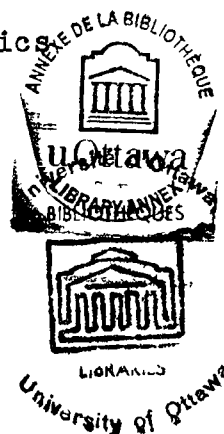


A CASE STUDY IN MUNICIPAL FINANCE:
THE CORPORATION OF THE CITY OF OTTAWA
(1939-1954)

A Thesis
Presented to
the Faculty of Social Sciences
The University of Ottawa

In Partial Fulfillment
of the Requirements for the Degree
of Master of Arts in Economics

by
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INTRODUCTION

Municipal finance is indeed a very small and relatively insignificant sector of our modern economic system. The evolution of our political and economic institutions over the last fifty years has contributed in pushing municipal activities and finance into the background of the public scene and the last fifteen years have witnessed an intensification of this trend by extensive exploitation of the field of public finance by the senior governments of our country. The days when citizens used to look up to their municipal government as the one most directly associated with their daily needs seem to be gone forever. The Federal and provincial governments, through the play of our political institutions, have taken upon themselves to accept more and more responsibilities for increasing the stability of the citizen. In the meantime, our local governments have continued in the main to supply the same types of services as they had fifty years ago. Any change here has been one of quality and not of quantity.

The very nature of municipal governments and the terms under which they operate account for much in this lack of expansion in their functions. The more flexible Federal and provincial governments have extended their activities and increased the quality of their services

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because they had access to flexible sources of revenue. Such is not the case with municipal governments. Public finance today is monopolized to a great extent by senior governments and for that and other political and economic reasons municipal governments have come to be looked upon as static economic units which are unfortunately too often taken for granted.

The purpose of our study is to show by the investigation of the finance of one such government-namely the Corporation of the City of Ottawa- that municipal governments are not as "dull" economic units as would appear and in fact that they are very sensitive to economic and political fluctuations.

Consequently, we have chosen to divide our study of the finance of the City of Ottawa into two periods quite different in political and economic significance, the war period and the post-war period, and to analyse the "attitude" of the local government and local finance in abnormal economic conditions and to assess the effects of the economic disturbances occasioned by the war on the financial structure of a municipal government.

Our second purpose in writing on the finance of the City of Ottawa is the normal interest that the Capital-City of our country has for us from an economic and historical viewpoint. A most interesting aspect of the City of Ottawa

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from a municipal point of view is, of course, the problem raised by the heavy concentration of Federal Government tax-exempt property which was not satisfactorily settled until recently.

When we undertook our study, we ascertained to the best of our knowledge that no academic work in this country had been done at the time studying the finance of a Canadian municipality under wartime conditions. With this in mind, we saw in the contemplated study sufficient possibilities for a contribution in the field of public finance.

Chapter I outlines first the problems facing the municipality of Ottawa on the eve of the War. The main part of the chapter, however, deals with the impact of war conditions on the revenues of the municipality.

Chapter II analyses the policy followed by the local government regarding expenditures during the war. Special attention is given to the debt policy during that period.

Chapter III deals with the effects of the post-war inflational boom and the annexation move of the City on municipal expenditures.

The last chapter analyses the attitude of the local government in its search for revenues of a better and more reliable nature in order to balance a budget which was threatening to go out of control.

CHAPTER I

CIVIC REVENUE IN WARTIME

Civic Finance on the eve of the war

In the years that preceded the declaration of World War II, municipal finances in Canada were still adversely affected by the consequences of the economic depression. Inflated property values in the prosperous years of the twenties had created an atmosphere of confidence in municipal financing which had led to the incurrence of substantial debts. During these years of fictitious plenty, little thought had been given to the possible effects of a prolonged depression on the financial structure of such governments with limited borrowing and taxing powers. The ^{relative} decline of assessed values of taxable property, resulting from a drop in residential and commercial construction, could be compensated only by a rise in the number of mills on the dollar in the tax rate; the effects were decreases in tax collection, increases in tax arrears and property sales by officers of the law for non payment of taxes. In addition to the inadequacy of taxation revenues, the cost to municipalities of direct relief had added up to the already heavy bonded indebtedness of these governments causing continuously increasing annual charges for the service of such obligations.

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The timely intervention of provincial authorities in the financial administration of defaulting municipalities and their general supervision of municipal borrowing succeeded in raising the credit standing of many in the late thirties. In spite of that and of the various measures of economic recovery initiated by the senior governments, on the eve of the war most large Canadian municipalities were still paying part of the cost of direct relief by the floating of loans rather than by taxation.

The funding of part of the cost of unemployment relief here in Ontario had been authorized under a special act passed by the Legislature in 1933. The Act empowered a municipality to issue debentures to defray the cost of direct relief. In 1938, however, a letter from the Ontario Municipal Board had been forwarded to all municipalities of the Province. Its main paragraph read as follows:

The board is of the opinion that capitalization of a municipality's share of Direct Relief, a current expenditure is unsound financing, and while formerly there may have been justification for regarding relief expenditures as an emergency measure, such time is past. (1)

The concluding sentence of this letter nevertheless suggested that the board was willing to consider any

(1) The Ottawa Citizen, January 5, 1938, p. 3, column 1.

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application for further funding according to the merits of the case and, if necessary, to allow it.

The estimates of the City of Ottawa for the year 1937 show that the City's share of relief expenditures would be some \$887,725, of which \$539,000 was to be funded and the rest, \$348,725, to be paid out of current revenues. The arrangement prevailing at that time regarding direct relief required the City to pay between 35 and 40 percent of the cost of relief, while the rest was paid half by the Federal Government and half by the Province. It was suggested at that time, by Ontario mayors, that the federal grant be revised to cover 40 per cent of the cost of direct relief. Shortly after this suggestion, the Labour Minister, the Hon. Mr. Roger, declared that his government had no intention of changing its policy regarding the percentage share of the federal grant.

In preparing its 1938 budget, the municipal council of the City of Ottawa submitted to the Ontario Municipal Board a proposal that the City be allowed the funding of \$330,000 of its share of direct relief in view of the reluctance of the Federal Government to participate more actively in the financial solution of the unemployment problem. The request was not rejected but it was not fully accepted. First the board agreed to allow the City to fund \$120,000 only, instead of the full amount. The general

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dissatisfaction which the proposed settlement created, together with representations at the provincial government level, induced the C.M.B. to revise its figures and finally permit the City to borrow \$250,000 that year to cover part of local relief expenditures. The rest was to be paid out of current revenues.

In his inaugural speech of 1939, Mayor Stanley Lewis singled out relief of the unemployed as the greatest and most puzzling problem facing the City of Ottawa. He declared:

We shall have to provide again this year a large amount of money to meet the City's share of relief. In giving relief and in paying for it, we are under the control to a considerable extent of the Provincial Government. (2)

During the years 1934 to 1939, the City had borrowed \$2,385,000 from banks with debenture issues on the serial annuity plan, partly on a one to five and partly on a one to ten year basis (3).

A marked decline in the number of people on the City's Relief Roll for February of 1939 suggested the possibility that the City might meet all relief expenditures for the year out of current revenues. Many hoped that no

(2) Minutes of the Council Meetings of the Corporation of the City of Ottawa, 1939, p. 22.

(3) Estimates of the Corporation of the City of Ottawa, 1942, p. 5.

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more borrowing because of relief would be necessary. The announcement came from Toronto that the City of Ottawa led the way among Ontario municipalities in the extent to which its relief expenditures had been reduced, - a decrease of 18.3 per cent in the first three months of 1939, while the City of Toronto's reduction for the same period was only 0.5 per cent. In spite of this encouraging drop in local relief expenditures, \$151,000 of relief spending was funded by the City in 1939.

Another question to which frequent reference was then made by the Mayor of the City was that regarding overtaxation of real property and the need for new and more flexible sources of revenue for the local government. The theme became a familiar rallying cry at every meeting of the Ontario Mayors and Municipalities Association. There were, of course, arguments in the support of the complaint that real property was overtaxed. More specifically, it was stated, for instance, that between the years 1911 and 1936, while the population of Ottawa had increased by only 57 per cent and assessment by only 141 per cent, taxes had gone up 350 per cent. The steep rise in taxation seemed to demonstrate clearly that there existed a disproportionate relation between population increase and ability to pay and the size of the tax levy. As a consequence, the municipal

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assessment was under a sustained fire and the criticism fairly accurately reflected public feeling on the matter. Mayor Lewis had warned that:

If the governments continue to pass to municipalities added responsibilities while usurping to themselves all sources of revenue except a direct taxation on property and the unfair taxation on business enterprise, the burden on municipalities will be unbearable (4).

On the other hand, the search for additional revenues led the municipalities to ask for the restoration of the amusement tax abolished a few years before when it was a source of provincial revenue. Their proposal, which met with little success at Toronto, would have empowered Ontario municipalities to levy, - at their discretion -, a rate up to 20 per cent of the cost of admission -- this in order to relieve the tax burden on real property.

Such were the main problems with which civic officials had to deal on the eve of the war. The outbreak of the war, late in 1939, radically changed the nature of municipal finance and also, while it helped solve some current problems, it brought on new ones, most of them appearing in the post war period only.

Taxation Revenue

The nature of the problem facing Canadian munici-

(4) Minutes of the Council Meetings, 1938, p. 20.

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palities as a result of the German aggression in 1939 was set out by the Mayor when he said that war brought problems to practically every department and caused increases in the demand for almost every service provided by the cities. The task that all Canadian municipalities, especially Ottawa, were faced with during the war years was that of furnishing essential public services in the most efficient and economical way. This job was by no means an easy one, since municipal revenues were in some ways adversely affected by war conditions.

Indeed, one of the major goals of the City, after the outbreak of the war, was the application and enforcement of a policy of strict economy. In general, it was thought that municipal revenues would not increase much and the prospects for expanding revenues from taxation through increases in assessment values on taxable real estate did not appear too encouraging in view of the requirements of the priority system on the means of production forced by wartime conditions. Also, the increase in government-owned tax-exempt property, a problem already acute in our Capital-City, was intensified as a result of the war. The construction of housing projects, rendered necessary by the influx of government workers, the appropriation and establishment of federal military and governmental zones, temporary buildings and other fully or partially tax-exempt properties,

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tended to freeze, and in some instances, contribute to narrowing the tax base on which municipal finance rested. In 1941, for example, the Federal Government acquired, in Ottawa, properties that had been paying \$43,000 in taxes(5). That revenue was lost to the City from 1942 and was not compensated by an equivalent grant from the Central government.

The wartime trend of City of Ottawa property exempt from municipal taxation under Section 4 of the Ontario Assessment Act is shown in Table I. Also indicated is the amount of tax-exempt property which belongs to the Federal Government. A glance at Table I reveals that the increase in tax-exempt property in the war period was due entirely to the addition of Federal Government property. Between 1939 and 1945, the total of tax-exempt properties in the City increased by some \$12,300,000. For the same period, Dominion Crown property increased by \$12,600,000.... Another striking example of the fantastic way in which Dominion tax-exempt property developed in Ottawa in the wartime shows federal property increasing by over \$11,000,000 between 1939 and 1943 while taxable assessment of the City for the same period increasing by less than \$9,000,000.

There also occurred relative losses in assessment values during the war due to non-essential businesses or smaller enterprises going out of business or suffering

(5) Minutes of the Council Meetings, 1942, p. 25.

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TABLE I

RELATION OF FEDERAL PROPERTY IN OTTAWA
TO TOTAL TAX-EXEMPT PROPERTY, 1939-1945

Year	Exemption under Section 4 of the Ontario Assessment Act	Federal Property
1939	\$ 93,244,441	\$ 54,204,909
1940	\$ 96,095,106	\$ 57,235,784
1941	\$ 98,959,417	\$ 59,751,675
1942	\$ 100,517,387	\$ 61,537,700
1943	\$ 104,715,427	\$ 65,533,950
1944	\$ 105,843,194	\$ 66,674,230
1945	\$ 105,533,077	\$ 66,816,230

Source: Annual Report of the Assessment Commissioner
of the City of Ottawa.

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severe curtailment. At the end of 1940, business assessment had dropped from \$15,184,212 to \$15,118,513. By the end of the war, assessment of business properties in the City was up to \$16,453,600, only an increase of a little over one million dollars in five years.

It is estimated that the amount of business and property taxes lost to the City for the year 1941 on land and buildings owned by the Federal Government amounted to about \$2,600,000, made up of general tax, \$2,100,000, and \$500,000 of business tax, or approximately 33 per cent of the municipal budget. The suggestion had been made in the earlier part of the war by the Ontario Minister of Municipal Affairs that a general revision of the Assessment Act be considered. Among other things, the Minister had in mind the situation wherein Ontario municipalities, like Ottawa, were furnishing services to wartime establishments which were Crown property and therefore tax-exempt. The proposition did not say that the public property should be taxed but that in lieu of a tax, a grant from the Federal Government to the municipalities concerned should be made, based on what their assessment was or would have been, had these properties been built and operated as private enterprises or residences. The suggestion, at the time, did not meet the approval of the federal authorities. This solution would have cost the Federal Government, in Ottawa alone, about two and a half million

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dollars. Nevertheless, a concession was made by the central government in connection with Wartime Housing Limited.

The problem of wartime housing was not a problem of housing for welfare but for war workers; and so quite properly the Dominion entered the field of housing in 1941. It established Wartime Housing Limited, a Crown Company. The effect of this new policy, after 1942, was a gradual reduction in the private housing construction field and the introduction of license requirements, priorities and other restrictions which the Minister of Munitions and Supply could impose under the delegated powers of the War Measures Act. In these circumstances, the question arose as to who was going to pay the taxes on such Crown properties occupied as residences and not as offices, and what would be the basis for the calculation of municipal taxes?

In 1942, an agreement was entered into between the City and Wartime Housing for the erection of 300 houses.

Article 4 of the agreement read as follows:

Nothing herein contained shall be deemed to prevent the City from assessing the tenants of His Majesty in the said houses provided that: A) The first assessment thereof shall be made in the year 1943, upon which taxes shall be paid in the year 1944.... B) His Majesty agrees that the amount to be collected by him by way of rent from the tenants shall include a sum sufficient to cover the taxes levied against the tenants with respect to the houses occupied by such tenants and upon receiving notification of the amount of taxes levied against the tenants, provided that the taxes levied against

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the tenants shall be at the same rate as those levied in respect of similar properties in the City of Ottawa (6).

Similar arrangements with other Ontario municipalities resulted in the amendment of section 113 of the Ontario Assessment Act to allow municipalities to collect taxes from a tenant of the Crown.

Increases in the tax rate to compensate for a relatively sticky tax base could hardly be justified in the face of increasing federal income taxes, stabilization of rents from income property, restrictions in business sales generally, resulting either from the non availability of goods or rationing, and the rising cost of living.

An amendment was made to the Assessment Act in 1942 under which houses built in a certain year were being assessed in the same year and the tax payment fell due the next year. As a consequence of this, \$4.5 million of building assessment was added to the roll of the City for the year 1943. Of this amount nearly 2 million dollars consisted of new property, the remainder being in the form of improvement. This change of policy in assessing new property together with the entrance of Wartime Housing in the commercial and residential construction field contributed much in slowing down private housing and building construction thereafter. Formerly, a house or building built in a certain year was

(6) Ibid., p. 601.

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normally assessed the following year and the first tax bill did not fall due until the year after.

Real property, business and income (7) assessment as established at the end of the year for the period under study are shown in Table II.

Tax Collection

Owing to the great improvement in the economic situation of the country, so far as employment and income were concerned, the collection of municipal taxes improved substantially during the war years. To a certain extent, the enforcement of rigid collection procedure also helped, especially in the latter part of the war when other taxes were quite high and the tax-payer quite self-conscious.

