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THE RELEVANCE OF TORONTO'S NEW GOVERMENTAL STRUCTURE FOR THE 21ST CENTURY

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Introduction

The government of Ontario has made a number of major changes in the way that municipalities are governed and financed. Some municipalities have been forced to amalgamate despite opposition from their residents. Ontario has also redistributed the responsibilities of the province and the municipalities through the Local Service Realignment Program (LSR). This program is referred to as downloading. Other major changes include the use of market value for property tax assessment and the transfer of education funding to the province from the local school boards.

This paper is concerned with two aspects of the changes. The first question is whether megacities are less costly to operate than many small municipalities in a large urban area. The recent amalgamation of Toronto is used to examine this question. Since the amalgamation occurred in 1998, the new city is still adjusting to the change, and only preliminary conclusions can be drawn at this time. The second question is concerned with the impact of downloading on the municipalities. The experience of the new City of Toronto is again used to examine this question. [1]

The Organization of Local Government

Municipalities, their residents, the provincial governments and academics have been concerned with the costs and benefits of a megacity compared with many small and diverse municipalities within a large metropolitan area. Local governments can take different forms. In British Columbia and Alberta, the Municipal Acts gives residents the right to incorporate, dissolve and amalgamate municipal governments. Municipalities also have the power to produce local services themselves, to cooperate with other municipalities to produce services, to contract with private firms or to rely on volunteers and non-profit institutions for services.[2]

Large municipalities can produce some services at a lower per unit cost than smaller municipalities because the services are subject to economies of scale. Other services, such as water and sewage, require a large fixed capital input. The spreading of the fixed capital costs over a large output lowers the per-unit costs of production. Many municipal services, especially ones that are labour intensive, show increasing costs as output is increased. Therefore, municipalities can experience both increasing as well as decreasing costs with increasing size. Bish’s review of the literature indicates that only about 20 per cent of municipal services have lower per unit costs as the size of the municipality increases.[3]

If municipalities have the power to make their own decisions, they can select the size of local government that will produce municipal goods and services at the lowest possible cost. They can also take advantage of economies of scope through joint buying with other municipalities. Many municipalities within a large urban area also produce competition among the municipalities, and this provides a strong incentive to keep costs down. Since different municipalities produce different packages of services and taxes, Tiebout argues that residents can improve their economic welfare by selecting the municipality where the services and taxes best fits their preferences.[4]

Obtaining information in smaller municipalities may be less costly because they have fewer residents for each elected official. The elected officials know the area and the people well. Better information flows allow smaller municipalities to adjust more quickly to changing internal and external conditions. Economists favour this form of decentralized decision-making because it produces a more efficient allocation of resources within a municipality and an economy.

Before 2003, Ontario used centralized decision-making when it dealt with the municipalities. The Province and the Provincial Ministry of Municipal Affairs and Housing made decisions on municipal organization and on the powers of municipalities within the framework of the Ontario Municipal Act.[5]

On December 12, 2002, Royal Assent was given to a new Municipal Act, the Municipal Act of 2001. This Act came into force on January 1, 2003. The new Act gives the municipalities broad new powers to deal with local circumstances, without provincial government approval.

Municipalities are given the power of a natural person, with new power to tax, regulate, and to issue licenses and set fees. However, most of the regulations that existed in the old Act were carried forward to the new Act.

It is too early to determine how municipal governments will be affected by the new Act. While the municipal governments have more flexibility under the new Act, many of the centralized powers of the province are retained. [6]

Ontario has favoured simplifying local government by combining smaller units into one large unit. The government has argued that large cities are able to reduce costs by eliminating duplication. Many studies have found that amalgamations do not lower costs, they increase them. Bish provides an extensive list of references to document this point. [7] Sancton has made the same argument in a number of papers. [8]

Amalgamation Savings And Costs

<u>Amalgamation Savings</u>

When Toronto was amalgamated in 1998, it set three-year annual targets for cost reductions. One target was to cut 10 per cent of the $1.5 billion budgeted for newly amalgamated programs that were tax supported.[9] The city excluded expenditures for programs that were previously amalgamated under the Municipality of Metropolitan Toronto. These expenditures made up about 73 per cent of the new city's operating budget.[10] The city set a second target of 10 per cent of the $173 million budgeted for rate supported programs, such as water and wastewater. Therefore the total annual target for cost reductions was $167.3 million.

