads and bridges has fallen behind by \$235 million since 1998⁷. This gap may grow to \$300 million in 2006. Toronto also under-invests in its transit system⁸, the shortfall has grown by 50 per cent since 2002. Over the next five years, TTC requires \$735 million/ year to meet its state of good repair requirements and \$360 million for proposed system expansion – a total of just over \$1 billion each year.

Chart 6
Actual and Proposed Per Capita
Federal Transit Investment vs. Total Transit Need
2002-2010



Canada's federal government plays too small a role in urban transit. There have been initiatives in the last three years but national urban transit policy and funding is underdeveloped. Through the Canadian Strategic Infrastructure Fund, the federal government provided \$76 million to the TTC over a two-year period starting in 2002. In March 2004, a \$350 million, five-year federal investment in the TTC was announced but no funds have yet flowed to the city though a Memorandum of Understanding has been negotiated. Including the gas tax sharing agreement and NDP-Liberal 2005 budget deal, it is estimated Toronto could receive almost \$1 billion in transit funding from the federal government over the next five years.

Announcements aside, what's actually been delivered looks like this: the federal government's contribution to Toronto's public transit in the last three years was \$13.7 million (2003), \$12 million (2004) and \$168 million (2005).

While governments slowly negotiated transit funding arrangements, maintenance didn't keep pace with system deterioration and the funding required for state of good repair escalated. Chart 6 shows the contrast on a per capita basis between Toronto's transit needs and federal funding over the period 2002-2010.

⁷ Data is from the Transportation Infrastructure Management Department of the City of Toronto.

⁸ Referring to the amount of funding required in addition to the base capital expenditures that covers a State of Good Repair (e.g. expansion projects without approved funding).

Canada is also the only G8 country without a nationally funded urban transit program. Federal investment in Toronto's public transit lags comparable cities. There is a striking difference between Canada and the U.S. in the level and predictability of the federal support for transit. Since 1998, the U.S. government has made transit a national priority and invested \$36 billion from 1998 to 2003. Recently, the U.S. government approved another round of funding for an additional \$53 billion for transit between 2004 and 2009.

Chart 7
Comparative Per Capita Federal Transit Investment
in Major North American Cities
2002-2009

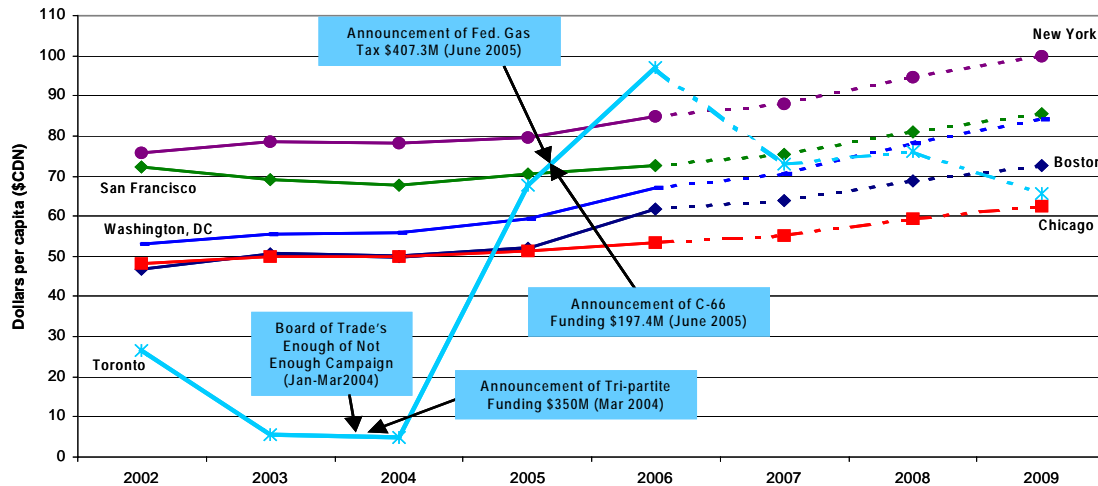


Chart 7 compares per capita spending (actual and planned) on transit in Toronto with major urban areas in the U.S. Federal public transit spending in the U.S. has been on a stable upward trend for many years. In contrast, federal investment in Canada's urban transit systems has been unpredictable with little funding at the beginning of the decade, a large allocation in 2004 and 2005 followed by a decline as programs are depleted.