Indeed, a deterrent to the collection of taxes and to the reduction of the City tax arrears, which was felt after 1942, was the policy of the Dominion Government regarding compulsory saving, income tax, war bonds and other means aimed at draining out of the taxpayer's pockets all but the money essential for his daily living. The ability and the incentive of the taxpayer to meet his municipal obligations in these circumstances were thus reduced. To this difficulty was added the equally serious problem of rent control. The powers of the Wartime Prices and Trade Board were widened to

(7) Until 1942, an additional levy was imposed on certain businesses besides the usual business tax.

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TABLE II

TAXABLE ASSESSMENT OF THE CITY OF OTTAWA
1939-1945

Year	Property Assessment	Business Assessment	Income Assessment
1939	\$139,165,365	\$15,184,212	\$ 62,230
1940	\$139,962,204	\$15,118,513	\$ 64,457
1941	\$141,611,698	\$15,582,158	\$ 86,091
1942	\$146,215,268	\$16,229,844	\$109,283
1943	\$147,783,044	\$16,242,892	
1944	\$149,367,116	\$16,344,347	
1945	\$150,104,072	\$16,453,600	

Source: Annual Report of the Assessment Commissioner
of the City of Ottawa.

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include rents and housing accommodations because of increases in construction prices and rents. In the month of September, 1940, the board announced that effective October 1 of that year, the rental value of any property was not to exceed that in effect on January 2, 1940, when the lease existed at the time, or not to be higher than in 1939 when no lease had been signed. In the case of new houses, the rental administrator was to determine the maximum rent. Such a measure could only make more difficult the task of the tax collection department of any city. The nature of the problem facing municipal tax-collection departments during the war was clearly set out by Mr. C.R. Fontaine, City Treasurer of Quebec, in the following words:

The rentals cannot be increased but the cost of commodities is higher. With an unchanged income, the property owner can hardly face an increase cost of living, higher charges for maintenance of his property, additional federal taxes and still pay his municipal taxes regularly (8).

In spite of such difficulties, the City's collection of current taxes increased from year to year all through the war. This, it was found, could only be accomplished by the application of stiff and efficient collection procedures and a constant vigilance on the part of municipal officers. The trend in current tax collection for the period 1939-1945 is found by glancing at Table III.

(8) C.R. Fontaine, 'Municipal War Budgets in Canada' in Municipal Finance, Chicago, M.F.O.A., 1942, p. 17.

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TABLE III

TAX COLLECTION OF THE CITY OF OTTAWA
1939-1945

Year	Percentage collected
1939	91.36
1940	92.22
1941	94.44
1942	95.29
1943	96.01
1944	96.54
1945	96.97

Source: Annual Report of the Corporation of the
City of Ottawa.

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Grants-in-aid

In addition to real property and business taxation, the wartime budget of the municipality relied to some extent on grants from the senior governments, namely, the special federal grant and the provincial General Assessment, Unemployment Relief and Medical Relief grants. The federal grant to the City of Ottawa being of an exceptional nature, the writer has considered it proper to start this section by making a brief review of its development.

In 1918, Major Harold Fisher published a report concerning the cost to the City of maintaining services to protect government buildings in Ottawa. Consequently, commencing in 1920, the Federal Government paid the City \$75,000 a year "in full payment of all claims and demands by the Corporation on the Government in respect of water supplied for street sprinkling and for fire protection to any of the buildings or premises owned or occupied by the Federal Government". This payment was for services and not in any way made in lieu of taxes. It was also understood to be more of a goodwill gesture on the part of the Dominion than a mandatory obligation. In 1923, the grant was increased to \$100,000. At that time it was pointed out, among other things, that if a factory or financial institution owned the same amount of property in the City as the Federal Government then owned, it would have to pay taxes amounting to

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around \$886,450. In 1939, this amount would have been well over 2 million dollars.

The federal grant remained unchanged at \$100,000 per year until 1944, when the central government decided to revise its policy regarding the relations between the government of Canada and the City of Ottawa. To that effect, a joint Senate Commons Committee was appointed 'to review and to report on relations between the Federal Government and the City of Ottawa'. It was at that time that civic authorities had a chance to express more thoroughly their views and reasonable expectations. Mayor Lewis declared at that time:

It seems to me that the trouble is largely due to the fact that, except for water (9), there is no business like arrangement between our two governments whereby the question of payment for services rendered is put on a practical and systematic basis (10).

While federal authorities had in mind payment for services rendered, it appears that civic officials, though they were speaking in terms of services supplied, were thinking along lines similar to the concept of payment in lieu of taxes. In the brief submitted by the City, a sum of \$1,597,460 for the year 1944 was asked on the basis of the following formula:

(9) The City had an agreement with the Federal Government whereby they were supplied with water at the rate of 20.82 cents per 1000 gallons. This was based on actual cost of services rendered.

(10) Minutes of the Council Meetings, 1944, p. 15.

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that the Federal Government should pay annually to the City a grant equivalent to that portion of the total net operational expenses, i.e. roughly total expenditures less total debentures debt charges, of the City for the last complete year which the total assessment value of Dominion Government property (excluding Federal District Commission property) for the preceding year bore to the whole rateable property of the City, plus the value of Dominion tax-exempt property for the year.

This proposed solution implied that the Federal Government would have to pay around 28 percent, in 1944, of the net operating expenses of the City for 1943. In 1943, net operating expenses were \$5,824,193 out of a total budget of \$7,360,580.

The joint committee did not accept the City's proposal; instead it recommended among other things, a payment of \$300,000 annually for a period of five years at the end of which a revision of the grant was to be made. The agreement became effective in July, 1944, but the first yearly payment was not made until 1945, at which time the City received \$400,000 - the extra \$100,000 was intended to cover the months during which the agreement was effective in 1944.

Any study concerning wartime municipal finance in its relation with provincial authorities must first go back to agreements entered into between the Government of Canada and

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the respective provinces in late 1941 and the early months of 1942. By these agreements, each province undertook on behalf of itself and of its municipalities to vacate the entire field of income taxation and corporation taxation for the duration of the war and for a ~~certain~~ period of ^{one year or} adjustment thereafter. In return, the Federal Government undertook to pay annually to the provinces the amount of money that those provinces or municipalities levied on income or on corporations during the year ending December 31, 1940, or in the fiscal year nearest that date. This agreement can be said to have profited the provincial governments inasmuch as they received payments of income and corporate taxes formerly levied, without the expenses or delay of collection. On the other hand, the agreements were profitable to the Central government in that it alone was able to impose levies on income at a time when incomes all over the country were at a peak.

During the period under study, the provincial grants to the City of Ottawa can conveniently be divided into three categories: the subsidy on the general assessment, the welfare grants and the educational grants.

In 1936, the Province of Ontario discontinued the right of the municipalities to tax the income of individuals and personal corporations and made such a levy an exclusively provincial matter. At the same time, the Province decided to

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assume some current municipal obligations, mothers' allowances and old age pensions. In compensation for the loss of revenue, the Province also made grants equal to the estimated revenue from income tax for that year. The following year, the grant was replaced by a subsidy equal to one mill on the general assessment. This subsidy was increased to one and a half in 1939 when the Province raised the tax on gasoline. As a consequence, the City received \$234,206 that year. The 1940 provincial budget indicated, however, that the subsidy was being reduced to one mill again. This meant a reduction of some \$80,206 in the amount that the City was to receive. This unpleasant news came at a time when problems of foreign exchange payments and war conditions were pressing hard on the budget of the municipality. The one mill subsidy was continued until 1944, at which time it was raised again by an additional mill to two mills. The extra mill for that year was intended to represent the increased provincial contribution to elementary education as promised at the provincial election by Mr. Drew's Political Party. In 1945, the general assessment subsidy was back at one mill as provincial assistance to elementary and secondary education was made directly to the local school boards.

Because this subsidy had been made originally to compensate the municipalities of Ontario for the loss of the right to tax income, and, in view of the economies realized

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by the Provincial Government in connection with the wartime tax agreement with the Dominion, it would seem that a more generous policy of financial help to municipalities could have been adopted by Toronto. Quite apart from this criticism is that concerning the lack of flexibility which characterized this source of municipal revenue during the period under study. More will be said in this regard in the coming paragraphs.

The most important welfare grant made by the province to the City during the war, as paradoxical as it may seem, was the Unemployment Relief grant. In fact, the only other welfare grant, the Medical Relief Grant, was quite insignificant. During the first years of the war it amounted to about \$11,000 and after it averaged \$2,500 yearly for the rest of the war.

It will be remembered that relief expenditures, on the eve of the war, were still currently the main financial obligation of the municipality. Quite fortunately, the total cost of local relief was not entirely at the charge of the city. The three governments, federal, provincial, and municipal, shared the cost of direct relief. The Federal Government, as a rule, was never dealing directly with the municipalities in granting aid. Regarding unemployment relief, the Dominion contribution was paid to the provinces under a working agreement whereby the municipalities were receiving

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a lump sum called the "provincial grant", a part of which included the federal contribution. The federal relief grant consisted of reimbursing the Province with a certain share of the total cost to the Province of its direct relief program. As a rule, however, and as was previously mentioned, the federal policy was to match the provincial grant.

In 1940, the City of Ottawa spent \$853,095 on unemployment relief and of this amount, \$624,670, or 73 percent, was contributed by the two senior governments. The following year, a ruling of the provincial authorities stated that, in the future, the provincial grant made under the Unemployment Relief Act, 1935, would be limited to unemployable persons only. This decision meant that the City was to meet the full cost of relief of employable people out-of-work, in addition to the cost of complementing the "provincial grant" for unemployable persons. The ruling might have had an adverse effect on the finances of the municipality had it not been for the situation of near full employment then prevailing and, consequently, the substantial reduction in total unemployment relief expenditure. By this time, of course, any refunding of part of the municipality's share of relief was out of the question.

The whole problem of unemployment relief acquired suddenly a different aspect when, in March, 1941, the Federal Government passed the Unemployment Insurance Act whereby the central government was assuming the entire cost of

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unemployment relief of employable persons. At the same time, it was also announced by the Hon. Mr. McLarty, Federal Labour Minister, that the federal unemployment contribution to Canadian municipalities, through the respective provincial governments, would be discontinued on March 31, 1941.

The question arose as to whether the provincial government would continue to assume part of the cost of relief of unemployable persons or whether the whole scheme would be thrown on the municipalities. The latter solution would have cost the city about \$350,000 in 1941 or over a 2 mill increase in the rate of taxation. The answer came from Toronto that the Province would assume 75 percent of the cost to the municipalities for the remaining nine months of the year. Consequently, the provincial share -- which included the federal contribution for the first three months of 1941 -- was \$239,454 for that year. It represented 67 percent of the total expenditure of the City on relief. In 1942 and in 1943, the provincial grant was down to 50 percent of the total cost to the City and during the last two years of the war it represented a contribution of 42 percent of the total cost.

An analysis of Table IV showing the distribution of the cost of Unemployment Relief during the war, reveals the lack of continuity in the share which the provincial grant bore to the total relief expenditures.

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TABLE IV

SHARE OF THE COST OF UNEMPLOYMENT RELIEF
CITY OF OTTAWA AND PROVINCE
1939-1945

Year	Total Outlay	Provincial Grant (11)	Per Cent	City Share
1939	\$1,074,396	-----	-	-----
1940	853,095	\$624,670	73.1	\$228,425
1941	353,722	239,454	67.7	114,268
1942	193,133	96,773	50.1	96,360
1943	128,809	65,060	50.5	63,749
1944	101,147	42,755	42.3	58,392
1945	96,641	40,818	42.2	55,823

Source: Annual Report of the Corporation of the City
of Ottawa.

(11) Approximately half of this grant was recover-
able, until March, 1941, from the Federal Government.

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Much dissatisfaction was expressed concerning the uncertainty of the grant and its lack of stability. During the period 1938-1945, there were no less than four changes in the percentage that the grant bore to the total local outlay for relief. Also, in view of the fact that the provincial grants are determined when the provincial budget is brought down in April while the municipal financial year starts in January, the uncertainty that existed about this grant was all the more disquieting to municipal authorities. The difficulties of establishing a satisfactory City budget in the face of such an unstable contribution are obvious and might have proven to be embarrassing to civic authorities had it not been for the situation of high employment existing at the time and the fact that the amounts involved were rather small.

Provincial grants for education are not paid to the City, but go directly to the boards of education. The yearly grant to the respective boards, Public, Collegiate and Separate, was, until 1944, based on a formula combining approved expenditures, the school assessment and average daily attendance of the previous year. The yearly grant was made up of a general grant and of special grants for equipment and sundries.

Provincial aid to education, until 1945, was very insignificant and this situation had caused Ontario mayors

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and municipalities to express, at frequent intervals, their dissatisfaction regarding the whole problem of education. It was felt that, in view of the rising proportion of educational expenditures in the municipal budgets, municipal councils should be given more financial help and, or, stronger powers over the financial activities of the school boards.

From 1939 to 1944, the annual provincial grant to the Public School Board of Ottawa averaged about \$25,000 -- half of which was the General Grant while the other part went to some ten or more different purposes. On the other hand, the City tax levy for maintenance and fixed charges for public schools during the same period amounted to some \$950,000 a year (12). The provincial grant represented a contribution of less than 1 per cent of the municipality's expenditures.

The Collegiate and Vocational School Board received a more generous grant from the Province during the same period as it was felt that secondary education could not be regarded as ~~so~~ essentially a municipal obligation. In 1943, for instance, the provincial grant, over 95 per cent of which was a general grant, amounted to \$70,349. The expenditures of the City for that year were \$664,363. Our

(12) Annual Report of the Corporation of the City of Ottawa, Report of the Commissioner of Finance, 1939-1944.

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analysis reveals that the education grant to secondary education in Ottawa for the period 1939-1944 represented about 9 per cent of municipal expenditures.

In 1943, the Hon. George Dunbar, Minister of Municipal Affairs, had given the assurance that the government would carry Mr. Drew's election pledge to Ontario municipalities, that 50 per cent of the school taxes then charged to real estate in the Province would be assumed by the Government. If literally interpreted, this meant a cut of 5 to 6 mills in the City's taxation rate. The policy was not implemented in 1944. Instead, the General Assessment Grant to Ontario municipalities was raised by one mill. However, it was ~~made~~ to be understood that this indirect grant was aimed at reducing school taxes. It represented, in the case of the City of Ottawa, a contribution of \$165,220 of indirect help to education.

The following year, more extensive help was given by the Province directly to the school boards. The Public School Board received a grant of \$286,048, of which \$271,000 was in the form of a general grant, and, the Collegiate School Board a grant of \$263,342, of which \$262,325 was for general purposes (13). In fact, the Provincial Government was assuming about 30 percent of the tax levy of the City for public schools and approximately 50 per cent of the levy for secondary schools

(13) *Ibid.*, 1945, pp. 220 ss.

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for that year. Generally speaking, the percentage of Provincial assistance to the municipalities varied from between 30 per cent in large cities and 60 per cent in smaller urban communities.

The whole question as to whether public education should be paid for through taxes on property had already been raised in a report on post-war education put out in 1943 by an Ottawa committee of the Ontario Men Teachers Federation. The report stated, among other things, that a tax on municipal real estate was no longer the proper basis for financing education (14). Mr. Drew and his government seemed to be aware of the uneasiness of the situation. He frankly declared that the aim of the new grants was to relieve property of a part of the burden of education costs and to equalize education opportunities through out the Province.

Despite static revenue sources resulting from sticky taxable assessment values, the City budget in ~~the~~ wartime always closed with appreciable cash surpluses. This brought up the question as to whether the old policy of applying any yearly surplus to the reduction of the next year's tax rate should not be reconsidered so as to allow the creation of a reserve to finance post-war projects of postponed public works.

(14) Ottawa Citizen, April 16, 1943, column 1, pp. 18.

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With federal taxes increasing, and expected to increase further after 1942, some people felt that it was the duty of local governments to maintain as low a tax rate as possible in order to leave unhampered the "money market" for federal taxation and borrowing. However, there were others, including many officers of Canadian municipalities, who were in favour of the idea of creating a reserve fund for post-war projects by keeping the tax rate at a steady level. These people also believed that such a policy would help the Federal Government in its struggle against inflation.