Table 1
City of Toronto
Savings and Costs from Amalgamation up to December 2000
(Millions of Dollars)

Saving or Cost	Area of Saving or Cost	
Annual Saving	$136	from Tax Supported Amalgamated Programs
	$17	from Rate Supported Programs
	0	from Efficiency Savings
Total Annual Saving	$153	per year
Annual Costs	$153	from Service Level Harmonization
	N/A	from Wage Harmonization
	$29	from Annual Financing Costs (for a ten year period)
Total Annual Costs	$182	
One-time Transition Costs	$75	from Staff Exit Costs
	$5	from Retraining Costs
	$83	from Business Information Costs
	$82	from Facility Consolidation and Modification Costs
	$30	from Other Costs
Total Transition Costs	$275	Million

Source: City of Toronto, March 9, 2001, Appendix B.

Table 1 shows the cost savings achieved by the city up to the end of 2000, the most recent year when data are available. The data show that most programs met their targets. The city was able to achieve annual savings of $136.2 million for the property tax supported programs and $17.3 million for the rate supported programs by the end of 2000. The annual total savings achieved by 2000 were $153.5 million. The cumulative savings for 1998 to 2000 were $305 million.

Because most municipal costs are related to staffing, the bulk of the cost savings involved reductions in the workforce. These included eliminating vacant positions, retirements; voluntary exits, and targeted exits. The report notes that executive management positions were reduced by 60 per cent. [11]

In another report, the City states that between 1998 and 2002, 2,700 positions were eliminated through amalgamation. Over the same period, the City added 3,600 positions to improve service levels in programs that were already amalgamated and to provide services in the downloaded programs. Therefore, between 1998 and 2002 there was a net increase in employment of 826 positions.[12] Amalgamation and downloading did not reduce the city's wage bill, they increased it. The harmonization of wages and salaries, discussed below, further increased the city's wage bill. None of this is a surprise to scholars who study amalgamations.[13]

The savings are gross estimates; they do not net out the new revenue from increased service and user fees. The savings estimates also do not take into account the costs of amalgamation that are discussed below. In addition they do not include the cost to residents from the reduced service levels compared with what they enjoyed before amalgamation.

The important measure is the net difference between the savings and the increased costs from amalgamation. Since the adjustment process and downloading are ongoing and changing, it is difficult to determine whether the overall result will produce a net cost saving or a net cost increase.[14] Nevertheless, an attempt will be made to do this.

Amalgamation Costs

The city incurred transition costs to consolidate and integrate the various programs of the amalgamated municipalities. By the end of 2000, transition costs were $275 million. Some of the costs, such as the upgrading of data services, would have been incurred even without amalgamation. Therefore, not all of the costs are transition costs. However, as Vojnovic notes, municipal amalgamations generally result in transitional costs that are often higher than anticipated. [15]

Annual amalgamation costs include three sets of costs: the harmonization of services, the harmonization of wages and salaries, and the annual debt servicing costs. The debt serving costs will be discussed later in the paper.

<u>Harmonization of Services:</u> The new city wanted to equalize the services and fees for waste and recycling collection, winter maintenance, public health, parks and recreation user fees, and boulevard and parking fees. These five services and fees

were identified as having the most significant differences when amalgamation took place. The financial constraints faced by the new city prevented these services and fees from being harmonized at the highest level, as is normally the case. Instead, service levels are being reduced in some parts of the new city and raised in other parts. Fees are being harmonized in the same way.

