

## City of Toronto is falling off the same cliff as General Motors

The city knows it's heading for ruin, but lacks any credible plan to save itself.

### Marcus Gee

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The workers enjoy perks that others can only dream of. The well-paid executives avoid making tough decisions. The organization has lost touch with those it serves and become a sprawling, self-perpetuating bureaucracy. The whole vast enterprise is drifting toward the rocks.

All of this was said of General Motors a year or two ago. It could just as easily be said of the City of Toronto today. Toronto is the GM of Canadian governments, heading for ruin, knowing it but lacking any credible plan to save itself.

The strike that started this week is only the latest sign of trouble. Mayor David Miller blames the city's worsening financial state on the recession. With revenues down, the city is trying to cut labour costs by wringing concessions from the unions.

But, as with GM, the recession is merely the straw that broke the camel's back. Like GM, Toronto has been storing up trouble for years.

Generous settlements with its various unions have burdened the city with wage and benefit costs that consume fully half of its \$8.2-billion budget. One study by a business group found that the average Toronto municipal employee earned \$57,000, 11.6 per cent more than workers in comparable private sector jobs and fully 36.4 per cent more when factoring in plush public-sector benefits.

Those benefits include the notorious 18 days of annual, bankable sick leave enjoyed by Toronto employees.

Like GM auto workers, city workers have come to see these benefits almost as a birthright. No mayor, right, left or centre, has made a serious attempt to wrest them away. The Toronto Board of Trade estimates that in the five years from 2003, when Mr. Miller took office, labour costs rose at a rate of 6.2 per cent a year. If, instead, they had been held to a 2-per-cent inflation ceiling, the city would have saved \$1.53-billion over that period. Perhaps then it would not be in an 11th-hour panic to find money for new streetcars.

Ever-rising labour costs are only part of Toronto's problem. The city's whole budget is a mess. The mayor's Independent Fiscal Review Panel estimated that the city's unfunded liabilities – things it doesn't really know how to pay for – amount to \$2-billion. And that's not including the liabilities of the many boards and agencies under its umbrella. Add in debt that no one knows how to pay off and the city is on the hook for another \$2-billion. On top of all that, its capital plan calls for \$11.1-billion in spending on transit, roads and so on by 2012.

The city's revenues from property taxes and other levies do not remotely cover all these expenses, so every year there is a mad scramble to balance the budget by raiding the city reserves or scrounging from the provincial government. But now the province is deep in deficit itself and the reserves have run out. As the Board of Trade puts it, “the city's budget practices have brought us to the edge of a fiscal cliff – we are still moving toward the edge, with no one planning our escape.”

They were saying the same thing about GM for years, as its pension and health-care liabilities piled up. Instead of doing something decisive, like slashing benefits or cutting losing product lines, the company drifted steadily toward the edge before finally falling off when the recession hit car sales this year.

Turning around big, bureaucratic, unaccountable organizations like GM and the City of Toronto is a challenge.



*Christie Pits Park, west of downtown, is one of 19 temporary dumps sites that will be filled with garbage for the duration of the strike.*

They have layers of hierarchy, dug-in unions and semi-independent sub-organizations that act as independent principalities – think Pontiac in GM's case, the Toronto Community Housing Corporation in ours. Toronto is further hobbled by a political system stocked by independent councillors with no party allegiance and no common platform to campaign under.

Such organizations easily lose sight of their original purpose. Instead of serving customers or taxpayers, they serve themselves. They become like a bland version of an autocratic Third World regime whose only purpose is to stay in power. Clinging to a stagnant status quo, they rot from within.

Eventually there comes a reckoning. In GM's case it was collapsing sales and then bankruptcy. Toronto isn't bankrupt, at least not yet. But the combination of severe recession and serious strike are a wake up call if there ever was one. GM ignored those calls until it was too late. If only Toronto could be wiser.