Federal agencies have recommended stable funding for public transit, e.g., the National Roundtable on the Environment and the Economy recommended the federal investment of \$1 billion per year for 10 years in urban transit in Canadian cities⁹ targeting growing urban regions to increase transit ridership and encourage land-use intensification. As well, the Urban Transportation Task Force¹⁰ recommended the federal government provide sustainable, predictable and long-term funding for transportation infrastructure.

Public transit investment benefits all sectors of the economy and a cross section of Canadian communities. The federal government needs to recognize that public transit is a key driver of economic competitiveness. A dedicated, long-term commitment to public transit should be a matter of national economic and environmental policy and receive the highest priority.

⁹ The National Roundtable on the Environment and the Economy, *Environmental Quality in Canadian Cities: the Federal Role*, 2003.

¹⁰ Established in 2003 by the Council of Deputy Ministers Responsible for Transportation and Highway Safety.

Affordable Housing

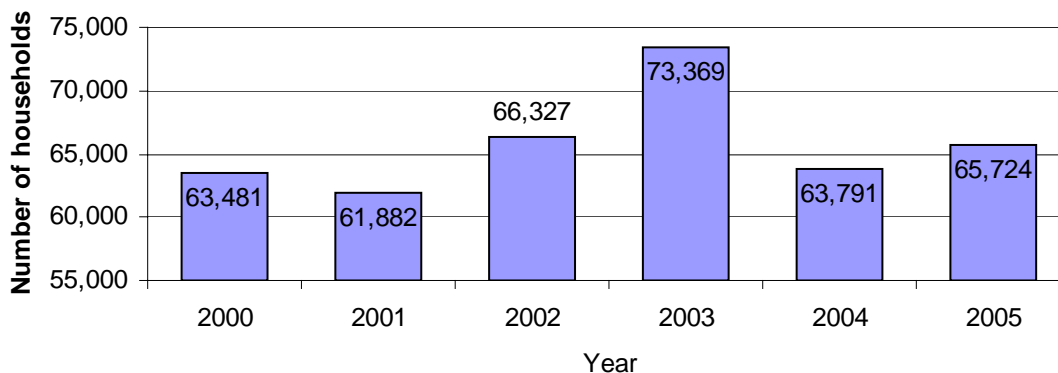
The business community sees housing as one of the most important ingredients for creating a competitive city. High quality affordable housing can be a key selling point in encouraging business expansion or attracting new employees. For that reason, the Toronto Board of Trade recommended in **Strong City, Strong Nation** that affordable housing should be one of the three areas for federal investment leadership. This update is interested in two questions: Has the housing situation improved since 2002? Has there been a substantive response to the Board's recommendation on the issue?

The Toronto Community Foundation (TCF) offered an answer to the first question in its 2005 publication, **Vital Signs**, where it reported that¹¹:

“Overall, housing in Toronto remains expensive and affordable housing is scarce. Over a ten-year period (1994-2004), Toronto Region two-bedroom rents have increased 34.2% and single family house prices 50.9% compared to an inflation rate of 22% over the same period. More than one-third of Toronto tenants spend over 30% of their household income on rent, while 19% of homeowners spend over 30% of their income on mortgage and taxes.”

Looking at the demand for affordable housing supports TCF's conclusion. Though it can be a difficult concept to measure accurately, data compiled by Housing Connections – a subsidiary of Toronto Community Housing Corporation (TCHC) – does give a consistent picture of the 2001-2005 period. Chart 8 shows that affordable housing demand in Toronto has fluctuated in a range greater than 60,000 units over the last six years. No improving trend is evident since 2002 in the data displayed.

Chart 8
Waiting List for Affordable Housing in Toronto
2000 -2005



¹¹ See http://www.tcf.ca/vital_signs/vitalsigns2005/vitalsigns2005_expanded.html#05_housing or **Toronto's Vital Signs 2005**, Toronto Community Foundation, p.14

The public housing situation suggests another answer to the first question. A big part of Toronto's affordable housing stock – 58,000 units - is public housing owned and operated by TCHC. A combination of aging buildings and insufficient funding has meant many public housing residents are living in buildings that suffer from a long list of deficiencies. The TCHC has never had sufficient funding to keep up with day-to-day maintenance and address the serious capital repair problems in a timely way. TCHC has been setting aside approximately \$70 million per year for repairs but requires more than \$900 million in the next 10 years to achieve a “state-of-good-repair”. An audit in 2005 reported that \$224 million of maintenance and repair should be done immediately.