Some provincial governments had, as early as 1942, enacted legislation to allow their municipalities to set aside budget surpluses and build up a reserve fund to be used in the post war period. An amendment to the Ontario Municipal Act, in 1943, provided for a similar scheme, namely that the Council of every Ontario municipality could, in each year for the duration of the war and with the approval of the Department of Municipal Affairs, in the estimates provide for the establishment or maintenance of a reserve fund for use after the war in providing necessary replacements or improvements in public works (15).

(15) Revised Statutes of Ontario, 1943, C. 16, S.6.

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The City of Ottawa did not take any action along these lines until 1945 (16). The efforts were concentrated on reducing the debt and on lessening the tax burden of the citizens. The tax rate, which was at 39 mills for public schools supporters and at 46.55 mills for separate schools supporters, was allowed to gradually decrease to 31.50 mills and 40.40 mills, where it stood at the end of the war.

(16) Very few Ontario municipalities availed themselves of the new powers. In fact, it seems that Ottawa was the only City in the Province to approve of such a plan during the war.

CHAPTER II

EFFECTS OF THE WAR ON EXPENDITURES

Municipal expenditures have probably been more profoundly affected by the war than revenues. Capital expenditures were reduced to a minimum and a policy of strict retirement of the municipal debt was followed. Relief costs were sharply reduced. Certain factors contributed however in raising some items of expenditures. The influx of population on the City and the extensive activities of the Federal Government in all fields, increased the cost of municipal services, personnel and materials. Nevertheless, the overall effect of the war was a gradual reduction on annual budgetary outlays caused mainly by decreasing annual charges for Interest and Principal of the Debenture Debt, and reduced relief expenditures.

For the purpose of our analysis, expenditures making up the City budget have been divided into capital expenditures, public service expenditures, and fixed expenditures.

Capital Expenditures

In January 1941, Mayor Lewis, addressing the City Council, expressed in the following words the policy that the City under his administration was to follow:

Our contribution will be to put into effect the oft-used election phrase; 'efficiency with economy', to

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carry on so well that no citizen's tax money will be wasted or diverted from war needs, to see that all our services function in the least costly and most competent manner, to make sure that no proposal necessitating capital expenditure or the borrowing of money shall be adopted unless it is vitally necessary (1).

Capital expenditures of any kind require money, materials and labour, ^{most} ~~all~~ of which in wartime, is ^{absorbed} ~~monopolized~~ by the Central government and applied to the fulfillment of wartime needs. In such circumstances, any project, involving capital expenditures for local needs, had to satisfy the central authorities in that it was badly needed and essentially necessary to the health and ordinary development of the community. Recognition of this state of affairs had already been made clear to the Council by the Mayor and therefore his policy regarding capital spending during the war was closely followed. The erection of urgently needed and necessary projects such as a City Hall and a Police Station was postponed until after the war.

There were, however, some capital projects which could not be put off and required continuous attention. These were associated with local improvements and other public works connected with housing and transportation.

In the case of such essential projects a policy of curtailment often leads to a point where ordinary maintenance

(1) Minutes of the Council Meetings of the Corp. of the City of Ottawa, 1941, p. 21.

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and repair works are useless and uneconomical. Besides a restrictive policy for a period of years proves, as in the case of street paving, to be more costly in the long run. Table V gives a statement of the amount of city debentures sold during the war. Except for two issues, one of \$191,000 in 1939 and one of \$151,000 in 1940 for relief expenditures, all other figures found in the table represent moneys borrowed for capital projects.

It can be seen that the greatest capital expenditure amounting to \$500,000 was made in 1939. It was for the erection of a technical high school. The project was a necessity to secondary education in the City. Furthermore, its construction was started before the outbreak of the war. The debentures were issued in July of 1938 and sold early in 1939. The table also shows clearly that capital expenditures during the second part of the war — the period of the all-out war — were practically nil. In 1944, for instance, while \$54,200 ~~was~~ borrowed by the City, as indicated in the table, total municipal expenditures were of \$1,172,429.

Public Service Expenditures

Owing to the increase in population, the establishment of national headquarters and the creation of war boards and commissions, the City was faced with having to provide

TABLE V

AMOUNTS OF CITY OF OTTAWA DEBENTURES SOLD DURING PERIOD 1939-1945

	1939	1940	1941	1942	1943	1944	1945
General	360,000	396,250	18,000	+-----	200,000	+-----	80,000
Local Improv.	184,925	119,453	46,500	57,546	58,000	54,200	96,300
Public School Collegiate Inst.	500,000	-----	-----	-----	-----	-----	-----
Water Works	40,000	56,000	21,420	85,000	-----	-----	-----
Transportation Commission	-----	-----	-----	-----	-----	-----	-----
Hydro Electric	-----	-----	-----	-----	-----	-----	-----
TOTAL	1,085,425	571,703	85,920	142,546	258,000	54,200	176,300

Source: Annual of the Corp. of the City of Ottawa.

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protection and services to more people and for a greater number of properties and buildings.

In some cases, more protection and more services were provided in such a competent and efficient manner, that the cost to the City was hardly more. This was the case for police and fire protection.

In fact, the expenditures of the Police Department which ran at some \$354,754 in 1939 increased by less than \$4,000 between then and 1943. It was only in 1945 that the expenditures increased substantially to \$419,890 as a result of wage increases long overdue (2).

Such was not the case with all services provided by the City. The cost of street lighting which was at \$56,401 in 1939 increased to \$80,551 in three years. More remarkable however was the impact of war conditions on municipal services such as sanitation and snow removal. The cost of sanitation including street cleaning, garbage collection and the sewer system, increased from \$249,000 in 1940 to \$356,207 in 1942 and to \$438,514 in 1944. In 1945, the City spent \$510,558 on sanitation alone. By making a proper allowance for the purchase of equipment and the increase in prices, one can still see here, a good 60 per cent increase in five years.

(2) Annual Report of the Corporation of the City of Ottawa, 1945, pp.937.

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In the case of snow removal, the increase was even more striking. In 1939, the City had spent \$49,890 on snow removal. However, the scarcity of labour and the need to provide better winter transportation facilities for the thousands of federal employees and government officials traveling through the City streets, led civic authorities to mechanize the snow and ice removal technique. In 1943, the City spent some \$400,458 for the purchase of equipment and for snow removal.

Expenditures of social and welfare services also increased. The local government intensified its child welfare program and more help was extended to the support of soldiers' families. Expenditures doubled in five years.

To a certain extent, higher prices also contributed in increasing wartime expenditures for the City's public services. Higher wages and higher prices were felt especially during the first years of the war. Because of a shortage in personnel and in order to keep wages in line with other prices the City granted in 1942, a cost of living bonus to some of its employees. The bonus effective January 1, 1942, was granted mostly to the office workers. The cost of the scheme required a special appropriation of \$103,000 for 1942 (3). Price ceilings and other means of controlling the

(3) Estimates of the Corporation of the City of Ottawa, 1942, p. 4.

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cost of living index from rising too much after 1942, helped in keeping costs at a steady level. It was not until 1945 that the City granted wage increases to policemen and firemen who had not come under the 1942 cost of living bonus plan. At the same time as these wage increases were granted, the cost of living bonus which had been costing the City around \$100,000 a year was deleted as a separate appropriation and incorporated in the wages and salaries of the employees concerned. Salaries and wages increases for 1945, other than statutory, granted to policemen and firemen, involved an amount estimated at some \$64,500 (4). While the yearly appropriation of the Fire Department for salaries had averaged \$340,000 from 1939 to 1944, this expenditure was up at \$398,974 in 1945 (5).

War conditions, fortunately, did not only cause expenditures to increase it also helped reduce others. The most remarkable reduction in the expenditures of the municipal budget was that of direct relief. As employment increased in workshops and plants, accelerating production to meet war orders, the number of persons on the City relief roll decreased. Also enlistment brought down the number of unemployed.

(4) Estimates of the Corporation of the City of Ottawa, 1945, p. 6.

(5) Annual Report of the Corporation of the City of Ottawa, 1939-1945.

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Already in 1940, provincial authorities were asking the largest Ontario municipalities to cut down their relief spending by at least 30 per cent as compared to what they were in 1939. A quota system was established and any municipality exceeding its quota in relief payments would be required to make up the deficit. During the first three months of 1940 unemployment relief expenditures were still high in Ottawa but it was hoped that by the end of the year, relief spending might be below the 30 per cent mark set by the Provincial Government. Roughly speaking, the decrease in local relief expenditures for 1940, was of the order of 20 per cent. The hope that war condition would abolish local unemployment had not materialized yet. In 1941, however, total relief expenditures dropped by over 55 per cent from the 1940 mark of \$853,095, to \$353,722. Thereafter, the annual expenditure for relief to unemployed decreased continuously as indicated in Table IV. By 1945, it was at \$96,641.

The City's share of the cost of primary and secondary education changed very little during the war period. It was only during the last year of the war that inflational pressures began to make themselves felt.

The City Council, having little control over the determination of the size of the appropriations required by the local boards of education left in the hands of the

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trustees of the three boards the application of the wartime slogan of "efficiency and economy".

Shortly before the outbreak of the war, Ontario Mayors had made petitions to Premier Hepburn of Ontario to increase the control of municipal councils over the expenditures of the boards of education. Here in Ottawa, members of the Council had suggested that power be given to them to amend the estimates prepared by the school boards. This was not allowed by Provincial authorities, and as a consequence the City Board of Control had to rely solely on persuasion, to obtain from the trustees of the respective school boards whatever change in estimates they wanted. During the war the trustees of the three city schools boards followed closely the municipal policy of 'economy and efficiency' in capital, as well as in current expenditures and thus confirmed the general opinion that they should remain independent and financially autonomous at all times.

Total expenditures of the Public School Board during the war represented approximately one seventh of the total civic expenditures. Yet from 1939 to 1945 the spending of the board increased by as little as \$99,000, i.e. from \$972,813 to \$1,071,838. Part of this increase - \$45,000 - came in 1945 as a result of higher maintenance-of-building costs and wage adjustments.

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The pressure of rising prices was becoming quite evident and the increase in the school levy for the three school boards would have been much bigger, had it not been for the new grants-in-aid to the various boards, by the Provincial Government in 1945. As a result of the grant, the Public and Separate School boards were able to reduce their respective levy by amounts equivalent to 2 mills and to 2.78 mills (6).

Fixed Expenditures

We now turn to the third type of wartime municipal expenditures, the service of the City's debentures debt. The debt policy of the City during the war will, however, be preceded by an outline of some of the limitations on municipal borrowing and a description of the nature of the civic debt on the eve of the war.

Reference was made at the beginning of chapter one to the timely intervention of provincial authorities in the financial administration of Ontario municipalities during the depression of the thirties. The main reason for the intervention was the defaulting of certain municipalities on obligations incurred through the sale of their debentures. Consequently, the first measure adopted by the Provincial Government was, to increase its control over municipal

(6) Estimates of the Corporation of the City of Ottawa, 1945, p. 5.

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borrowing in general and to supervise the trends in municipal indebtedness. Certain municipal debts which had increased rapidly during the prosperous days of earlier years had become increasingly burdensome in the thirties. Between 1921 and 1934, the total municipal debts for Ontario had increased by 62 per cent. In the case of some defaulting municipalities the increase had been over 500 per cent (7).

In addition to the legal debt limitations, imposed by the Province on municipal borrowing, many other provisions of the Municipal Act had the effect of reinforcing the credit standing of these public corporations. Under the Act, a municipality may not, for instance, incur any debt of which the payment is not provided for, in the Estimates for the current year, ~~unless a by-law of the Council authorizing it, has been passed with the assent of the electors.~~ Also, in order that those voting on a money by-law may not escape contributing to its cost, debentures must be issued within two years after the passage of the by-law (8). The life of a debenture is limited to 2 to 30 years depending on the purpose of the issue. Also, the Act provides that money by-laws

(7) Thomas Bradshaw, Trends in Municipal Debts in Canada, M.F.Q.A., Chicago, 1936, p. 22.

(8) Revised Statutes of Ontario, 1950, Chapter 243, Sec. 267.

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may be voted on only by property owners and holders of long term leases paying taxes.

Here in Ottawa, the opinion of the home-owner, a large number of whom are salaried people, has contributed in no slight degree, in influencing the evolution of civic finances. In some instances, the taxpayer has asserted his right by either approving or rejecting projects which involved the incurring of debt. In 1938 for example, a by-law for the erection of a civic building at an approximate cost of \$800,000 which required the issue of City debentures, was defeated by 5,224 votes to 4,210 (9).

Most of the indebtedness of the City on the eve of the war had been incurred for capital works. As a matter of fact, the only part of the debt which had not been incurred for capital projects, was that connected with the sums borrowed for direct relief under the special Legislation of 1933 (10).

The assets of the sinking fund -- used to extinguish some of the indebtedness maturing every year -- were invested

(9) The Ottawa Citizen, December 6, 1938, p. 1, column 2.

(10) The general practice, in conformity with provincial requirements, was that any project requiring the borrowing of money for capital development had to be referred to the Ontario Municipal Board for approval.

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in federal or provincial bonds and the highest grade of municipal securities, including those of the City. The return on these investments was as a rule satisfactory and above legal requirements.

For many years the City issued only sinking fund bonds. However, after 1920, it resorted more and more to the use of serial bonds which are easier to administer and more suitable, for smaller units of government. Instead of having a single maturity date, the serial method is designed so that a portion of the issue is retired each year and usually the payment of capital and interest are spread evenly over the expected duration of the capital work, which is thus financed. Consequently, under the serial method the annual tax levied and collected for the payment of the debt is utilized that year for the actual retirement of a definite part of the debt. The sinking fund method consisted in accumulating the annual levy at interest for the period of the debt which might have to be retired only ten or thirty years later, according to the term of the issue. The difficulty of the system was that these moneys of the fund had to be invested at no less a rate of interest than the one being paid out on the debenture debt in general. At times, the investment of the sinking fund moneys was quite a headache. Indeed, apart from the administrative problem involved in such a complicated scheme, there was the more difficult question of the management of

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such a variable fund with fluctuating interest rates. Money was sometimes lost and in certain instances, the money set aside, was not always on hand to retire the debenture fully at maturity. The automatic working of the serial scheme obviates the necessity of long term and risky management of public money. Each year, the required money is set aside and invested in short term securities. The rigidity of the serial system is also the cause of one of its shortcomings. It binds the City to compelling yearly obligations and at times prohibits the taking advantage of favorable trends in the bond market. In some cases, the City may have to raise funds at high interest rates while simultaneously retiring low interest debentures.

Before the First World War, Britain was the market for Canadian municipal borrowing. After that and until 1931 the Americans became the principal purchasers of our municipal bonds. However, the effect of Great Britain going off the Gold Standard in 1931, resulted in a depreciation of the Canadian dollar on the New York market where substantial amounts of the City's outstanding debenture debt were payable. The dislocation of exchange in 1934 and the unexpected burden of the premium on United States currency, had the effect of leading the City to look to the domestic market, to supply its monetary needs, and to introduce the practice of issuing debentures payable only in the lawful money of Canada.

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In view of the post war development in the City's debenture debt, it is also appropriate to mention here that the total net unmatured debenture debt of the City is divided into net general debt which is incurred for such projects as public works, schools, hospitals, etc., and which is supported by taxation, and the net utility debt, issued for undertakings in public utilities and which is intended to be self-supporting.

Policy

The credit standing of the City of Ottawa on the eve of the war was one of the best in Canada. This was due in great part to the keen interest shown by local taxpayers in civic finance and to sound financial administration on the part of municipal officers. The indebtedness of the City had averaged \$21,500,000 from 1929, to 1937. Over these years of depression the debt had not been allowed to grow much, as retirement was practically offsetting new bond issues for public works or other purposes. After 1936, the City accounts started to show reductions in the debenture debt outstanding. By the end of 1938, the debt was down to \$20,893,969 --the lowest since 1923, and in 1939 the debt was further reduced by nearly a million dollars. The per capita gross debenture debt of the City had been reduced from \$209.28 in 1924 to \$139.90.