Harmonization of Wages and Salaries: Prior to amalgamation, Metro and each of the six local municipalities paid their employees different wages and salaries for the same jobs. The city harmonized the wages and salaries of management and its non-union workforce first, at an estimated cost of $2 million. The issues were more complex for the unionized workforce because the city faced fifty-six separate collective agreements in the seven former municipalities. In March and April of 2000, the unionized inside and outside workers went on strike.[16] The contracts negotiated by the city reduced the number of bargaining units and collective agreements from fifty-six to six.[17] The negotiations also settled a large number of issues involving harmonization. The key demand for the harmonization of wage rates and benefits was not settled in the negotiations and the issues were sent to either arbitration or mediation. The reduction of the differentials is inevitable even if the unions' demands were not met at this stage of arbitration. The increased costs can be offset to some extent by a continued reduction of employment, a reduction of services and possibly through contracting out of some services. Despite these measures, equalization will place an increasing strain on the new city's future operating budget.[18, 19]

The Financial Consequences of Downloading

Social Services

Ontario municipalities faced major financial problems because of the actions taken by the current provincial government. In the election campaign of 1995, the Progressive Conservative Party promised to cut the provincial income tax and redistribute the responsibilities of the provincial and municipal governments. Downloading costs on the municipalities was one way that the government could meet its commitment to cut the income tax. However, downloading made it difficult for the municipalities to support their spending on social services and other programs. The province argued that the exchange of responsibilities was revenue neutral because the province took over responsibility for education. Funding for education came from the education property tax that was set by the province but the tax was collected by the municipalities. Funding also came from the province's own general revenues. However, the LSR program was not revenue neutral for the new city. The data provided below is intended to support this argument.

The Consequences of Downloading

The redistribution of responsibilities for social and other programs between the province and the municipalities are summarized in Appendix Table 1. Under the reforms, the province continued to set program standards, but the municipalities became responsible for running many programs and for paying a larger share of the costs from the property tax and user fees. The social service programs involve a redistribution of income from taxpayers as a whole to low-income households. In the public finance literature, local government is not usually viewed as the most effective level of government to operate such programs because mobility would offset attempts to redistribute income.[20] The availability of social service programs would attract migrants to the municipality and increase the demand for social services. Property taxpayers could avoid paying for the programs by moving outside of a municipality's boundaries.

The net effect would be to reduce tax revenue and increase the demand for social services. Income redistribution programs are more effective at higher levels of government, such as the provincial and federal governments, where mobility is less important. A related argument involves the type of tax used to pay for income redistribution programs.

Before the reforms, the provincial government paid part of the social services costs, through intergovernmental transfers from the province to the municipalities. The municipalities also paid part of the cost from property tax and user fees. After the reforms, most of the revenue came from the municipal property tax and user fees. The conventional view in public finance is that broadly based taxes, such as the provincial income tax, are a more effective way of raising funds for redistribution programs than the local property tax. [21]

The Financial Consequences for the City of Toronto

The provincial government began to download costs in July 1995, although the full impact was not felt until 1998. [22] The problems faced by the city are illustrated in Table 2. The data in the Table show the city's annual net budget expenditures for selected social service programs. Included are the approved but not the actual expenditures for 2003.

The impact of downloading is shown in columns 8 to 13. Column 8 shows that net expenditures on the selected social service programs more than doubled between 1997 (before amalgamation and downloading) and 1998. The new city experienced large cost increases compared with 1997 in Shelters, Housing and Support; Public Health; and Social Assistance.

From January 1997 to March 2000, nineteen changes were made to the provincial downloading program in response to municipal complaints. Some of the changes increased costs while others, especially after 1998, reduced them.