Toronto inherited this problem when the provincial government downloaded social housing to the City in 1998 without the resources to maintain the stock of units transferred. Given the city's current finances, it is unable to make the investment to keep all of these units in good repair. Without timely renovation and repair, units could become unavailable due to unsafe living conditions. This is unacceptable given the affordable housing needs in the city.

Regarding the second question, government's response to the Board of Trade's recommendation has been modest:

- a) Under the Canada-Ontario Affordable Housing program announced in February 2004, the municipality of Toronto received \$24 million to assist with the construction of 903 units and \$3.6 million for a pilot program in the City of Toronto to provide 400 housing allowances for five years.
- b) In April 2005, the Governments of Canada and Ontario signed an agreement to provide \$602 million (over 5 years across Ontario) to increase the supply of affordable housing. This agreement is intended to provide programs aimed at increasing supply and allowing for the rehabilitation of severely deteriorated properties. In the first round of funding announced in August 2005, Toronto is to receive \$115 million over 5 years.

Information on federal funding for new affordable housing is on a calendar year basis as necessary approvals are obtained. The estimates below include the federal portion of the federal-provincial affordable housing program (AHP) funding, and the federal funding under the Supporting Communities Partnership Initiative (SCPI) which supports transitional /supportive housing.

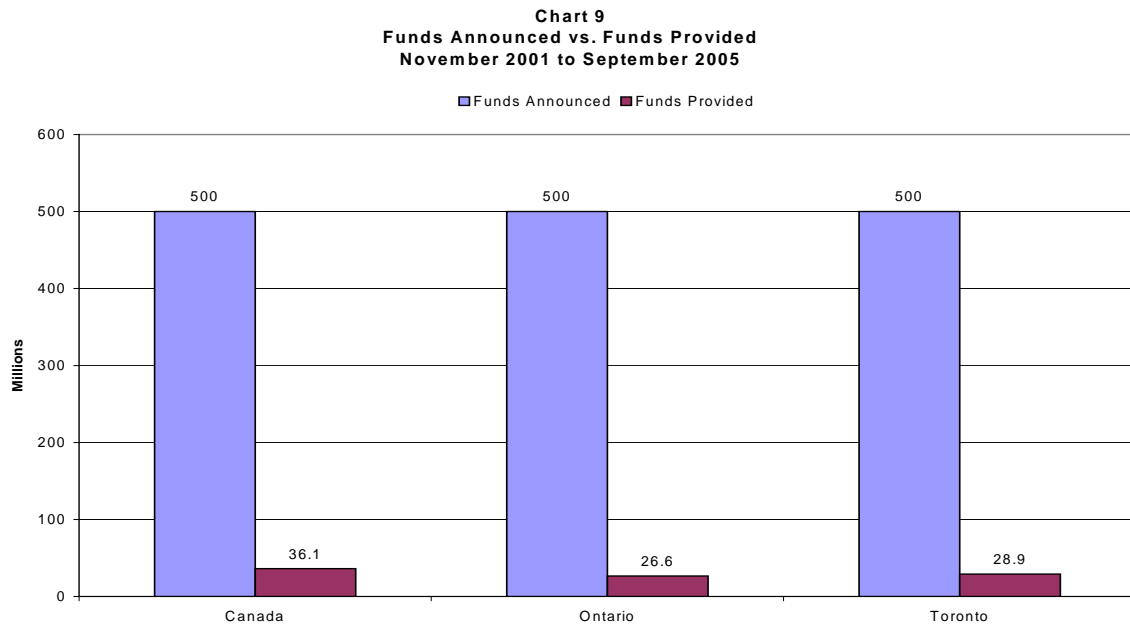
Federal funding commitments to projects were: \$2.8 million (2003), \$35.5 million (2004) and \$19.7 million (2005). While these are significant and welcome investments, they are out of keeping with the magnitude of the problem.

This estimate above does not count federal funding (more than \$170 M) that goes to existing social housing each year. In addition there have been federal funding commitments under the Residential Rehabilitation Assistance Program averaging about \$1 M - \$2 M per year for conversion projects which create new housing.