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An indication of the high credit standing of the City is the fact that in 1938, the finance Commissioner offered and sold short term City debentures at a rate of 1 and ^{one}/₂ half per cent. The lowest coupon rate at which municipal bonds were then being sold was 2 per cent (11). In 1939, again, the City sold over one million dollars of debentures, divided into terms of 3, 10, 15 and 30 years to Investment Dealers at the record high price of \$100.94 per \$100.00. Part of the issue (\$193,000 of unemployment relief debentures) - of a 3 year-term - was sold at the record low interest rate of 1 and one quarter per cent. This was considered to be the most favorable terms ever offered to a Canadian municipality. Some \$975,000 of the 10 years and 15 years debentures were sold at two and a half per cent and the 20 years debentures at three per cent (12).

During the war and especially after 1942, the City followed a policy of strict retirement of its debenture debt. However, because of the ^{LEGAL REQUIREMENT} principle that the City cannot refund any of its public debt, and having in mind the war-imposed restrictions on capital expenditures and the exclusion of municipal governments from the bond market, it would be more accurate to say that the policy of strict retirement was

(11) The Ottawa Citizen, June 15, 1939, p. 18, column 2.

(12) Annual Report of the Commissioner of Finance, 1939, p. 416.

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imposed upon the City. The idea at the time was for both the municipal and provincial governments to leave the construction field, the labour market and the borrowing market as free and unhampered as possible, so that the war effort remain clear for the Dominion to finance successfully.

In such circumstances, the benefits of debt reduction were soon felt. The City was redeeming interest bearing liabilities at maturity on one hand and abstaining from contracting further financial obligation on the other. This, of course, meant substantial reductions in the carrying charges on the outstanding debt. The debt itself was reduced by over 50 per cent from \$19,906,548 to \$9,826,509 between 1939 and 1945. As early as 1940, the beneficial effects of debt reduction were felt. That year and for the first time in five years the City had cash in the bank, instead of having short term loans outstanding from the bank. These loans had averaged about \$650,000 a year since 1935 (13). That money had to be borrowed in order to carry on municipal business and to meet financial obligations when these outstripped current revenues.

The rate, at which the municipal debt and by implication the carrying charges thereon were decreasing, may be judged from a glance at Table VI, below, and Table V wherein

(13) The Ottawa Citizen, November 27, 1940, p. 16, column 2.

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TABLE VI
 VARIATION IN TOTAL GROSS UNMATURED DEBENTURE DEBT
 City of Ottawa, 1939-1945

As at 31st December	Total G.U. Debenture Debt	Decrease	
		Amount	Per Cent
1939	19,906,548	\$ 987,422	4.73
1940	18,618,302	1,288,245	6.47
1941	16,309,561	2,308,741	12.40
1942	14,770,370	1,539,191	9.44
1943	13,359,147	1,411,223	9.55
1944	11,771,767	1,587,380	11.88
1945	9,826,509	1,945,259	16.52

Source: Annual Report of the Corporation of the
 City of Ottawa.

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is indicated the amount of city debentures sold for the same period. It can be seen that in 1939 the rate at which the City was redeeming its outstanding debt was double that of new issues. That year, \$2,072,847 of maturing debentures were redeemed, while on the other hand, the City sold \$1,085,425 of its debentures, thereby decreasing the City debt by \$987,422. In 1941, the record is even more impressive. While the City issued and sold only \$85,920 of its debentures, it redeemed \$2,394,661 of outstanding ones.

From 1939 to 1942, the City also retired the principal on debentures before it fell due, by raising the amount in the tax levy preceding the year of maturity. In 1940, for instance, \$490,500 of City debentures, the principal of which was due on January 1, 1941, were raised in the tax levy of that year (14). Similarly, \$309,000 and \$125,000 were retired "in advance" at the close of the budget on December 31, 1941, and 1942 (15). In the latter case, part of the \$125,000 was used to liquidate the last debenture debt incurred for unemployed relief in 1940. The last instalment of principal and interest was due in 1943 only.

As more and more of the debt was being retired, its nature underwent transformations in regard to distribution of

(14) Annual Report of the Corporation of the City of Ottawa, 1940, p. 330.

(15) Annual Report of the Commissioner of Finance, 1940, p. 187; 1942, p. 237.

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type, currency of payment and as to relation between the general and the public utilities.

It will be recalled that the City had decided some two decades before the war, in favour of the more popular serial method of its debenture issues. By the end of the war, the amount of sinking fund debentures still outstanding, was down to \$3,496,982. At that time, the total sinking fund was at \$2,845,112 (16). By 1961, when the last sinking fund debentures issued and sold by the City, will be redeemed, the debt will be made up entirely of serial debentures.

During the war, all the debentures issued by the City were made payable in Canadian currency only. This was in accordance with the policy adopted in the early thirties. Also the premium payable on United States currency and the fact that municipalities in general had no urgent need of capital did not help American investment in Canadian municipal debentures. In 1940, the distribution as to currency of payment of the total gross unmatured debt of the City was as follows: \$8,779,340 payable in Canadian currency only; \$8,966,962 payable in United States or Canadian currency - whichever was most favourable to the investor at the time of maturity. Of the rest, \$517,000 were payable in sterling currency (London) and \$335,000 were payable in sterling or Canadian currency.

(16) Annual Report of the Corporation of the City of Ottawa, 1945, p. 236.

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By the end of the war some 61 per cent of the debt was payable in Canadian currency only and approximately 37 per cent was payable in Canadian or American currency. This tendency to sell debentures payable in Canadian currency only, continued after the war. However, the appreciation in value of the Canadian dollar vis-à-vis the American dollar, following the 1949 freeing of our currency on the international market, prompted a change of policy in municipal borrowing.

The net unmatured debt was of \$15,009,085 at the end of 1939 (17). Of this amount \$11,762,469, the net general debt, was to be retired by taxation. The remainder, \$3,246,616, made up the net utility debt of which 90 per cent had been incurred for waterworks undertakings. The City had no transportation debt, as that public service was still owned and operated by private enterprise. The Ottawa Hydro Electric gross debenture debt was \$545,645. A private company, the Ottawa Light Heat and Power Company Limited, was also competing with the O.H.E. in supplying electricity to local consumers.

The situation had not changed much by the end of 1945. No borrowing for public utilities had been done during the war and while both the general and the utility debt had

(17) Annual Report of the Corporation of the City of Ottawa, 1939, pp. 391-392.

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been reduced by some 50 per cent, the relation of the net public utility debt^{which} was now at \$1,624,176, to the net general debt was still approximately 3 to 10. The post war period was to witness a radical transformation in the relation between these two debts following the City's purchase of the Ottawa Electric Railway Co. in 1948, with the approval of over 80 per cent of the ratepayers, and the purchase of the Ontario assets of the Ottawa L.H. and P. Co. in 1949. The low level of the utility debt influenced civic authorities and convinced the ratepayers of the wisdom of such a policy.

The City was also in good financial position to undertake capital projects which had been postponed because of the war. A glance at Table VII showing the relation of net general debt to assessment is quite convincing.

With the general debt at a minimum, the demand for the City to undertake postponed capital projects involving large amounts of money such as a city hall, a police station and a civic center appeared quite reasonable. To answer this demand, a post war policy advocating a timing of capital outlays, in order to keep the level of the debt at its 1945 low mark was very commendable but quite unrealistic. The artificially low level of the civic debt had been the result of a policy of curtailment in capital expenditures. There was a large backlog of desirable and necessary public projects which could not be postponed much longer. In these

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TABLE VII

RELATION OF NET GENERAL DEBT TO ASSESSMENT
AS AT DECEMBER 31 - CITY OF OTTAWA

Year	Assessment	Net general debt (To be retired from taxation)	Per Cent of N.G. Debt to Assessment
1939	\$156,140,517	\$11,762,469	7.53
1940	\$156,416,958	\$10,532,485	6.82
1941	\$155,145,174	\$ 8,926,133	5.75
1942	\$158,754,450	\$ 7,734,032	4.87
1943	\$162,554,395	\$ 6,914,689	4.25
1944	\$164,025,936	\$ 6,321,022	3.85
1945	\$165,711,463	\$ 5,357,220	3.23

Source: Annual Report of the Corporation of the City
of Ottawa.

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circumstances, a total or even partial application of the pay-as-you-go policy on capital projects, in order to avoid bond interest, was hardly conceivable.

The war had left civic finance in excellent credit condition, but it had also created problems of a great magnitude which would have to be solved in the post war period only. In 1945, two diametrically opposed views were held as to the probable development of the economy of the nation. Some planners based their program on the assumption of a nation-wide economic depression in the immediate post war period. This view implied heavy immediate municipal expenditures on relief works as soon as signs of recession were detected. Other planners assumed that the post war period would witness the greatest inflational boom ever to hit our economic system. Their plan envisaged a more orderly approach to the solution of the large backlog of accumulated municipal projects and to other civic problems created by war conditions.

CHAPITRE III

CONTROLLING EXPENDITURES IN THE POSTWAR PERIOD

Early Postwar Problems

The war being over, civic progress meant a departure from the policy of applying budget surpluses to the gradual reduction of the tax rate. The period of restriction was passed and the necessity of bringing public services up to normal requirements together with ^{the} problem of catching up with the backlog of overdue public works, implied sharp tax rate increases, at least in the immediate postwar years. A realistic view of the nature of the problem was given by Mayor Lewis on the occasion of one of his annual inaugural speeches:

We must face the facts. It appears that the cost of civic government will be increased this year. By greatly reducing our debt charges, and by adding very little new debt during the war years, we are in a sound position to meet the higher cost of services. Even so, the tendency will be for the tax rate to increase (1).

Indeed, the anticipated increase in the tax rate would not only come from the internal policies of the local government, but also from an external force, operating on the civic budget, inflation.

(1) Minutes of the Council Meetings, 1937, p. 28.

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The postwar period was accompanied ^{by} ~~with~~ heavy increases in expenditures by private individuals and businesses for consumer goods and capital goods which outran the general rate of production for quite some time. Inflation soon put a squeeze on municipal budgets. Less could be done with the same amount of expenditures and if more was to be done, much more money would be required than had been normally anticipated. This important factor of rising prices, limiting municipal expenditures, was already felt by the middle of 1945. In general, the price of materials began to rise. To the general rise in the maintenance costs of all civic departments and independent boards financially supported by the municipality, was added the demand, on the part of civic employees, school teachers and other salary people or wage earners hired by the Corporation for substantial increases in their earnings.

The return to "normal" conditions⁵, also meant the hiring of many new employees in most departments, the Fire, Police and Works departments leading in this postwar adjustment. In some instances, the inauguration of a shorter work week meant the employment of additional staff. All these factors, pressing hard on the municipal budget, did not exist during the war. No sooner had the war started when the Federal Government had succeeded in controlling the threat of inflation. Also, with regard to working hours and

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remuneration, civic and other employees on the City budget, felt it was their duty to get behind the slogan of "efficiency and economy", and to do the job regardless of the severity of their working schedule.

Municipal expenditures tend to reflect the general level of business activity. In periods of business buoyancy expenditures increase remarkably. The inflational boom which came after the war was reflected at the municipal level with sizeable increases in expenditures, resulting not only from higher prices but also from an extension of municipal services and a rise in the standards of performance.

In periods of prosperity the taxpayer is inclined to demand a type of public services which is more and more in accordance with his continuously rising standard of living. It is not uncommon therefore to witness a situation in local government where on the one hand, the municipal council is seeking the cooperation of department heads and auxiliary municipal bodies in trying to curb expenditures, while on the other hand the citizens and taxpayers themselves continuously demand more and more services such as more paving, better snow and garbage service, better street lighting, more and finer schools, playgrounds, more health and welfare resources and generally more of every type of services of a better quality and of course of a more costly nature. In presenting the estimates of the Corporation to the Committee

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of the Whole for the year 1947, Controller E. A. Bourque confirmed the existence of this tendency here in Ottawa in his statement:

Most of the outside boards and a number of committee asked (in submitting their estimates) for more money.... it must be remembered also that with the growth and development of the City and in order to keep pace with the modern trend of life, we are asked to extend and increase our various services and to provide new ones which were undreamed of 15 or 20 years ago. One of these new services is the Recreation Commission to which an amount of \$30,000 was appropriated this year (2).

In a period of high costs, a pay-as-you-go policy or any partial application of it, to smaller municipal expenditures is advisable since the fixed charges that follow a deferred policy plan can become very burdensome in periods of economic depression. However, the application of a pay-as-you-go policy, following a six or seven-year period of deferred capital expenditures is practically impossible for a municipal government. During the war and for a couple of years after the City paid for the purchase of some heavy equipment and materials out of current revenues. After that, however, and in view of the prevailing low cost of financing on short term debentures, the City found it advisable to fund the money required for such expenditures because of the unexpected increase in current expenditures which had

(2) Estimates of the Corporation of the City of Ottawa, 1947, p. 2.

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to be provided for through taxation. The effect of this policy, together with increased funding for heavy capital developments which had been postponed during the war, was soon felt in increased annual debenture debt charges after 1946.

To the above-mentioned factors with which municipal authorities had to cope in making out the postwar expenditure side of the budget, was added the financial problem created by the annexation to the City of parts of the Township of Nepean and Gloucester Township.

As a result of annexation, the City was forced into a volume of capital spending which as a rule would generally have been spaced out over many years. It goes without saying that the current expenditures of the City were also notably affected by annexation. This policy of expansion meant that the City was to provide the annexed areas on a fair and equitable basis with not only a water supply and sewage system, but also with all other civic facilities and advantages such as: fire protection, police protection, traffic signs and light, all sanitation services, arterial roads, road maintenance, playgrounds, etc... Moreover, the financial obligation assumed by the boards of education of Ottawa in taking over the administration of the schools of the annexed areas and in extending to the children of these areas similar educational advantages as were found in the City of Ottawa

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district, would in the last analysis be born by Ottawa taxpayers. In fact, the cost of annexation was quite substantial in this connection, as the scattered population of the newly annexed areas meant more school space per household.

The area of Gloucester which was annexed, being virgin territory, was reported as having no water service or sewage system. Annexation here meant the eventual installation of a water and sewage disposal system at an approximate cost of some two or three million dollars, part of which would remain a liability in the City accounts for quite some time. One might say that while annexation for Ottawa meant something like \$900,000 in tax money, it also meant that the Corporation would be subsidizing the new areas for quite a while, until more industrial, commercial and residential construction took place in the areas in question. Speaking to the new alderman of the annexed areas, the Mayor was quite conscious in reminding them that the welding of the "old town" and the newly annexed areas into a City was and would be for some time the most difficult and continuing of the challenges, before the municipal council. He said:

It may be opportune to say that we shall endeavor to extend our services into your wards, as rapidly as practicable and possible. This you will understand is an immense project which calls for a large expenditure of money and it is imperative that we proceed in a sane, orderly and business like development of these services (3).

(3) Minutes of the Council Meetings, 1950, p. 25.

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There are a number of different ways of presenting a breakdown of a municipality's expenditures. However, for the purpose of analysing the extent of the effects of the several factors which have just been reviewed on the City's postwar budget, it has been considered proper to divide the expenditures affected by these factors into the following categories: general government expenditures, protection-and-service-to-person-and-property expenditures, education and welfare services expenditures, and finally debenture debt charges generally.

General Government Expenditures

Considerations of the main causes responsible for the variations in the postwar expenditures of such departments as the Collector's, the City Clerk's and the Assessment, all of them connected with the day to day operation of our local government will be dealt under the heading of general government.

With the return to "normal" peacetime activities, the appropriation of these departments and their annual expenditures increased, as new staff was taken on to fill the gap created during the war. Additional clerks were hired while most departments underwent staff changes and adjustments (4).

(4) Estimates of the Corporation of the City of Ottawa, 1946, p. 50.