The most significant change occurred in 1998, when the province introduced the pooling of expenditures on social welfare, social housing, and for the province's commuter transit service, Go Transit, among all of the Greater Toronto Area (GTA) municipalities. [23]

The pooling of expenditures was an attempt to internalize the negative externalities from social service costs for the city by pooling costs with the rest of the GTA. [24]

The GTA along with the Regional Municipality of Hamilton–Wentworth used to support the Go Transit commuter service. Their contributions were based on pooled assessment, ridership and service levels. In September 2001, the province announced a multi-year program to improve and expand the province's infrastructure. The Superbuild program is to provide funds to improve and expand public transit, the provincial road system, colleges and universities, cultural facilities and community centres.[25]

Column 9 of Table 2 shows how the city began to adjust to the new financial environment. Between 1998 and 1999, the data show only one cost increase, for Children's Services. Decreases are shown for all the other categories. In Public Health, most of the reduction came from a change in provincial policy that increased their contributions to the program. The reduction in social assistance spending came about from falling unemployment rates, as the Canadian economy improved, and from cost cutting.

The city's cost for most social services increased between 1999 and 2000. The increases were related to the continuing implementation of downloading and to the increased costs of providing the services. Column 9 of Table 2 shows that in the 1999 budget, significant cost cutting occurred. As a result, budgeted expenditures on most social service programs decreased. Since 1999, the cost of social services has been rising but not significantly.

Table 3 shows estimates of the net downloading cost for 1997 to 1999 and for 2001. The net costs consist of the increased operating cost from downloading less the amounts that the local Boards of Education received when the province assumed responsibility for education. Since the city previously financed education from the property tax, the provincial government's education grants, also obtained from the property tax, are viewed as a reduction of the tax burden on city taxpayers. The net data show a significant increase of $101.9 million between 1997 and 1998.

Between 1998 and 1999, downloading costs fell by $61.5 million. However, in 2001, downloading costs increased as a result of the reduction in net operating costs for the reasons discussed earlier and because of a the large increase in the city's payments to support the operating costs of public transit (GO) and the city owned Toronto Transit Commission (TTC). The remaining costs in Table 3 show the loss of the capital grants for public transit.

Table 2
City of Toronto
Net Expenditures on Selected Social Services,

(millions of dollars)

	Actual Budget 1997	Actual Budget 1998	Actual Budget 1999	Actual Budget 2000	Actual Budget 2001	Adjusted Budget 2002	Approved Budget 2003	1998 as % of 1997	1999 as % of 1998	2000 as % of 1999	2001 as % of 2000	2002 as % of 2001	2003 as % of 2002
Children's Services	41.3	32.5	41.5	52.8	57.3	61.2	62.4	78.7	127.7	127.2	108.5	106.8	102.0
Long-term Care and Homes for the Aged	23.2	23.2	14.8	18.2	20.8	28.6	28.2	100.0	63.8	123.0	114.3	137.5	98.6
Shelters, Housing and Support	14.2	273.4	271.30	252.9	270.9	268.9	274	1925.4	99.2	93.2	107.1	99.3	101.9
Library	107.8	104.5	97.90	105.1	110.3	116.8	121.8	96.9	93.7	107.4	104.9	105.9	104.3
Public Health	47.1	83.5	49.6	56.5	60.2	65.2	69.6	177.3	59.4	113.9	106.5	108.3	106.7
Other Social Services	162.6	281.1	255.27	257.00	230.70	230.80	230	172.9	90.8	100.7	89.8	100.0	99.7
Total	396.2	798.2	730.37	742.50	750.20	771.50	786.00	201.5	91.5	101.7	101.0	102.8	101.9

Notes:
Net Expenditures are the amounts that are funded by the property tax. They are net of all other sources of revenue.
The approved budget is the budget approved by City Council for January 1 to December 31, 2000, net of all other sources of revenue.
Source:
City of Toronto, "1998 Operating Program, as recommended by the Budget Committee on April 20, 1998."
City of Toronto, "1999 Operating Budget as recommended by the Budget Committee, April 12, 1999."
City of Toronto, "2000 Operating Budget as recommended by the Budget Committee,
City of Toronto, web site, "Backgrounder, Where the money Goes …and Comes From", Data for 2002 and 2003.