In summary, Toronto’s supply of affordable housing falls far short of demand and too much of its supply of public housing is dilapidated. In 2002 the Board called for targeted federal investment in affordable housing in Toronto; in 2003, the Board called for a national housing strategy that would involve all levels of government working together to alleviate homelessness and increase the availability of affordable housing. To date, while there have been announcements, change is not evident where it is needed most - on the streets and in the communities of Toronto.

Waterfront Stalemate

The waterfront is one of Toronto’s most valuable undeveloped assets. Unlike many major cities around the world located on the water, Toronto has failed to transform its lakefront area into a spectacular urban space. Currently, the waterfront is a checkerboard of contaminated land, polluted waterways, disjointed transit options and underutilized property. With a few exceptions, it is not an inviting place to live, work or invest.



When the three levels of government announced a \$1.5 billion commitment for waterfront revitalization in October 2000, there was reason to hope that Toronto’s waterfront would become a compelling “gateway into Canada”. Successful revitalization would benefit Toronto and would provide large economic returns to senior orders of government. That’s why the Board of Trade’s **Strong City, Strong Nation** report urged the waterfront project be a key element of its recommended five-year intergovernmental agreement to close Toronto’s infrastructure gap.

Despite the economic and symbolic value, progress on this project has been glacially slow. Political uncertainties, role confusion between agencies, weak governance and

financial limitations have been only some of the problems hampering redevelopment efforts.

The most telling symptom of the stalemate on the waterfront project is the flow of funds. While each level of government committed \$500 million to the revitalization, very little money has flowed to the agency responsible for the redevelopment - the Toronto Waterfront Redevelopment Corporation (TWRC). Chart 9 shows the federal government has spent only \$36.1 million of its \$500 million commitment for waterfront revitalization to date¹². While the governments of Ontario and Toronto lag the federal government in delivering on their financial commitments, it might be argued they are facing deficits while the federal government is posting large surpluses.

Beyond strangled finances, one other aspect of federal involvement in waterfront revitalization signals an inability to lead development - the project has never had a proper home in the federal administration. It has shifted from Transport Canada to Human Resources and Skills Development and now to Citizenship and Immigration Canada, where there is little expertise in infrastructure or urban development. Administrative support for waterfront revitalization would greatly benefit from the experience and expertise of Infrastructure Canada.

Since its inception, the TWRC has had limited powers and been unable to function as an urban development corporation similar to those in other cities. Another complication is the power struggle between the TWRC and the three governments' agencies that control some of the waterfront lands. We understand the three government are in the process of signing Memorandums of Understanding to help clarify the roles of each agency and to confirm the TWRC as the lead developer along the waterfront. The governments have also recently agreed to a five-year business plan and ten-year forecast, as well as a new governance structure for the TWRC.

There is much work to be done to ensure the progress on the waterfront moves quickly. It is imperative that the TWRC is legislatively and financially empowered to implement its plans. Additionally, determined leadership and strong commitment to work together from all three orders of government are needed to get the job done.

Report Card Summary

In 2002, the Board of Trade concluded Toronto was suffering from a serious infrastructure deficit that imperilled its ability to be the engine of the Canadian economy. The Board recommended that special, short-term investment needed to be made in the city by senior levels of government. It urged the federal government to take ownership of this recommendation and invest directly to revitalize Toronto. The Board identified three elements of the infrastructure gap that should be the targets of federal investment before the end of 2002.

¹² Funds received by the TWRC since inception (Nov. 1, 2001) to September 30, 2005. Provincial funding received \$26,566,278; and the City of Toronto funding received \$28,930,994.

Table 2 shows federal spending in Toronto in the areas identified in the Board of Trade recommendations for the three years since **Strong City, Strong Nation** was published. To the federal governments credit, investment in the identified areas has increased over the last three years, particularly in public transit. However, the level of investment pales in comparison to the city’s infrastructure needs and to the surplus the federal government derives from the city.

Table 2 Federal Investment in Selected Infrastructure Toronto 2003-2005 (Millions of dollars)				
Infrastructure	Year			
	2003	2004	2005	
Transit	13.7	12.0	168.4	
Housing	2.8	35.5	19.7	
Waterfront	5.2	8.2	22.2	
Total	21.7	55.7	210.3	

Clearly the federal government has not responded fully and strategically to the jeopardy in which the city finds itself.