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The inflationary pressures which had already been felt before the end of 1945 on the general cost of materials, equipment and supplies, were also not long in affecting services of all types. Services became more and more costly in private industry. In view of the special advantages associated with civic and civil service positions, the pressure for higher salaries came later. A general wage increase of 10 per cent was granted to all civic employees of the Corporation of the City of Ottawa, effective May 1, 1947. The estimated cost to the City of such a plan was some \$158,000 (5). The following year this wage increase was to cost the City one third more money since it would apply to the twelve months of the year.

In 1948, in view of the situation of high prices still prevailing, cost of living bonus was granted to civic employees, as of the 1st of July. The cost to the City was calculated to be around \$231,600. However, as that sum had not been provided for in the tax levy for 1948, it had to be appropriated together with the amount required to pay for the cost of the scheme for 1949, which meant a total estimated expenditure of some \$593,500 (6). The estimates in

(5) Estimates of the Corporation of the City of Ottawa, 1947, p. 3.

(6) Ibid., 1947, p. 3.

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some cases were quite conservative and, for instance, the cost of living bonus which had been estimated to cost \$3,300 in the Collector's Department alone, occasioned an outlay of \$4,399.

The following year and thereafter the City's budget was considerably influenced by the annexation, as from January 1, 1950, of parts of the Townships of Nepean and Gloucester. Generally speaking the effects were felt immediately and directly. In the case of some departments such as the Engineering Department, the impact of annexation from a financial viewpoint cannot be appreciated fully in the short run. One thing can be ascertained, however, and that is the fact that annexation meant and occasioned the engagement of additional employees and an increase in expenditures on supplies in almost every department.

Further wage increases were granted that year following the recommendations of the Darling Report, on a position evaluation survey in civic affairs. The outbreak of the Korean conflict in the summer of 1950 contributed again to raise prices. In order to keep the wages of its employees within a close range of the cost of living index which again was threatening to rise, the City revised its cost of living bonus scheme. The plan which had first been approved in 1948, provided for an annual sum of \$300 for each employee. Under the new scheme, the City Council was tying the cost of

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living bonus paid to its employees to the cost of living index, while the \$300 of the original scheme was being incorporated in the individual salaries (7).

These were the main factors responsible for the unexpected rise in expenditures for general government of the City after the war. Their effect on the civic budget can be appreciated by the following facts and figures. While the annual cost to the City of the Collector's Department was at \$29,952 in 1945, it went up to \$38,119 in 1949, was at \$50,790 the next year and had reached the \$66,359 figure by 1951 (8). A similar pattern developed in the City Clerk's Department, where expenditures on supplies increased sharply as a result of annexation. The effects of annexation were even more strongly felt in the Assessment Department which, of course, is quite understandable. While the expenditures of that department had increased from \$37,160 to \$51,254 as a consequence of the 10 per cent general salary increase and the 1938 cost of living bonus plan, they were up by some \$40,000 in 1950 and were of \$123,147 in 1951 (9).

(7) Estimates of the Corporation of the City of Ottawa, 1951, p. 8.

(8) Annual Report of the Corporation of the City of Ottawa, selected years.

(9) Ibid.

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Protection and service to person and property

The second category of the municipality's expenditures, those which are more directly connected with protecting and servicing persons and property such as police and fire protection, local improvements, waterworks and sanitation have always been regarded as a direct municipal responsibility; since they are understood to benefit property owners in a more particular and immediate way than expenditures for education or social and welfare services.

The expenditures of the Fire and Police Departments are classified into two groups: expenditure for salaries and for maintenance. To give a general idea of the effect of the postwar inflational boom and of annexation on the expenditures of these two departments, the use of a table is considered necessary. Table VIII sets out the expenditures of the two departments for the period 1945-1951.

The Table shows that the expenditure for salaries in 1949 was twice that of 1945, in the case of the Fire Department, and nearly 80 per cent more in the case of the Police Department. Salaries continued to increase in 1950 and 1951 as a result of annexation and some wage bargaining. The Table also shows that expenditures for maintenance and supplies increased sharply. This was mainly due to higher prices and the fact that as was the case in many departments a good proportion of the equipment had become obsolete or

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TABLE VIII
EXPENDITURES OF THE FIRE AND POLICE DEPARTMENTS
City of Ottawa, 1945-1951

Year	POLICE		FIRE	
	Salaries	Maintenance & Supplies	Salaries	Maintenance & Supplies
1945	\$374,627	\$ 43,711	\$ 398,974	\$ 59,169
1946	426,015	82,256	431,890	57,717
1947	483,783	67,058	568,699	90,180
1948	559,022	100,973	782,931	102,067
1949	662,892	95,861	809,473	100,800
1950	767,304	126,194	983,632	102,529
1951	865,737	185,833	1,090,962	135,270
		1,051,570		1,226,232

Source: Annual Report of the Fire and Police Departments (Corporation of the City of Ottawa)

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worn out with age and had to be replaced. This shortcoming became particularly embarrassing with annexation.

During 1946, the Police Department hired some 25 additional constables and the expenditure necessitated by this policy of bringing up the force gradually ~~up~~ to its normal size together with statutory wage increases and staff changes account for the increased salaries expenditures of that year (10). A similar step was taken in the Fire Department where 25 4th.class firemen were hired as part of the postwar policy of reorganization (11).

The inauguration of a 48-hour week for the firemen meant the employment of 95 additional firemen in 1947. The approximate cost of this change for that year was \$88,850. However, as these new employees were hired for less than a full year, the annual cost was estimated at \$188,030, which sum was to increase from year to year until these firemen reached their maximum statutory salary (12).

To this expenditure was added the general salary increase of 10 per cent granted to all civic employees. This meant an outlay of some \$30,600 in each of the two departments.

(10) Estimates of the Corporation of the City of Ottawa, 1946, p. 16.

(11) Ibid.

(12) Ibid., 1947, p. 3.

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In 1948, statutory salary increase, staff changes, the full effect of the 10 per cent salary increase and, in the case of the Fire Department, the full effect of the 48-hour week plan, all contributed in substantially increasing the expenditures of the two departments for that year.

Again, the cost of living bonus which was granted in 1948, but not charged for accounting purposes until 1949, except for the Fire Department, was estimated to cost the City some \$64,400 (13) in the Police Department only. The cost of living bonus was granted to all civic employees from the 1st of July, 1948. In the case of firemen, however, the scheme was made retroactive to the 1st of January, 1948. For that reason it was included in the 1948 expenditures.

Annexation affected these two departments in so far as it required the engagement of more staff and the purchase of equipment and materials. For instance, some 50 new policemen were taken on during 1950 and 1951. Salary expenditures were also quite high as a result of the awards of a Board of Conciliation which had been set up in connection with the demands of firemen and policemen for higher wages.

Another very essential municipal service coming under the heading of "service to property" is that of sanitation. One particular aspect of that service, garbage and waste

(13) Estimates of the Corporation of the City of Ottawa, 1949, p. 17.

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collection reveals from a cost analysis view point to the City the extent to which the two most important postwar developments in the City finance, inflation and annexation, have affected the municipality's expenditures in this field.

In 1945, the total annual cost of garbage and waste collection was \$266,234. The number of building units collected from weekly was 21,116 and the average daily cost \$730 (14). The following year, the average had gone up to \$803, by 1948 it was at \$983, and in 1949, with of course a much better service and with collection covering some 22,827 building units, the average total cost per day was \$1,016. With annexation, the number of building units serviced by the Department was close to 32,000. The total annual cost of garbage collection for 1950 was up to \$482,243, and in 1951, \$620,829 or an average daily cost of \$1,701 (15).

Education and Welfare Expenditures

The financial responsibility for public and secondary education in Ottawa is left in the care of boards of trustees. These are elected corporate bodies, independent

(14) Annual Report of the Commissioner of Works (Corporation of the City of Ottawa), 1945, p. 343.

(15) Annual Report of the Corporation of the City of Ottawa, 1948, p. 321; 1949, p. 131; 1950, p. 267; 1951, p. 231.

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from control of the Municipal Council and they hold their powers under provincial law. The Public School Board, the Separate School Board and the Collegiate Institute Board (16) prepare their own budget and submit it to the Council whose function consists of levying the amounts requested by adding the taxation rate required to meet these amounts to the general rate which has been determined by the Council to meet all other municipal expenditures. The Council may ask the boards to reconsider their estimates, but any modification thereto will be the result of persuasion and not of compulsion as the Council cannot legally reject or modify the estimates of any of the boards without, as a rule, the consent of the electors.

Educational expenditures paid by the City accounted in 1945 for 21.3 per cent of the total civic budget. By 1951, this percentage was up to 24.5 and the tendency was for further increase as a result of strong public demand for increased educational facilities. The City of Ottawa tax levy to meet such expenditures was \$1,532,333 in 1945 and \$4,373,727 in 1951.

Expenditures for education in the postwar period have somewhat varied from the pattern of City expenditures for services and protection to person and property. While the

(16) Separate Public Secondary Schools do not exist under Ontario law. The Separate School Boards have no jurisdiction over secondary education.

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latter increased during the period 1945-1949 by between 80 to 100 per cent, expenditures for education only increased by some 33 per cent during the same period. This is explained in part by the fact that schools during the war were never allowed to deplete their personnel, to the extent that other municipal services were. Also the weaker bargaining power of teachers in trying to obtain salary increases as compared to other salaried groups has contributed in the immediate postwar period in keeping them salary wise practically behind everybody.

Expenditures for education and more generally school finance were, however, affected to a greater extent than any other department or independent body financially supported by the City, as a result of the annexation move of 1950.

To bring out these points more clearly, use is made of Table IX giving the most important items of Ottawa Public School expenditures for the period under study.

The main item of the Table, teachers' salaries, increased during the period 1945-1949 by some \$320,000 which represents 60 per cent of the total increase in Public School expenditures for the period. The increase in teachers salaries in the postwar period first came in 1947 when the 1945 salary schedule for Public School teachers which indicated a minimum yearly salary for men teachers of \$1,600 with yearly increments of \$100 until a maximum of \$2,700 was

TABLE IX
SELECTED EXPENDITURES OF OTTAWA PUBLIC SCHOOLS
1945-1951

Year	1945	1946	1947	1948	1949	1950	1951
Teachers' Salaries	\$657,848	\$666,679	\$734,296	\$830,853	\$976,525	\$1,338,045	\$1,559,324
Instruct. Supplies	34,742	31,099	39,844	45,052	41,667	76,531	99,122
Plant Operation	131,480	115,355	131,946	142,475	159,364	249,408	319,492
Plant Maintenance		71,218	58,054	75,729	73,392	122,050	156,620
Debt Charges	137,709	135,743	125,993	125,880	168,191	355,098	328,239
Total Expenditures	714,583	837,932	988,468	1,120,649	1,268,850	1,869,584	2,173,076

Source: Financial Statements - Annual Report of the Corporation of the City of Ottawa.

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reached; and a minimum of \$1,200 for women teachers with a maximum of \$2,300, was revised to raise the minimum and maximum for men teachers to \$1,800 and \$3,100 and that for women to \$1,400 and \$2,700 yearly (17). Again, in 1948 the minimum and maximum for men teachers were raised to \$1,900 and \$3,600 and for women teachers to \$1,600 and \$3,200 (18). The following year a cost of living bonus of \$240 was granted to all teachers. In 1950 the annual increment was raised to \$200 and in 1951 the schedule was again revised to raise the minima and maxima (19).

The annexation of several Public School boards within the annexed area by the Ottawa Public School Board was most significant for both the School Board and the City. For one thing it increased the net enrolment in the schools under the jurisdiction of the Ottawa Public Board from 9,563 to 13,454 in 1950, and to 14,405 in 1951. Before annexation the annual increase in enrolment in Ottawa Public Schools had averaged one to two hundred school children (20).

(17) Minutes of the Public School Board of Ottawa, 1944, p. 210.

(18) Ibid., 1947, p. 279.

(19) Report of the Canadian Teachers' Federation, June, 1948, p. 2; January, 1950, p. 26.

(20) Report of the Minister of Education of Ontario, 1950, p. 117; 1951, p. 93.

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A glance at the last two columns of Table IX will give an idea of the extent to which all expenditures of the Board increased after annexation. Total expenditures nearly doubled in a matter of two years. Teachers salaries in the year 1950 went up nearly as much as they had in the previous five years. All other items of expenditures which had increased regularly because of the postwar inflation, rose sharply to intensify the trend of increasing expenditures. Debenture debt charges which had remained substantially the same until 1949 by the partial application of a pay-as-you-go policy on new capital projects (21) suddenly zoomed to \$355,098 in 1950. This was mainly due to the fact that the Public School Board in taking over the administration of the school boards of the annexed areas also assumed their liabilities and therefore increased its annual net debenture debt in 1950 to \$2,294,140. The net debenture debt of the Ottawa Public School Board the year before annexation was \$418,696 (22).

The cost for City Public Schools (Tax Levy) which had been increasing steadily since the end of the war under the push of inflation was by 1951 about 300 per cent that of

(21) In 1945 the Public School Board started setting aside a reserve for capital expenditures.

(22) Financial Statements in the Annual Report of the Corporation of the City of Ottawa, selected years.

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1945, i.e. 1945, \$714,583; 1946, \$847,932; 1947, \$998,468; 1948, \$1,120,649; 1949, \$1,268,850; 1950, \$1,869,584; 1951, \$2,173,076.

The financial administration of Ottawa's Separate Schools was under the supervision of the Ontario Municipal Board and the Department of Municipal Affairs until the middle of 1947. The Board of Separate R.C. Schools had experienced financial difficulties during the war. Therefore, provincial authorities found it necessary to assume for a while the responsibility of its financial administration.

In the unsettled circumstances, the School Board was far from prepared to meet the postwar problems of inflation and annexation. With limited revenues (23) the Board nevertheless succeeded in balancing its budget by keeping its expenditures at a minimum. However, it was not able to resist demands for higher salaries in the face of a constantly rising cost of living index.

The minimum salary paid to separate school men and women teachers in 1946 was \$1,300 and \$1,100 a year for single teacher holding first class certificate. These minima were increased to \$1,400 and \$1,200 in 1947, and to \$1,500

(23) Under Provincial Statutes, Separate Schools receive no revenues from taxes on public utilities. Also, a Provincial Law of 1886 declares that corporations cannot allow to Separate Schools a percentage of taxes higher than the number of their shareholders who are Catholic. The proof and administration of this arrangement has led most corporations to allow all their taxes to go to Public Schools.

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and \$1,300 in 1948. The schedule was revised again in 1951 to establish minima of \$1,700 and \$1,500 and maxima of \$2,500 and \$2,300 with increments of \$100 after every two years of teaching (24).

The total Board expenditures increased from \$566,627 in 1945 to \$793,678 in 1949. Of this increase nearly 60 per cent was due to higher cost of instruction (Teachers' salaries).

In 1945, as part of a policy to reorganize its finances the School Board adopted a refunding plan of its debenture indebtedness which provided for the full payment of all interest falling due on or prior to August 15, 1942; payment of 20 per cent of the interest due and accrued to December 31, 1944, and exchange of all outstanding debentures and notes indebtedness for new debentures of the same face value, dated December 31, 1944, maturing December 31, 1984, and bearing interest at the rate of 3 and a half per cent payable on December 31 in each year (25). The Board thereby assumed an annual fixed charge of \$82,702 for interest payments and for the retirement of principal. Any additional sale of debenture implied, of course, that this fixed charge

(24) Information obtained from the Ottawa Separate Schools Secretariate.

(25) Financial Statements of the Board of Trustees of the R.C. Separate Schools of Ottawa, 1945, p. 3.

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would increase, unless current retirement was to offset the issue of new debentures. This policy was fairly closely followed and by 1949 the annual fixed charges had increased to only \$88,464.

Annexation increased the net enrolment in Ottawa Separate Schools by some 2,400 school children (26). Its effects on the current Board expenditures was very much similar to that on Public Schools. Total expenditures which were at \$793,678 in 1949 went up to \$1,082,802 in 1950. Expenditures for instruction, instructional supplies, school plant operation and school plant maintenance all increased sharply. From a financial viewpoint, annexation also affected the Separate School budget. The Board assumed the outstanding debt of the annexed school boards and thereby increased its annual debt charges. In 1950 the debt charge was \$135,025. The net debenture debt of the Board, which was \$1,600,000 at the end of 1949 was \$2,182,182 by the end of 1950 (27).