In 1998, 1999 and 2000, the city did not increase the tax rate on residential property. It has been sheltering residential taxpayers from the increased downloading costs with grants from the province and through increased borrowing. In 1998, the province gave the city a $50 million grant to help finance its increased expenditures. The city also obtained $100 million dollar loans from the province in 1999 and in 2000. The repayment of the $200 million debt started in 2001 and was funded by selling debentures to the capital market.

Of greater significance is the city's borrowing to finance the capital cost of the TTC. Under provincial law, municipalities can borrow to finance capital but not operating costs. Downloading has shifted the capital cost of public transit to the municipalities. In 2001, the TTC's capital costs were estimated at $247 million and they were to be financed by borrowing. The debt service costs are estimated at $40 million per year. Clearly, debt servicing is going to place a significant strain on the city's future operating cost budget. [26]

The Implications of Downloading for the Future

The city's financial problems are directly related to amalgamation and downloading. The fact that the city's operating budget has exceeded the revenue from the property tax and from user fees in the budgets of 1998, 1999, 2000, 2001, 2002 and the proposed budget for 2003 is strong evidence that the city is not financially self-sufficient. The Ontario Municipal Act does not allow municipalities to borrow on the capital market to finance operating budget deficits. The only options are to borrow from the province, raise property taxes, raise user fees, contract out or cut back on service levels.

In the proposed budget of 2003, the City decided to keep services at the 2002 level by using the actual expenditures in 2002 as its proposed budget for 2003.[27] To do this; it had to raise taxes on residential property by 3 percent and to draw on some surplus funds. A more obvious solution for the city's financial problems is long-term provincial and federal government financial help and changes in the downloading program.

Since the city's employment costs are rising because of wage harmonisation, if the city does not get long-term financial help from the provincial and the federal Governments, it will have to cut more services, raise taxes and privatise some of its functions.

Toronto's problems are illustrated in Table 4. Compared with major U.S. cities, Toronto received no federal government transfers and a much smaller amount of provincial government transfers than did the 38 U.S cities.

Toronto's ability to raise additional revenue is constrained by the Ontario Municipal Act and the unwillingness until recently, of the provincial and federal governments to provide additional aid. Most of the 38 largest U.S. cities have the legal right to use sales taxes and a municipal income tax. They also receive substantial help from the State and Federal Governments.

Table 3

The Net Downloading of Costs by the Province of Ontario the New City of Toronto, 1998 to 1999, and 2001 (millions of dollars)

Category	1997 Metro Budget	1998 Revised City Budget	1999 Estimated at Year End	2001 Budget Estimated at Year End
Operating Costs (1)	50	693.3	601.4	594.7
Less Education	0	-573.2	-573.2	-565.2
Net Operating Costs	0	120.1	28.2	29.5
Capital Costs (TTC Subsidy Loss) (2)	0	180.0	180.0	247.0
Total	50	310.1	208.2	276.5

Source:
The 1997 data are from the Municipality of Metropolitan Toronto, 1997 Operating Plan and Budget Toronto, February 26, 1997.
The data in columns 2 and 3 are from the City of Toronto, "Provincial Downloading-Local Services Realignment,"
A Report prepared for the Policy and Finance Committee by the Chief Financial Officer and Treasurer, December 1, 1999.
The data for 2001 were obtained from the City of Toronto, Treasury and Financial Services Division. No data are available for 2000.
(1). Operating costs also include subsidies for GO Transit and for the Toronto Transit Commission. (2). The capital cost of the TTC subsidy may be overstated for 1998 and 1999 because the province gave the city a $829 million payment for the Sheppard Subway and other TTC capital Projects.

Canadian municipalities have been lobbying for additional sources of funding. This now appears to be happening. The Province has agreed to provide the City with $64 million for money spent by the city on safety improvements for the TTC.[28]

In a recent article in the Toronto Star, the mayor of Toronto stated that the city has been promised additional funding from the federal and provincial governments.[29] This consists of $1.1 billion from the province for transit improvements and system expansion over the next decade. The federal government also promised another $76 million for transit. The province and the federal governments have promised $90 million each for cultural projects. Another, $1.5 billion has been promised from all three levels of government to help develop the waterfront.