Introduction to the Appendices

The Toronto Board of Trade asked the Centre for Spatial Economics (C₄SE) in 2002 to estimate the net financial flows between the City of Toronto and the federal and provincial governments. Recently, the Board asked C₄SE to update its earlier work with particular attention to the net flow between the City of Toronto and the federal government. Appendix 1 presents the summary estimates for the recent period. In Appendix 2, C₄SE addresses the question of accuracy in the estimates and discusses the data sources and methodology used to develop the estimates in Appendix 3.

Appendix 1 – Summary Estimates

Table A1-1
Federal Government Revenues Collected from the City of Toronto
Federal Government Expenditures in the City of Toronto
Average 2001-2003 and Estimated 2004
Millions of Dollars

Revenues and expenditures	2001-2003 Average	2004
Direct taxes from persons	9,957	10,509
Direct taxes from corporate and government business	2,462	3,097
Direct taxes from non-residents (withholding taxes)	610	610
Contributions to social insurance plans	1,589	1,438
Indirect taxes	3,954	4,253
Other current transfers from persons	4	7
Investment income	615	543
Current transfers from federal government	0	0
Current transfers from provincial governments	11	12
Current transfers from local governments	0	0
Total revenue	19,202	20,469
Net current expenditure on goods and services	3,480	3,905
Current transfers to persons	4,397	4,753
Current transfers to business	256	305
Current transfers to non-residents	0	0
Current transfers to federal government	0	0
Current transfers to provincial governments	1,951	2,200
Current transfers to local governments	11	10
Interest on public debt	3,154	2,702
Total current expenditure	13,248	13,874
Saving	5,954	6,595
Plus capital consumption allowances	330	334
Plus net capital transfers	221	137
Minus acquisition of non-financial capital	375	374
Net lending	6,131	6,692

Appendix 2 - Accuracy of the Estimates

The Centre for Spatial Economics (C4SE) allocated the various federal revenues and expenditures in the province of Ontario (as obtained from Statistics Canada's Provincial Economic Accounts) to the City of Toronto by drawing on a variety of readily available and highly accurate demographic and economic statistics. For example, the City of Toronto accounts for a significant portion of Ontario's population (21.3 per cent in 2004), households (21.8 per cent), personal income (22.6 per cent), personal income taxes (24.0 per cent) and employment by place of work (19.9 per cent). The major revenue categories are personal income taxes, sales taxes and corporate income taxes. The major expenditure categories are spending on current goods and services, transfers to persons and local governments, and interest on the public debt. These categories account for the majority of revenues received, and expenditures made, by the federal government in the City.

Among the revenue categories a high level of accuracy has been obtained through the methodology used to allocate such revenues to the City in the case of all revenue categories (see Appendix 3 for a detailed review of data sources and methodology). This is so because:

- Personal tax revenues are based on estimates published by the Canada Revenue Agency drawn from tax filer information, meaning there can be no question regarding the accuracy of these estimates.
- Sales taxes are based on estimates of the respective tax bases in the City of Toronto; the tax bases, in turn, are estimated on the basis of known incomes and spending patterns of the residents of the GTA in the City of Toronto; thus the accuracy of the sales tax estimates is also considered to be high.
- Corporate income tax revenues are allocated to the City based on employment by place of work. In other words, we have assumed that businesses earn their profits at their places of business, not where their head offices are located. Had we used the latter as a basis for allocating corporate income taxes to the City of Toronto we likely would have developed higher amounts than those cited in this report.

Among the expenditure categories a high degree of accuracy has been obtained through the methodology used to allocate expenditures on federal personal transfer payments and expenditures on interest on the public debt. This is so because:

- The underlying data used to allocate personal transfer payments (population, population by selected age categories, unemployed by place of residence, etc.) are accurate.
- The underlying data used to allocate interest on the public debt (population) are accurate.

The accuracy of our allocation to the City of Toronto of federal current expenditures on goods and services are open to the greatest challenge. We chose here to allocate such expenditures – which mainly represent the wages and salaries paid to civil servants – to the City of Toronto on the basis of the resident population of the City vis a vis Ontario on the grounds that most civil servants are involved in the administration and delivery of programs and services to all the residents of Canada or Ontario. Our use of the population of the City of Toronto as a share of Ontario's total for such spending recognizes that the average resident of the City of Toronto receives the same average benefit from such spending as residents of other parts of Ontario.