The tax levy on Separate schools supporters, for school purposes only, had increased during the period 1945-1949 by some \$150,000 or from \$399,984 to \$551,491. With

(26) This takes into account the annual normal increase in enrolment of the Ottawa Separate Schools.

(27) Financial Statements of the Board of Trustees, 1949-1950, Exhibit "E".

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annexation and inflation still pressing hard, the amount levied went up by over \$200,000 in the next two years or to \$647,718 in 1950, and \$772,339 in 1951.

The budget of the Ottawa Collegiate Institute Board followed the pattern observed in the study of the Public School's finance. The effects of inflation on the Board's budget were not, however, as strong as in the case of the Public Schools. During the period 1945-1949, the City tax levy for secondary education-collegiate, technical and vocational- averaged some \$880,000 a year. Annexation, however, contributed in increasing expenditures substantially. In 1950, the amount levied by the City to meet the requirements of the Collegiate Board was \$1,266,245 and in 1951 it was of \$1,435,516.

Of the other social and welfare services to which the municipality contributes, two stand out in the postwar period from a financial viewpoint. They are the Ottawa Civic Hospital and the Welfare Plan for Children.

Total expenditure of the Ottawa Civic Hospital for 1945 was \$1,217,950. In 1947 it increased to \$1,789,962, in 1949 to \$2,451,312 and by 1951, it had reached \$3,180,295. Over these years, capital debt charges (payment of matured debentures and interest on outstanding debt) had hardly changed, averaging some \$255,000 annually (28). The

(28) Financial Statements of the Corporation of the City of Ottawa, Annual Reports.

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increased size of the operating budget was partly caused by the Hospital providing, better quality service, the highest standards of performance with extended facilities and the use of the most modern medical equipment. This return to peacetime conditions, with extended services and a rise in standards of performance which has been observed in most fields of municipal activities in the postwar period was in a way limited by rising costs, including increases in salaries. The item salaries of the operating budget nearly tripled in the six years period, 1945-1951.

The daily cost per patient at the Hospital was stipulated by the Provincial Government on a basis of \$6.00 in 1946. The next year it was \$7.61; in 1948, \$8.92; in 1949, \$9.74; in 1950, \$10.74, and in 1951 it was \$12.58 (29).

At the 1947 annual meeting of the Hospital Board of Trustees, the Chairman referring to wage and general cost increases, made the following declaration:

The Trustees were helpless in keeping down this expense (increase in wages)... they were faced with the alternative of raising bed rates for private and semi-private wards to meet part of the extra cost or of presenting an account to the City Corporation for the whole amount to be raised by tax levy. The Trustees hesitated a long time before adopting the new rates (30).

(29) Annual Report of the Board of Trustees of Civic Hospital, selected years.

(30) Ibid., 1947, p. 15.

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Fortunately, then, the shock of the postwar inflation in this case was not passed on to the municipality but rather it was met by steadily rising rates for hospital patients, including those in public wards. In 1946, the City levy required to make up the Hospital deficit was \$401,971 of which, \$253,030 was applied to the retirement of the maturing debenture debt of the institution. The City's share of the cost, however, was \$516,530, as the 1945 surplus of \$79,186 has been transformed into a deficit of \$35,373 by the end of 1946. During the next four years the actual civic cost of the Hospital varied little from the 1946 figure, except for an increase ~~of~~^{to} \$559,381 in 1950 (31).

Postwar expenditures for most welfare services, except unemployment relief, have shown marked increases caused by inflation, annexation or the application of higher standards dictated by a prosperous level of business activity. However, in most cases, it was the municipality as a whole, not a special group of citizens as was the case with the Civic Hospital, which had to pay the greatest part of the increase. For instance, Child Welfare, one of the many public welfare organizations receiving financial assistance from the municipality, was costing Ottawa taxpayers \$401,529 in 1951 as compared with \$164,991 in 1945 for the maintenance of wards,

(31) A tax levy of \$665,233 transformed the 1949 deficit of \$12,402 into a surplus of \$93,450.

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established by the Children's Aid Society. Between these two dates, the daily contribution of the City for the wards was raised by court order in 1948. Again in 1951, greater requirements for maintenance of the wards and a further increase in the per diem rate was estimated to cost the City an additional \$107,000 (32).

Debt Charges

The year 1946 was a turning point in the evolution of the civic debt. That year, debenture debt charges, in connection with instalments of principal on serial debentures and sinking fund requirements on sinking fund debentures for general purposes (Civic Hospital, public libraries, parks and playgrounds, markets, street, pavements and sidewalks, main sewer and drains) were at \$587,380. Total debenture debt charges (including also local improvements, public schools and collegiates, and public utilities) were \$1,504,987 (33). By 1951 these respective figures had reached \$1,050,209 and \$3,831,758.

Generally speaking, these increases resulted from the following causes: greater funding for capital development following the war, the size of the debts assumed by

(32) Estimates of the Corporation of the City of Ottawa, 1951, p. 25.

(33) Ibid., 1946, p. 25; 1951, p. 31.

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the City in the annexation move and the rise after 1950 in the cost of borrowing.

Funding by the City for capital development was very limited during the war. In 1945, for instance, city debentures^{issued} and sold amounted to \$176,300 (34). During the next three years, funding was limited by the fact that construction materials which were not available, contributed much in delaying most postwar projects for capital development. During these years, total City debentures issued were \$474,200 in 1946, \$1,096,000 in 1947, and \$913,000 in 1948. Most of these debentures were for general purposes and for local improvements. In 1947, for instance, an issue of \$500,000 was made for expansion of the Civic Hospital. Again in 1948, \$385,000 of debentures were sold to purchase snow removing equipment for the City (35).

During the year 1949 \$8,542,300 of City debentures were sold. However, of this amount \$6,300,000 were for the purchase of the Ottawa Electric Railway Company by the City in order to make transportation a publicly-owned service. The debenture debt to be retired from taxation had increased in 1949 by \$2,032,300. Two issues, one totalling \$1,200,000 for capital projects of the Ottawa Collegiate Institutes

(34) See Chapter two, Table V.

(35) Statements with reference to Debenture Debt and Sinking Fund, A.R.C., 1947, pp. 196-217.

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Board and the other totalling \$200,000 for Public School capital requirements made up part of this amount. The rest, some \$632,300 was made up of issues for general purposes and local improvements (36).

The year of annexation and 1951 the year after also were years of heavy funding. In 1950 the City acquired the Ontario assets of the Ottawa Light Heat and Power Company. This necessitated the issue and sale of \$7,000,000 of debentures. Other funding on public utilities (water works and transportation) totalled \$1,083,000 that year. More important however from a taxation point of view was the sale of \$1,853,000 of debentures for general purposes, local improvements and schools. In addition to this direct liability on Ottawa taxpayers were the debts assumed that year by the City in the annexation move. These capital liabilities were as follows: local improvements \$2,930,697; public schools \$2,036,607, and Collegiate Institutes, \$1,710,734 (37).

In 1951, the amount of debentures sold, to be retired from taxation was \$4,906,000. Included in this figure is an issue of \$2,422,000 of general purpose debentures for main sewers and drains, the greatest part of which was a direct

(36) Statements with reference to Debenture Debt and Sinking Fund, A.R.C. 1949, pp. 304-329.

(37) Ibid., 1950, pp. 360-391.

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result of annexation. That year the public utility debt also increased. The City sold \$3,655,000 of public utility debentures.

These postwar developments in civic finance pushed up the gross unmatured debenture debt of the City to \$31,922,603. In 1946, it was at \$8,657,263. The gross unmatured debenture debt to be retired from taxation was \$13,263,876 by 1951, an increase of nearly 9 million dollars in five years.

The last factor which contributed in increasing debt charges in the postwar period became apparent only in recent years, and that is the higher cost of borrowing. This trend towards higher cost was accentuated by the rearmement program undertaken in this country following the communist inspired aggression in Korea. The developments of the last years have tended to confirm the opinion that cost of borrowing will remain somewhat higher than it was in the immediate postwar period. As far as the City is concerned, higher cost of borrowing was a fact after 1950. The rate of interest which, on ten, fifteen and even twenty years debentures, was of two and a half and two and three quarters per cent until 1950 went up to three and one quarter and four per cent after (38).

(38) All City debentures sold in 1951 bore interest at three and one quarter per cent and all those sold in 1952 and 1953 at four per cent regardless of the term.

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Inflational pressures and the burden assumed by the City in annexing huge adjacent territories were threatening the stability of a civic financial structure which had enjoyed for the last fifteen years a state of sound and healthy security. The need for stronger revenue sources to keep such forces under control appeared more urgent than ever.

CHAPTER IV

THE POSTWAR QUEST FOR REVENUES

The increase in the financial responsibilities of the City in the postwar period quite naturally led to a reassessment of existing sources of revenues and also to a search for new ones.

Canadian municipalities, to a greater extent than senior governments, regard their annual budget as primarily determined by the pattern of their expenditures, as social and economic changes usually affect them first. Estimates of municipal expenditures dictate the extent to which the need for revenues will or will not become a problem - the "municipal problem".

Like all Canadian municipalities, the City of Ottawa is held to its annual budget, and it must apply any deficit from one year's expenditures as the first charge against the next year's budget. The City may borrow only for ~~necessary~~ capital expenditures (1).

This lack of flexibility in the municipal budget is intensified by the statutory obligations imposed by the

(1) The wartime legislation to allow municipalities to create certain special reserve funds, (the equivalent of one mill on the tax rate annually), was never intended to permit the hoarding of surpluses for fiscal policy purposes.

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Provincial Government, such as education, police and fire protection, and welfare services. Also, the fact that the taxing power of municipalities is almost entirely restricted to one source, real property, renders the situation, to say the least, disturbing when the annual debt charges become a heavy drain on the budget.

The impact of fast moving and changing economic conditions of the postwar period on such a rigid fiscal system, led many responsible municipal officers to express fears of a crisis in civic finance. Reviewing the condition of municipal finance at the beginning of 1950, the Mayor of Ottawa declared that the City was faced with requests for increases in appropriations from all civic departments and independent boards, and stated that a way had to be found to alleviate the burden of the taxpayers, by introducing some form of new taxes or by the Federal and Provincial Governments coming to the rescue of the municipalities, otherwise property owners would not be able to pay the taxes asked of them (2).

Nevertheless, as we saw earlier, the financial situation of the municipality in the years immediately following the war was far from alarming. The municipal debt was probably less burdensome than at any time since the end of the

(2) Minutes of the Council Meeting, 1950, p. 27.

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First World War. Obviously, higher taxes could not be avoided, because of the six or seven year deferment of large scale capital expenditures (3). On the other hand, there occurred changes in the financial and governing responsibilities of Canadian municipalities consequent to investigations by various provincial government commissions on municipal-provincial relations. The changes did not go the full length of requests made by the municipalities for adjustments in their situation, but the reports of these commissions have stated unanimously that adequate help from provincial governments contributed to preventing any sharp crisis in municipal financing (4).

The Home building problem

It was not until 1947 that the impact of rising costs, increasing responsibilities and mounting annual debt charges affected civic finance to the point of forcing a radical departure from the trend of light taxation of the war years.

(3) Canadian municipal revenues during the war period went up 21.5 per cent, while expenditures, including debt retirement increased by only 14.8 per cent.

(4) Royal Commission on Provincial-Municipal Relations in British Columbia, 1946. Royal Commission on Provincial-Municipal Relations in Alberta, 1947. Royal Commission on Provincial-Municipal Relations in Saskatchewan, 1950. Royal Commission on Provincial-Municipal Relations in Nova Scotia, 1950.

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That year, the tax rate increased by six mills over the previous year. As time went on, the need for more and more revenues began to press harder on the financial structure of the government.

The fear of a postwar slump, and the belief that local units of government might be forced into a similar role as during the depression led the Canadian Federation of Mayors and Municipalities to declare in a brief submitted to the House of Commons reconstruction committee, that municipalities' resources were wholly inadequate for any large scale program of postwar reconstruction (5). The postwar brought not deflation, but inflation with much money everywhere and for everyone including the governments. More revenues or bigger ones, in the case of municipal governments would be coming primarily through the effects of the inflational boom in construction, residential, commercial, or industrial. In this regard, however, the situation did not appear to be very promising as far as the City of Ottawa was concerned.

Wartime conditions had intensified the discrepancy between taxable and tax-exempt property in the City (6).

(5) The Ottawa Citizen, November 24, 1943, p. 18, column 2.

(6) See Chapter one, Tables I and II.

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Also how could the balance right itself in the prosperous postwar period, when a great proportion of the new reconstruction within the City limits was to be of civic or federal property. What made the matter of increased municipal revenues from taxation through a continuously enlarging taxable assessment more of a problem, was the painfully slow development of housing construction in the City. The Federal Government postwar policy regarding housing construction was to leave the major part of it in private hands (7), despite the fact that some municipalities (8) had requested Wartime Housing Limited to recognize that the need for the houses constructed by that organization had passed from a temporary wartime basis to a permanent one.

Mounting costs of labour and material, and piled up overhead charges on delayed projects contributed greatly to a complete failure of private enterprises to build low rental housing. Also, the idea that large scale projects for the erection of moderate priced houses on the fringe of the municipality was regarded as a deficit item, since the tax revenues provided by these units would be less than the cost of services which would have to be supplied. This dilemma in home building was particularly important to Ottawa, as it applied with special force to the area.

(7) National Housing Act, R.S.C. 1944, Ch. 46.

(8) Resolution of the Council of the City of Peter-

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With the removal of controls over rents, and price control on building materials in 1947, the Federal authorities sought to activate construction of all types. The move resulted in higher construction costs, but was beneficial and slowly contributed to accelerated housing construction throughout the country. However, in Ottawa, another obstacle stood in the way of a more intensive home building program. During 1947, a special municipal committee reported on the near complete lack of serviced land within the City limits for almost any type of construction. The only solution to the whole program of real estate construction was for the "Old City" to obtain permission from the Ontario Municipal Board to annex parts of adjoining municipalities.

The application for annexation was bound to encounter resentment, particularly, from the residents of the less urbanized areas affected, where taxes were generally lower than in Ottawa (9). The outcome of the municipal plan to

borough, 1945. Endorsed by the Councils of many Ontario municipalities including Ottawa. Minutes of the Council Meetings, 1945, p. 705.

(9) This, partly because of more and better services provided by the City of Ottawa to its citizens, and the fact that certain services such as water and fire services were supplied to adjoining townships at lower rates than those paid by Ottawa residents proper. Finally under Ontario municipal law the annual tax levies in counties like Carleton are based on equalized assessments with the result that expenditures in agricultural areas is frequently greater proportionately than in urban districts, that is to say the urban districts carry the biggest share of the tax load for the country as a whole.

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allow adequately serviced construction, within the civic framework, was the addition, in 1949 and 1950, of an area of roughly 22,000 acres of land, with but 38,000 people thereon to the solid core of the "Old City" of 5,200 acres, with a population of roughly 160,000. No city in Canada had, in the postwar period, extended its territory proportionately to the population and assessment acquired as had Ottawa (10). The influence of the National Capital Planning Committee, at both the municipal and provincial level, cannot be assessed, but one thing is sure, all Federal bodies associated with the National Capital Plan were strongly hoping that such a move would take place.

The successful realization of the annexation move was to allow a freer and more extensive development of construction of all types and thus enlarge the basis on which municipal taxes are levied.

Assessments

Total taxable assessment of the City is made up of the following: real property assessment, which includes land and buildings in the City, and the special business assessment authorized by the Ontario Assessment Act, which states that land used for, or in connection with a business, shall be

(10) Minutes of the Council Meetings, 1953, p. 50.

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assessed at a certain percentage for business assessment. The percentages ranges from 10 per cent to 150 per cent of the assessed values, dependent upon the classification of business (11).