An increase in provincial and federal funding is clearly important for Toronto. However, the funds being offered may not be enough. Without additional sources of tax revenue, the city will have to continue to cut services. A column by Henry Aubin in the Montreal Gazette provides some evidence that this is happening. He quotes Michael Prue, a former Mayor of East York, who states "Grass used to be cut in our parks eight to ten times each summer; now it's four to five times." The city has also closed the Marine Museum, the third most popular city-run museum. User fees have been raised at publicly owned recreational facilities. Restaurants that use to receive free garbage pickup six nights a week now pay $1,600 a year for it."[30]

Additional evidence on Toronto's deteriorating financial position is provided by Slack. [31] Slack quotes a report by Urban Strategies Inc estimating. that Toronto is investing in new infrastructure at about one-fifth the rate of equivalent U.S. cities. Studies done by the IBI Group, Hemson Consulting Ltd. and C.N. Watson & Associates show a gap of $800 million between budgeted and required investment for roads, bridges and urban transit in the GTA. The reports conclude that the under-investment will lead to major traffic congestion, and a reduction in the quality of a resident's life or welfare.[32]

The new city still faces two significant budget problems. The first is the wage and salary arbitration decisions discussed earlier. These will significantly increase future operating costs. The second is the increasing debt burden from its decision to finance capital expenditures by borrowing from the province and the capital market.

Revenue Sources Opened To The New City

The city is constrained in its ability to raise additional revenue. Municipalities in Ontario can obtain revenue from the property tax on residential, commercial and industrial and other forms of real estate. The province sets seven standard classes of property for tax purposes, but it can create additional classes. [33] Municipalities can also obtain revenue from fees and the sale of services.

In 2001, the province passed Bill 140, "An Act to Amend the Assessment Act, Municipal Act and other Acts with respect to Property Taxes." This Act gives the province control over how the property tax can be applied to commercial property.

Under the Act, the Provincial Treasurer can determine a provincial average tax ratio, which was set at 1.417 for 2001. The ratio is calculated by dividing the residential tax rate into the commercial tax rate. Any municipality with a commercial tax rate greater than 1.417 cannot increase its tax revenue by imposing additional taxes on commercial property. Since Toronto's ratio in January 2001 was 4.27, only the residential property tax rate could be increased to raise additional revenue.[34]

The ratio for Toronto is much higher than in the rest of the GTA. For example, the ratios for Peel and York Regions are close to or less than 1.417. The provincial government's share of the commercial property tax rate also varies across the province. The rate in Toronto is higher than in any other municipality in Ontario. Comparing Toronto and Mississauga, the rate in Toronto is almost twice the rate in Mississauga.

Businesses in Toronto are at a cost disadvantage compared with those in the rest of the GTA because they pay much property higher taxes. A consultant's report prepared for the City of Toronto shows that the residential property taxpayers received $526 million more in services than they paid in property taxes in 2000.

The report was kept secret because it undermined the city's argument that Bill 140 prevented the city from increasing the commercial property tax. Some city councillors are now arguing that the problem is not Bill 140 but the non-competitive environment set by the property tax ratios, The City has to attract more commercial activity. In 2001, only 20% of the business building permits issued in the GTA were in the city. If the city attracted more business activity it would receive more business taxes to help pay for services. [35]

At the provincial level, the current conservative government released its party platform, called "The Road Ahead" in May 2003. One key point in the platform is the proposed "Taxpayers Protection Act." The Act would prohibit the provincial government from raising tax rates without a majority of voters in a provincial referendum.

Also, local governments would not be allowed to introduce a new tax or to increase an existing tax without the approval of a majority of the voters in a municipal referendum.[36]

The province also passed legislation that requires the Minister of Municipal Affairs to approve the wording of any question to be placed before the voters in a referendum. This legislation has not yet been enacted. If it becomes law, the Act would remove a municipality's authority over its own affairs. The legislation also requires that 50% of municipal voters approve the referendum.