It could be argued that the number of federal and/or provincial civil servants working in the City of Toronto as a share of the total number of federal and provincial civil servants working in Ontario could differ from the share represented by the City's population in Ontario. With respect to the federal government, it is likely that the share of Ontario-based federal civil servants in the City of Toronto is lower than the City's share of Ontario's total population (considering the disproportionate number, for example, of federal civil servants employed in Ottawa). If we had allocated current federal spending on goods and services on the basis of the actual number of federal civil servants employed on a daily basis within the City we likely would have obtained a smaller estimate of federal expenditures on goods and services than that presented.

The estimates and analysis provided above clearly indicate that the contribution of the City of Toronto to the financial position of the federal government is now and always has been enormous. If any errors exist due to the methodology used, they err on the side of providing a conservative estimate of the City's contribution to the net financial position of the federal government.

Appendix 3 – Data Sources and Methodology

The primary source of federal government revenue and expenditure data used in developing our estimates is Statistics Canada's *Provincial Economic Accounts* (PEA, diskette product number 13-213-XDB). This data source provides detailed historical annual data covering the period from 1981 to 2002 for federal government revenues and expenditures by category relative to Canada as a whole and relative to each individual province. The advantage of this data set is the time period it covers (back to 1981). Its major disadvantage is that data for the years 2003 and 2004 for government revenues and expenditures are not provided, though detailed data regarding many of the tax bases are provided for those years.

Statistics Canada's *National Income and Expenditure Accounts* (NIEA, diskette product 13-001-XDB) provide for every year from 1961 to 2004 detailed federal revenue and expenditure estimates by category *for Canada as a whole*. We used this data source to assist us in constructing PEA-type estimates for the years 2003 and 2004 of Ontario-specific federal government revenues and expenditures by category.

Neither of these sources provides data for the City of Toronto. To develop estimates of the City's portion of specific federal revenues and expenditures by category over time we obtained or developed a number of indicators for that purpose. These historical "allocators" covering the years from 1981 to 2004 included the following:

total population
population aged 0 to 14 years
population aged 15 to 64 years
population aged 65 years and over

The above four were sourced from the CD-ROM included with Statistics Canada's *Annual Demographic Statistics 2003* (Catalogue no. 91-213-XPB) and from C₄SE's estimates of same for 2004.

total households

This variable was estimated for both Ontario and the City of Toronto by the C₄SE based on historical census data regarding household headship rates applied to Statistics Canada's post censal population estimates by age.

personal income by place of residence
personal disposable income by place of residence
sales of consumer goods and services by point of sale
sales of consumer goods by point of sale
labour income by place of residence

Ontario estimates for each of the above for each year from 1981 to 2004 were obtained from the *Provincial Economic Accounts*. Canada Customs and Revenue Agency (formerly Revenue Canada) regarding taxfiler reported income and income taxes paid for the years 1981 to 2001 for each of the City of Toronto and Ontario were used to develop estimates of the personal income, disposable income (i.e. after-tax income) and labour income of Toronto residents. Ontario-wide total personal spending and personal goods spending shares of after-tax income were applied to our estimate of City of Toronto residents after-tax income to derive City of Toronto residents personal spending and personal spending on goods. These estimates are used as a proxy for the sale of goods and services by point of sale in the City of Toronto¹³.

¹³ Our estimates reveal that 49.2 per cent of the personal income of the Greater Toronto Area is received by residents of the City of Toronto with the remaining 50.8 per cent received by residents of the GTA's four suburban regional municipalities. The Centre for the Study of Commercial Activity (see the CSCA report by Maurice Yeates entitled *The GTA@Y2K: The Dynamics of Change in the Commercial Structure of the Greater Toronto Area*, published by Ryerson Polytechnic University in 1999) estimates that 49.5 per cent of the market for retail, general and financial services in 1998 was in the City of Toronto and the remaining 50.5 per cent in the rest of the GTA. The similarity of their and our ratios justifies the method we use for estimating the size of consumer spending on goods and services in the City.

total employed by place of work
total employed by place of residence

Ontario estimates for employed by place of residence for the period 1987 to 2004 were obtained from Statistics Canada's CD-ROM product Labour Force Historical Review 2000 (Catalogue no. 71F0004XCB). We assumed that the number of employed persons by place of work in Ontario is equal to the number employed by place of residence.