In the immediate postwar period total assessment of the City did not increase rapidly for causes previously analysed. Greater and more expensive services led the local government to increase its tax rate annually in order to balance the budget, as increases in assessment values lagged behind increasing expenditures. From 1946 to 1949, there was a slight increase in taxable assessment values with annual increments averaging five million dollars. In 1950, however, as a result of annexation, total taxable assessment went up to \$211,968,586, an increase of over 27 million dollars over the previous year (12). The following year, the increase in total taxable assessment was nearly 20 million dollars. This favourable trend in assessment was clouded by a substantial increase in the value of tax-exempt property which had hardly increased from the end of the war until 1950. In 1951, total value of exempt property in the City, as

(11) The Assessment Act, R.S.O. 1950, Ch. 24, sec.6.

(12) Annexation alone accounted for 20 million dollars. Annual Report of the Corporation of the City of Ottawa, 1950, p. 396.

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shown in Table X, went up to \$140,713,021, an increase of over 24 million dollars in one year.

Most of the exempt property was Dominion Government property purchased or built in order to fulfill our obligation in connection with the Korean war and to contribute our share to international security.

Although annexation increased the City's real assessment substantially, and meant an increment in annual tax revenues estimated at nearly one million dollars, the tax mill rate continued to rise.

With a continuously increasing tax rate on real estate, the temptation for under assessing properties cannot be resisted. The postwar development in municipal finance in Canada seems to have led to a practice of competitive undervaluation by different assessors of property located in different districts.

Because of the larger and larger amounts raised from the property tax, an accurate and equitable system of assessment is imperative. The function of the Assessment Department of a City is to produce an equalized assessment. An under assessed property places the balance of the City's taxpayers in a position whereby they assume more than their share of the cost of running the City business (13).

(13) This happens especially when the "earning power" as a valuation criteria for assessment purposes is disregarded or not given sufficient attention by the assessors.

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TABLE X

TREND OF TAXABLE AND TAX-EXEMPT ASSESSMENT VALUES
FOR THE CITY OF OTTAWA, 1945-1952

Year	Assesses Values for Taxation	Tax-Exempt Assessed Values
1945	166,557,732	109,418,838
1946	166,631,900	-----
1947	171,284,671	110,058,407
1948	177,811,033	111,190,671
1949	184,904,965	112,606,378
1950	211,968,586	116,177,469
1951	230,427,157	140,713,021
1952	239,071,072	145,359,175

Source: Annual Report of the Corporation of the
City of Ottawa.

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This practice is, however, quite different from that of keeping assessment values far below actual values. In the latter case, provided that the under assessment policy applies to all the properties within a municipality, the most important criterion of sound assessment practice - equity - can still be maintained. It is one thing to say that a municipal assessment is inaccurate, and quite another to call it inequitable.

Obviously ~~all the~~ reasons for the continuously increasing tax rate in Ottawa, as in most Canadian municipalities in the immediate postwar era was that the assessment placed on real property for municipal tax purposes was inaccurate and represented less than fair actual values.

This seems to have resulted from the continuing use of base periods which held the assessed valuations well below current price levels.

The City of Ottawa, under Mayor Charlotte Whitton, carried out in 1953 a complete reassessment of the City property. The new assessment reflecting more accurately the earning power of the affected properties resulted, as was expected, in a much higher total assessment and contributed to a considerable expansion of the base on which the finances of the City rested. Total taxable assessment went up from \$247,893,118 to \$328,741,835, an increase of nearly

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33 per cent. Consequent to this, was a reduction in 1954 of the tax rate. It went down by some 12 mills despite a bigger budget.

This more realistic assessment meant also an increase in the valuation of Dominion Government properties and bolstered the demand of the City for a greater Federal grant under the stipulations of the Municipal Grants Act, 1949.

The Corporation of the City of Ottawa, although the legal entity of the Capital of a rich country, has never itself been considered rich. The business of the City has always been, and will continue to remain largely government, and its assessment predominately residential-57 per cent, professional and commercial - 37 per cent, and not heavily industrial - 5.3 per cent (14). The development of industry in Ottawa has been described as "the forgotten child" in the growth of the City. Yet despite a favorable location from a transportation and marketing viewpoint, the City is limited to attracting light industries only, and the outlook for the future does not appear very promising, in view of requirements of the National Capital Plan.

The business assessment in the City is one of the lowest of Canadian cities in relation to real property

(14) Minutes of Council Meetings, 1953, p. 64.

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assessment, and while the business tax accounts for some 15 per cent of the revenues of more industrialized cities, such as Toronto, Ottawa receives from that tax a revenue of about 11 per cent. The postwar trends of assessment values for real property - land and buildings -, and business are shown in Table XI.

A noticeable downward trend after 1947 can be observed in the business assessment column. The lowest point of the movement is in 1949, which was also the low mark of the first postwar business recession in the country. The average business assessment of the City can properly be given as 10 per cent of total taxable real property assessment.

The "Tax Burden"

With the municipal tax rate increasing sharply and tax collection dropping appreciably, the familiar complaint of over-taxation was heard again.

Tax collections are not only connected with the degree of general prosperity, but also with the rate of taxation. A high rate, even in an economic boom, will make collection more difficult. This point was observed in civic finance as tax collection in Ottawa, which reached a record peak of 97.8 per cent in 1946, gradually decreased to 95 per cent in 1952.

No one will argue the point that property tax was,

TABLE XI
 BREAKDOWN OF ASSESSMENT IN TERMS
 OF REAL PROPERTY AND BUSINESS
 1945-1952

	Real Property	Business	Total	Real Property	Business
1945	149 (1)	16	165	89.2	10.8
1946	150	16	166	89.6	10.4
1947	154	17	171	90.0	10.0
1948	158	19	177	90.7	9.3
1949	164	20	184	90.8	9.2
1950	189	22	211	90.4	9.6
1951	207	23	230	90.0	10.0
1952	215	24	239	90.1	9.9

Source: Annual Report of the Corporation of the City of Ottawa.

(1) Millions of dollars

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as its inception, a reasonably equitable tax, since, at that time, local governments were concerned wholly with improvement to and the protection of property. The basis of the property tax was the so-called benefit theory of taxation. This theory which, at first, was assimilated to the ability-to-pay theory gradually overshadowed it in municipal finance, as the value of property held, was no longer an adequate index of an individual's wealth. Subsequent developments in the field of direct and indirect taxation following the First World War, led many students of public finance to dissociate completely the ability-to-pay theory from the property tax, which tax they considered totally unsuitable for any income redistributive functions. To them, property services, i.e. those which should be financed through property taxation, include police and fire protection, provision of sidewalks and street lighting, public sanitation, street cleaning, the control of nuisances, the purchase and local distribution of hydro-electric power, water supply and sewage disposal facilities, the maintenance of parks, boulevards and public squares, and the upkeep of municipal public buildings (15). Some of them, in view of the development

(15) Citizens Research Institute of Canada, Toronto, 1952. Submission to the Committee on Provincial-Municipal Relations of the Province of Ontario, p. 20.

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of the automobile industry, will go as far as to consider the upkeep of streets as a marginal service to property.

This rather rigid approach to municipal financing, nevertheless seems to be, in no slight degree, justified by the developments of the last twenty years in municipal affairs. Canadian municipalities have been compelled to shoulder increasing obligations, while their sources of revenue have been limited largely to real estate. This has led to a situation where property taxpayers are paying for services which are not directly or indirectly of benefit to property. The postwar period seems to have resulted in the intensification of this tendency as the country's population became more urbanized. An authority on municipal affairs, Eric Hardy, regards the benefit theory of taxation as applied to property tax, as nearly ridiculous in the postwar situation (16).

Many authors also argue that since municipalities are engaged in projects involving income redistribution, in the social and welfare fields they should have access to progressive tax sources.

Accurate and proper as these observations may be, they should not be regarded as implying that real property

(16) Address to the Dominion Mortgage and Investors Association, 1954, p. 5.

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is overtaxed. The two questions of benefit to and over-taxation of property are quite different. Several provincial committees were set up in the postwar period to investigate, among other questions, the common assumption that real property was being overtaxed (17). All reports rejected the benefit principle and held that property taxpayers were not relatively overburdened (18), and should therefore contribute to share in the costs of expanding social and educational services (19).

Recently, however, a "Progress Report" was prepared by the Ontario Provincial-Municipal Relations Committee and submitted to the Honourable Leslie Frost. The report suggested that so long as the taxing power of the municipalities was limited to real property taxation, local municipal services could only be improved or new services added by a progressively increasing burden of taxation on real property (20). Without the Provincial Government increasing its

(17) See page 89 of this Chapter.

(18) In Saskatchewan the Committee found out that the tax burden on real property was "probably lighter than at any time in the last three decades".

(19) Proceedings of the Annual Conference of the Institute of Public Administration of Canada, 1952, p. 249.

(20) Progress Report, 1953, p. 33. (Ontario Provincial Municipal Relations Committee, Toronto).

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cost sharing contribution, it is felt, the report stated, that a deterioration of municipal services to property would follow, as municipal property tax was diverted to expenditures on behalf of education, welfare and health, for which public demand requires priority attention. The Committee also clearly disapproved of property tax as an appropriate means of financing increased social and welfare services, which in its opinion, should be financed by taxes based on the ability to pay (21).

The extent to which the aforementioned opposed findings and recommendations of the various provincial committees on municipal affairs apply to our case study will now be considered.

In 1947, the revenue of the municipality of Ottawa amounted to \$8,281,139 (22) and of this amount, \$7,160,909 or 86.5 per cent came from real property and business tax levied by the City for general purposes and for schools. With expanding budgetary outlays caused by the postwar demand for better and more costly services, the tax rate, which was at 39 mills in 1947, increased sharply from year to year. The postwar trend of civic revenues from real property and

(21) Ibid., p. 39.

(22) This amount does not include the surplus of the previous year.

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business tax, grants, subsidies and contributions, and general revenues (23) is shown in Table XII.. Also, ^{shown is} the percentage that the real estate tax bears to total revenue.

While the Table shows that the share of municipal revenues, derived from taxation declined sharply after 1949, principally because of a much greater Dominion grant, on tax-exempt properties in the City, one can nevertheless observe that the amount of money obtainable from real estate taxation nearly doubled in five years, and, was in 1952 \$13,649,182, an increase of 129 per cent over 1946. On the other hand, Table X shows that taxable property assessment within the City between 1946 and 1952 increased from 166 million dollars to 239 million dollars, or by 45 per cent.

Increasing tax levies with the relatively sticky assessment could only be obtained through a gradual rise in the tax rate. The rate for public school supporters, for instance, went up from 39 mills in 1947 to ~~43~~.50 mills in 1949, to 52.25 mills in 1951 and was 53.75 mills by 1952.

In the light of such developments, the complaint that property was overtaxed seemed justified. However, the reassessment carried on in 1953 showed clearly that real property within the City was undervalued to the extent of

(23) General revenues include: Licences and permits, rents and concessions, police fines, tax penalties, services and recreation, and miscellaneous.

TABLE XII
BREAKDOWN OF TOTAL REVENUES OF THE CITY OF OTTAWA

	Real Property & Business Tax	Grants, Subsidies	General Revenues	Total	Real Property & Business Tax
1945	5,636,557	608,489 (1)			
1946	5,931,164	556,121			
1947	7,160,909	765,927	354,303	8,281,139	86.5
1948	7,910,320	798,272	415,495	9,124,087	86.7
1949	8,773,553	975,688	425,242	10,174,483	86.2
1950	10,539,203	1,742,047	557,303	12,838,553	82.1
1951	12,658,778	2,130,389	669,962	15,459,129	81.9
1952	13,649,182	3,034,301	824,162	17,507,645	77.9

Source: Annual Report of the Corporation of the City of Ottawa.

(1) The Federal Grant for 1945 was \$400,000.

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at least 25 percent. The implication here is that while the taxation mill rate was at 53.75 in 1952, compared to 33 mills in 1946, it would have been approximately 15 to 18 mills lower had real property values in the City been in line with current price levels.

Provincial Grants

In the immediate postwar period, the Ontario Government's main assistance to municipalities consisted of the one mill subsidy and the Unemployment Relief grant. In 1947, the one mill subsidy, also known as the General Assessment Grant, was discontinued and replaced by the grant pursuant to the Municipal Subsidy's Act. That year also witnessed the inception of highway grants to Ontario municipalities. In 1949, the Municipal Subsidy was abolished and replaced by three types of specific grants pursuant to the following legislation: the Children Protection Act, the Fire Department Act and the Police Act. This type of assistance was strongly criticized by municipal councils all over the Province as it reflected a tendency on the part of the Provincial Government to tighten its control over municipal spending. These so-called conditional grants (24) were finally replaced in 1954 by generalized grants for which the

(24) Certain standards were imposed and the grants were tacitly understood to be given provided the standards of efficiency required by the Province were met.

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municipalities of the Province had long been pressing. The new provincial grant at a rate of \$3.00 per capita of the Ottawa population was to be used for the general purposes of the municipality and not for any particular purpose.

The reader will recall that ever since 1937, and all through the wartime, the general form of provincial assistance to the City of Ottawa had been the mill subsidy based on the taxable assessment of the City. Over the years and especially in the postwar period, this form of assistance had been severely criticized on the grounds that taxable municipal assessment was a very unreliable factor to use, in order to make transfer payments to meet the needs of the various provincial municipalities. The lack of uniformity of assessment values for taxation purposes in the different municipalities of the Province made the General Assessment Grant look like an awkward solution to an uneasy problem. A province wide equalization of assessments would certainly have contributed greatly to reducing the criticism of the system. The essence of the criticism of the mill grant was summarized in the following remarks of the Ontario Provincial Municipal Relations Committee Report of 1953:

A low mill rate and high assessment can result in the same tax as a high mill rate and low assessment. While such differences remain, the assessment is unsuitable as a major factor in determining any grant from the Province (25).

(25) Progress Report, 1953, p. 38.

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In 1946, City receipts from the one mill subsidy amounted to \$166,632. The only other provincial contribution of importance that year was the relief grant, which was relatively insignificant, \$43,143, in view of the high level of employment prevailing here. Total provincial assistance that year amounted to \$211,295 (26). The following year, the implementation of the Municipal Subsidy Act did not mean proportionately greater revenues to the City than had been received from the Province under the one mill subsidy scheme. However, 1947 was the year that the Provincial Government introduced a system of grants based on municipal highway expenditures.

In their quest for revenues in the postwar period, Ontario municipalities had requested a share in the gasoline tax over which the Province had regained authority, having relinquished it ^{temporarily} to the Dominion for the duration of the war (27). The municipalities argued that postwar development in

(26) Provincial grants reviewed so far do not include the grant made directly to the City school boards. The importance of the education grants will be discussed further in the analysis.

(27) Prior to the war the Provincial Government recognized that municipalities are put to greater expenses because of the additional traffic that the presence of Provincial highways through urban centers brings.

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the motor car industry and the resultant responsibilities imposed on local governments for the construction and upkeep of projects and services required by local and highway automobile traffic made their claim stronger than ever. Because of the joint interest of the Province and its municipalities in motor roads, the making of the gasoline tax into a shared tax appeared like a sensible and practical method of helping the local governments. The shared tax would allow municipalities to spend money on roads without having to tax too heavily the local taxpayers. The Board of Control of the City had recommended in 1946 that the Ontario Government be urged to restore to municipalities payments from revenues received from the Provincial Gasoline Tax (28). Despite similar representations from other municipalities, the shared tax method was not regarded as a practical method in this field and so the grant system was introduced in the motor road field of provincial-municipal relations with the Highway Improvement Acts, 1947.

The Act provided that a specific type of construction and maintenance outlays for streets and roads connected with provincial highways was eligible for the grant. The Province was contributing 50 per cent of such expenditures. However, in order to avoid the spending sprees which such a system

(28) Minutes of the Council Meetings, 1946, p. 510.

