

COMMENTARY

## **A document stranger than fiction**

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Globe and Mail Update

February 11, 2009 at 7:53 AM EST

Welcome to Numbers 'R' Us. Over here we have our fiction department, a little light crunching to lift the fiscal gloom. Over there is non-fiction: Be careful! And right in front of us, hovering ambiguously between the two realms, is the City of Toronto 2009 operating budget.

For the time being it appears to be factual, even "balanced," meaning as of now it shows no big deficit waiting for the provincial government to fund. This is the second time the amalgamated city has managed such a feat (out of 12 tries), although the steadily increasing residential tax hikes needed to make it happen undercut whatever comfort it may afford.

But how long will this semi-happy situation last? Given the economic blows that seem all but certain in the coming months, today's 4-per-cent tax hike could quickly become a fond fiction. If welfare cases increase as rapidly as they did during the last recession, and TTC ridership drops as rapidly as it did then, the result will be a double-digit increase in 2010 - the hard-fact legacy of today's polite fiction.

City officials aren't so brazen as to bet against the recession: The extra \$42-million they have budgeted for social services in 2009 - a 15-per-cent increase over 2008 spending of \$276-million - is the largest new tranche of spending in the budget, almost twice as much as the total cost of the "important new investments" they prefer to tout. It alone accounts for half the planned residential tax hike.

But is it enough? Earlier this week, Toronto-Dominion Bank economists issued their own predictions, based on the expectation of a 9.5-per-cent unemployment rate, which forecast a rise in the city's welfare costs of between \$65-million and \$70-million.

"Our estimate of the unemployment rate will hopefully turn out to be incorrect," TD economist Derek Burleton commented. But if they're right, residential taxes will have to increase another percentage point at least to cover the difference.

The TTC estimates contained in this year's budget are equally fragile, fattened as they are with a one-time payment from the province of \$238-million: Toronto's share of last year's provincial surplus giveaway. But there will be no more surpluses this year and no more grants, leaving a giant hole in next year's budget.

In the meantime, the city is investing heavily in service improvements to increase transit ridership - more than \$50-million in 2009. This is a strong bet against the economic tide, which generally sucks ridership away as it ebbs.

The last time the TTC carried as many people as it does today - 460 million rides a year - was January, 1991. One year later, ridership was down by 40 million, and it kept falling steadily for another five years.

Today's thinking is that adding bus routes and improving service will sustain ridership - and revenues - in the face of a slowing economy. But if ridership falls in lockstep with the economy, as it always has in similar circumstances, that new spending will quickly become a crushing burden.

History provides no comfort. Although the recession of the early 1990s never made a fraction of the

impact the current crisis has already had, it did drive the regional unemployment rate to 12 per cent by 1992, far higher than what either city officials or bank economists are predicting today.

At the beginning of that recession, the regional unemployment rate was 4 per cent and local government budgets were nicely balanced. A year later, the unemployment rate had broken into double digits - and the tax rate hikes followed suit. The former Metro Council raised taxes 14.7 per cent in 1992 as the TTC tipped into an unprecedented decline. For years the city stayed afloat only by raiding reserve funds that, as a result of those depredations, no longer exist.

The big bet in this year's budget, backed provisionally by the TD economists and even the governor of the Bank of Canada, is that the current downturn will be much shorter than the last one.

Fact or fiction? Nobody knows.

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