Total employed by place of residence for the City for the years 1983 to 2004 was supplied to us by the City of Toronto (Economic Development) based on the City's annual survey of employers. Total employed by place of residence for the years 1987 to 2004 was also supplied to us by the City drawing on data they obtained from Statistics Canada based on a special tabulation of labour force survey (LFS) estimates. We estimated the values for the period 1981 through 1986 by linking the 1987 to 2004 LFS series to much-earlier published LFS estimates for 1981 to 1987 based on a slightly different definition of employment¹⁴. We then estimated the values of employment by place of work for 1981 and 1982 by assuming that the growth rates in this series in 1982 and 1983 matched the growth of employment by place of residence in those years.

average wage by place of residence
average wage by place of work
labour income by place of work

We calculated these series for Ontario by dividing labour income from the PEA by total employment from the LFS, assuming the employed place of work and by place of residence values to be identical at the provincial level. We calculated the average wage by place of residence for the City as total labour income by place of residence divided by total employment by place of residence. We assumed the average wage by place of work in the City to be equal to the average wage by place of residence. We estimated total labour income by place of work for the City as equal to total employment by place of work times the estimated average wage by place of work.

unemployed by place of residence

The number of unemployed by place of residence was obtained for Ontario from the LFS CD-ROM (see employment, above). The number of unemployed by place of residence for the City was obtained from the City's Economic Development Department. The data for 1987 to 2004 were taken from the special LFS tabulation

¹⁴ We obtained the latter from the Toronto Transit Commission when we carried out research for them in 1994.

they had obtained. We estimated the values for 1981 to 1986 unemployed in the City by assuming that the share prevailing in 1987 prevailed in each of those years.

corporate profits

Corporate profits for all of Ontario covering the years 1981 to 2004 were obtained from the PEA accounts. We assumed the share of Ontario corporate profits earned by businesses in the City of Toronto to be equal to the City's share within Ontario of labour income by place of work. This assumption allocates corporate profits geographically to the location at which the lion's share of value added occurs.

Methodology Used to Develop Our Estimates

Tables 2 and 3 below indicate which "allocators" we used to estimate the City of Toronto's shares of federal and provincial revenues and expenditures by category over the period from 1981 to 2004. It should be noted that since most of the province's growth in employment and population occurred outside of the City of Toronto between 1981 and 2004, the ratios in all cases are lower today than was the case twenty four years ago. For example, the City accounts for 21.3 per cent of Ontario's population today compared to 25.5 per cent in 1981. The City's ratios for personal income (22.6 per cent today and 28.6 per cent in 1981) and for employment by place of work (19.9 per cent today and 26.0 per cent in 1981) exhibit similar shifts. It is testimony to the importance of the City both to Canada and Ontario that its net contribution to federal and provincial finances strengthened over this period despite the slight declines in its income and population shares.

Table A3-1
Allocators Used to Estimate City of Toronto Federal Revenues and Expenditures

Federal Government Revenues and Expenditures	Allocator
Direct taxes from persons	Personal income taxes
Direct taxes from corporate and government business enterprises	Corporate profits
Direct taxes from non-residents (withholding taxes)	Personal income taxes
Contributions to social insurance plans	
Employer and employee contribution to EI	Labour income by place of work
Indirect taxes	
Customs import duties	Sales of consumer goods and services
Excise duties	Sales of consumer goods and services
Excise taxes and miscellaneous indirect taxes	Sales of consumer goods and services
Air transportation tax	
Other	Sales of consumer goods and services
Other current transfers from persons	Personal income taxes
Investment income	Employed by place of work
Current transfers from provincial governments	Population
Total revenue	
Net current expenditure on goods and services	Population
Current transfers to persons	
Family and youth allowances	Population aged 0 to 14
Child Tax Benefit/Credit	Population aged 0 to 14
Pensions, World Wars I and II	Population aged 65 and over
War veterans' allowances	Population aged 65 and over
Grants to aboriginal persons and organizations	Population
Goods and services tax credit	Sales of consumer goods and services
Employment insurance benefits	Unemployment
Old age security payments	Population aged 65 and over
Scholarships and research grants	Population
Miscellaneous and other	Population
Current transfers to business	Employed by place of work
Current transfers to non-residents	
Current transfers to provincial governments	Population
Current transfers to local governments	Population
Interest on public debt	Population
Total current expenditure	
Saving	
Capital consumption allowances	Population
Net capital transfers	Population
Acquisition of non-financial capital	
Investment in fixed capital and inventories	Population
Existing assets	Population
Net lending	

Source: The Centre for Spatial Economics