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might encourage at times, an upper limit equal to one mill on the previous year's general assessment was set. For all intents and purposes the Highway Grant was nothing more than a one mill subsidy with the difference that a mill-subsidy scheme had always been regarded as a general unconditional grant, whereas the Highway Grant had all the aspects of a conditional grant for a specific purpose. In 1947, the Highway Grant paid to the City was \$171,285. This new grant just about doubled the provincial contribution to City finance in 1947 and 1948. Indeed, the one-mill general subsidy of 1946 was now a two-mill subsidy, half of which was conditional. Better financial help from the Province, meant with it a greater control of municipal expenditures. The increasing importance of the Highway Grant in civic revenues is reflected in the fact that it was \$171,836 in 1948, and represented about 40 per cent of provincial grants to the City, going up to \$346,579 in 1950 or over 50 per cent of total provincial grants to Ottawa that year (29). Nevertheless, because the City's share of approved local expenditures on roads affected by the Highway Grant is a direct charge on the property taxpayers, the Council of the City agreed with a recommendation of the Board of Control to

(29) The Provincial Government's policy of increasing the grants by raising the upper limit and the recognition of more roads as qualifying under the Act, have led municipalities to spend larger amounts on road work.

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endorse a resolution of the City of Stratford, Ontario, asking "that the Provincial Government be petitioned to assume the total cost of maintaining connecting links of Provincial Highways located in the municipality" (30).

The year 1949 saw the introduction of a new basis for grants-in-aid to Ontario municipalities. The Provincial budget in which the new legislation was outlined confirmed the impression of an increasing tendency on the part of the senior government to attempt to control certain aspects of local administration. The pattern established by the Highway Grants was extended by the Provincial Government abolishing the one-mill subsidy (for general purposes), and substituting for it a three way grant pursuant to the Police Act, 1949, Fire Act, 1949, and Children Protection's Act, 1949.

Because of the criticism levelled against the General Assessment Grant, the new system was based on population. The percentage contribution of the Province to police, fire and child welfare costs increased in inverse proportion to the population of the municipalities. The grant under the Police Act 1949 was made in proportion to policing costs of the municipality the preceding year. The grant for Ottawa was 10 per cent of the annual costs. A similar percentage grant was made under the Fire Act 1949 (31). Here the

(30) Minutes of the Council Meetings, 1951, p. 251.

(31) The Fire Department Act, R.S.O., 1949, Ch. 33, s. 11.

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Province also had power to enforce the provisions of adequate fire protection. The two grants were for specific purposes and somehow, the Fire Grant was conditional in that the Province could make regulations and prescribe standards.

The 1949 budget also contained legislation for a provincial grant towards child welfare. Until then, the City had to provide for children lacking proper family support and protection. The Children Protection Act 1949 provides for a grant to the City of 25 per cent of the cost of maintaining wards of the Children's Aid Society.

While the City of Ottawa appears to have received slightly more money (32) under the new method of grants-in-aid, and while the new formula was avoiding the awkward situations that created the General Assessment Grant, and the Municipal Subsidy Act, the fact remains that all Ontario municipalities, which incidentally had not been informed of or consulted on the new formula prior to the day the budget speech was delivered, felt that the change in provincial grants-in-aid implied a threat to their autonomy.

(32) In 1948, total Provincial grants (i.e. Unemployment Insurance, Highway Grant and Municipal Subsidy) amounted to \$419,506. In 1949, the corresponding figure was \$469,589. Of this amount the three new grants accounted for \$208,253 or some \$24,000 more than the City would have received under the Municipal Subsidy Act.

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During the years following the institution of the new conditional grants (33), the City's receipts from the Provincial Government increased annually. Financial help from the Province cannot, however, be regarded as having been more, in real terms, since highway grants were obtained through higher municipal expenditures on streets and highways connecting links (34), more expenditure in the Police and Fire departments, and also as a result of annexation (35). In 1950 and 1951, total provincial grants to the City amounted to \$663,077 and \$849,729. The Highway Grant to the City accounts for the sudden increase after 1949, following the removal of the one-mill limit on local expenditures for roads, which until then was the limit up to which provincial assistance would be extended. Finally it must be borne in mind that grants based on the amount of local expenditures of a current nature understandably encourage the placing of some capital expenditures in current accounts.

(33) It was not until 1953 that the Province reviewed its grant-in-aid policy and returned to generalized unconditional grants, per capita grants came into effect in 1954.

(34) Amendment to the Highway Improvement Act, 1949, changed the amount of the Provincial grant to one third of the amount spent on roads.

(35) Early in 1952, the City made representation to Toronto that Ottawa particularly had suffered in the reduction to the City of the rate of provincial subsidies which had been much higher for the rural services which the City had taken over. Legislation applying to Cities with large annexed areas was introduced to allow adjustment in such grants for a period of ten years from annexation.

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The implication in the sudden change of the Province's approach to grants-in-aid from a political viewpoint appears to be more important than the grants themselves. In spite of the defects of the one-mill subsidy, it still had the quality of being available to the municipality to spend as it chose. Moreover, according to the benefit theory of taxation, provincial aid and provincial standards of performance would appear to suit such municipal services as education and welfare and not firefighting and police services, which are and always have been regarded as basic municipal services to be financed totally out of property tax. Furthermore, the attitude of provincial authorities regarding the education grants made directly to the boards of education in the City in the postwar period seems to confirm the opinion held by many that until 1952 the postwar provincial policy of grants-in-aid tended to weaken municipal autonomy. This follows from the fact that increasing grants to boards of education would have tended to reduce the amounts required by the schools from the municipal governments, and thus have allowed it a bigger and more flexible budget. An analysis of the amounts of money levied by the City for Public Schools in the postwar period, together with the provincial grant for Public Schools is given in Table XIII.

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TABLE XIII

ANALYSIS OF PROVINCIAL AND CIVIC CONTRIBUTION
TO PUBLIC SCHOOL COSTS IN OTTAWA, 1945-1952

	City Levy	Direct Provincial Grant	Total Expenditure
1945	714,583	286,048	1,075,241
1946	837,932	285,731	1,131,374
1947	984,657	256,118	1,325,182
1948	1,102,640	263,811	1,435,144
1949	1,247,322	260,590	1,550,972
1950	1,854,114	461,486	2,409,747
1951	2,161,562	514,335	2,775,633
1952	2,448,347	558,937	3,151,182

Source: Annual Report of the Corporation of the
City of Ottawa.

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In 1947, the provincial grant to the Public School Board represented 19.3 per cent of total expenditures of the board for that year, while the City levy represented 74 per cent. Two years later, these percentages had changed to 16.8 per cent and 80 per cent. The 1951 and 1952 provincial grants represented some 17.7 per cent of the total expenditures of the board. On the other hand, the city levy of \$2,161,562 in 1951 represents 77.7 per cent of the total expenditures.

Similarly, the direct provincial grant to the Ottawa Collegiate Institute Board was a smaller percentage contribution - about 18.8 per cent of total expenditures - in 1951, and 1952, than in 1947 or 1948 when it was 24 per cent. Conversely, the City levy which accounted for 65.4 per cent of the total expenditures in 1947 was nearly 72 per cent of the total expenditures of the board in 1951 and 1952.

Federal Grant

An analysis of public revenues in Canada reveals that federal revenues have grown from one half of the total national public revenues in 1939, to about two thirds in 1952, and three quarters more recently. In the meantime, municipal revenues have declined from about one quarter to one eighth.

Because of the constitutional difficulties, direct Federal assistance to Canadian municipalities in the postwar

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period was out of the question. The only apparent way whereby the Central government could directly assist Canadian municipalities was by adopting a more realistic policy concerning Crown property hitherto exempt from taxation. The reader will recall the arrangement prevailing in Ottawa at the end of the war whereby the Federal Government was granting the City an amount approximately 40 per cent of the municipal taxes on all its property within the City, in view of the disproportionate concentration of Dominion property here.

While accepting a grant of \$400,000 in 1945, City officials strongly felt that the postwar arrangement between the two governments should be of a more business like nature. No sooner had the war ended than civic authorities faced with rising costs renewed their demand for a bigger grant in lieu of taxes on Federal Crown property within the City. Despite repeated demands, a reasonable and equitable arrangement did not materialize until 1950 (36) following the enactment of the Municipal Grants Act.

In 1944, the Federal Government and the City had signed an agreement whereby the former was to pay the City

(36) The provincial commissions set up to investigate the municipal problem in the postwar period also suggested that a more business-like attitude be followed concerning taxation on Provincial Crown Property.

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\$300,000 annually until July 1, 1949 (37). In 1946, 1947 and 1948 the Federal grant in lieu of taxes on Crown property to the City of Ottawa remained at \$300,000. The basis was the same in 1949, but the City received \$400,000 since it was allowed an interim grant of \$250,000 for the last six months of the year under the Abbot formula.

The City also received two additional special federal grants starting in 1946, one related to foreign legations in Ottawa, and the other connected with the Veterans' Housing plan.

Foreign legations in Ottawa, for diplomatic reasons were exempt from municipal taxes under an order-in-council, the principal provisions of which stated that the Federal Government would pay to the City annually an amount equal to full municipal taxes, including local improvement, but not including school taxes, on all legation property in Ottawa (38). The valuation of diplomatic premises was not to remain frozen, but was subject to changes in valuation, by mutual agreement between Public Works Department officials and City officials or by arbitration. Under the scheme the legation grant to the City increased steadily from \$31,756 in 1946 to \$51,936 in 1949, and \$61,702 in 1952.

(37) The agreement was effective July 1, 1944. For that reason the City received \$400,000 in 1945.

(38) Minutes of the Council Meetings, 1945, p. 455.

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A similar arrangement regarding taxation on veteran's housing projects within the City has resulted in the City receiving a grant from the Dominion Government, which was \$11,220 in 1946 and reached its peak of \$47,258 in 1950. This grant, however, was bound to disappear gradually according to the arrangement which relieved the central government of the tax burden after a certain period of ownership by the veteran proprietor.

By 1949, the five year agreement between the senior and the local government was coming to an end. Summarizing the opinion of the City Council regarding the terms of the agreement, the Mayor said:

I am sure we are all of one mind in this matter, that the \$300,000 annual grant is far from adequate compensation to the City for services rendered. It seems to me that there should be some systematic basis of compensation in lieu of taxes, instead of a haphazard method of determining a grant which in our City is anything but fair (39).

In order to bolster its demand for a much bigger grant from the Dominion, the City was pushing ahead with annexation. It was no secret that the Federal authorities were relying heavily on the City of Ottawa to initiate a series of annexation moves designed to add to the Federal District in order to permit the development of the National

(39) Minutes of the Council Meetings, 1949, p. 25.

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Capital Plan. It was understood that the Dominion grant would increase if Ottawa succeeded with annexation.

Annexation was approved and ordered by the Ontario Municipal Board. In May 1949, two months before the termination of the five year agreement regarding taxation on Dominion property, the Prime Minister declared:

I believe that the time has come when the Dominion Government should deal more fairly with Ottawa and other municipalities throughout Canada where there is a concentration of Dominion owned property (40).

This statement of Federal Government policy was soon followed by the Municipal Grants Act 1949, and by its administrative interpretation the "Abbott Formula".

In short the new formula to Ottawa, and to over a hundred other municipalities meant a grant of about 75 per cent of the full equivalent of municipal taxes on Dominion property in any Canadian municipality with more than four per cent of its assessable property held by the Dominion.

Under the "Abbott Formula" the Federal grant to the City increased in 1950 by over three hundred per cent. That year the City received \$962,392. The grant increased annually with the Federal Government acquiring and building property at a geometric rate after 1950. In 1952 the grant was up to \$1,459,883 and talks of the grant levelling off here

(40) The Ottawa Citizen, May 5, 1949, p. 12, vol.2.

suggest the possibility of the Federal Government paying full taxes on its Crown property in the City and throughout Canada in the not too distant future. The impact of the new policy on civic finance in Ottawa cannot be underestimated. It is one of the most significant postwar developments in the affairs of the City and has contributed to no slight degree to relieve the taxpayer of this City of a financial burden which was getting no lighter as years went on and inflationary forces were pressing hard.

General Revenues

General revenues of the City, other than taxation, such as building permits, licences, liquor-board fees, market rental and fees, police court fines have never been an important source of revenue - about three per cent of annual revenues.

Most of these revenues varied little from year to year until 1946, but the postwar inflationary boom has contributed to magnify their sizes. For instance, revenue from licences and permits has gone up from \$80,872 in 1947 to \$158,084 in 1953, police fines from \$49,527 to \$212,311, and tax penalties from \$43,588 to \$166,296 (41).

(41) Annual Report of the Corporation of the City of Ottawa, 1947, p.156, 1953, p. 36.

CONCLUSION

While the war contributed greatly to reducing the debt of the City to a remarkably low level, and in decreasing the tax burden on real property, it has also resulted in the accumulation of a large number of capital projects which will sooner or later require heavy spending. The unprecedented inflational boom of the last ten years and the annexation by the City after 1949 have had the effect of swelling current expenditures, with the result that many capital projects had to be postponed still further. Nevertheless, postwar creeping costs for material, labor and capital did not prevent the local government from supplying additional services of a better type, and pushing forward the construction of necessary capital projects.

Fortunately, financial assistance from senior governments in the postwar period has been rather significant here in Ottawa. The Federal grant made under the Municipal Grants Act has developed into the major contribution to City finance and it is expected that in the future it will increase to the extent of covering the full taxes payable on Federal property within the City.

Assistance from the Provincial Government has also been substantial and pending a basic and more durable tax agreement between the Province and the Federal Government,

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one cannot but find the present scheme of provincial assistance to the municipality satisfactory. The continuation and extension of unconditional grants from the Provincial Government seems to be the best solution to the financial problem of the municipality in the immediate future.

Should these grants be extended to cover the local cost of health and welfare services they would help in keeping civic finance in sound conditions. The idea of transferring these services to the Provincial Government in order to relieve the municipality is not a popular one. Also, it appears that the Provincial Government is of the opinion that such services are most efficiently administered at the local level.

However, a word of caution regarding undue reliance of the municipality on senior government assistance is appropriate. Democratic institutions take their root at the municipal level, and municipal autonomy is of great importance to the proper working of such institutions.

Should the City be faced, in the future, with a large debenture debt and a climbing tax rate new and flexible sources of revenue of a local character would be a necessity.

It has been suggested that a special motor vehicle tax be levied by the City. This, however, seems to be an unfair way to help municipal finance, as motorists already

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contribute to municipal revenues through highway grants from provincial gasoline tax and license fees.

A retail sales tax would seem to be the most promising and best suited tax for a municipality such as Ottawa where industries are few and business establishments quite numerous. Five provinces in Canada and thirty-three States across the border are already using such a tax. The tax is quite beneficial; it is fair, flexible, and provides a means whereby people working and shopping in a city and benefitting from various municipal services, but living in the suburbs may be compelled to contribute to the cost of civic government.

Many people working and shopping in Ottawa are from Hull, Rockliffe or Eastview and many are non-resident who happen to be on temporary duty with the Federal Government and do not contribute through property taxes to the cost of the administration of the City.

In addition to seeking local sources of revenue, much could be done to keep civic finance in good condition by elaborating a capital budget of say five to ten years in order to plan capital expenditures with regards to both present and future requirements. The postwar period has not yet witnessed a resumption of capital expenditures by municipalities on a very large scale for obvious reasons. Nevertheless, capital projects cannot be postponed indefinitely.

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tely and it would appear that an effective capital budget made up of a list of capital works and their estimated cost on the one hand, against the amount of anticipated current revenues that can be directed to such projects, together with the amount of borrowing on debenture necessary to make the difference, would help civic authorities and the citizens to have a better and clearer view on civic finance in general and a better understanding of future problems.

The annual revision of such a program would result in a more accurate analysis of local needs and a more orderly fulfillment of them. From a financial viewpoint it would represent a policy which, were it coordinated with senior governments, would help to cushion the shocks of sudden dislocation in the labour and investment market for capital development.

Last but not least, the finance of the City will be the measure of its wealth represented by its citizens, the stability of their employment and income; and in this respect Ottawa has no reason but to be optimistic concerning the future.

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