In Ontario only a small proportion of eligible voters actually vote in Municipal elections. Getting 50% of eligible voters to approve a referendum would be a very difficult task. The Association of Municipalities of Ontario has strongly objected to the legislation. It is possible it may be modified before it is enacted.[37]

Demergers in Quebec

The previous government of the Province of Quebec merged the adjacent local municipalities of Montreal, Quebec City and Longueuil into three large cities on January 1, 2002. This was done despite the objections of the residents of these new cities in local referendums. Peter Trent, the former mayor of Westmount, led the fight against the merger of the Montreal area municipalities. Trent did not run in the first Montreal megacity elections. He led a court battle against the legislation, but he lost. [38]

Mr. Trent along with 9 other citizens of the merged cities hired a former Supreme Court Justice of Quebec to look at whether demergers were possible. Lawrence Poitras and others prepared the report, which showed the negative impacts of amalgamations. In every merged municipality, costs had risen. The report argued that demegers could be achieved for about $2 per person and they would have positive economic consequences. [39] The media and most municipal politicians did not support the report. However, in a recent provincial election, the leader of the Liberal party, Jean Charest, supported the idea. He stated that within twelve months of being elected his government would pass legislation permitting municipal referendums to allow de-mergers. If 10 percent of the population in a merged municipality signed a petition against amalgamation, the Provincial Government would allow a referendum on de-mergers. Charest won the election. He proposed that legislation allowing de-merger referendums would be introduced in June 2003. Judge Poitras report made a number of major points against amalgamations.

1. " All economic studies- even the former government's own Bedard report- show that the bigger the city, the more it costs per capita: therefore there are diseconomies of scale in creating megacities"
2. After one year of existence, the budgets of the megacities have increased. Montreal's budget went up by 1.8%, Quebec City's budget was up by 3.5% and Longueuil's budget went up by 5.5%.
3. The Poitras Report estimated the savings in demergers by showing that costs tend to drift up to highest common denominator in the merger. This point has already been made in the discussion about the Toronto amalgamation.
4. The study estimated the cost of the Montreal merge would be $200 million per year. Therefore the savings from demergers would also be $200 million or $111 per capita per year for Montreal.[40]

A demerger will require a referendum and it is unlikely that the referendum would take place before the fall of 2004. Peter Trent, the former Mayor of Westmount has begun to campaign to obtain a referendum for Montreal.[41]

Table 4
Revenue Sources as a percent of Total Revenue, City of Toronto and the average of 38 Largest United States Cities

Type of Revenue Source	*City of Toronto*	Total of 38 Largest United States Cites
Property Taxes	45%	18%
Provincial / State Government Grants	23%	29%
Federal Government Funding		7%
Users Charges	16%	14%
Sales Tax		12%
Income and Other Taxes		13%
Other Revenues	16%	7%
Total	100%	100%

Source: City of Toronto, Building the New City, Final Three Year Status Report on Amalgamation, January 1998 –December 2000, Office of the Chief Administrative Officer, May 2001, p.33, and City of Toronto, Backgrounder, City of Toronto Web Site. March 3, 2003.

Given what is happening in Quebec, the question arises as to whether similar legislation would be useful for Ontario? In the City of Toronto, amalgamation took place in 1998. The city has already integrated the various municipal function that had not been merged before under the previous two-tier Metro form of Government. Returning to the Metro form of government would be both costly and difficult. Therefore, Toronto's task is to make the merged government work better.

Globalization and Urban Government Restructuring

Globalization, the increasing integration of the world economy, has led the upper-tier levels of government in a number of countries to push for municipal amalgamation. This is based on the view that global competition requires large municipalities to make the urban area competitive with other world cities.

Empircal evidence indicates that this view is not correct. Most U.S. urban areas consist of many municipalities. This does not make these areas uncompetitive with other world urban areas. Many European cities are also not centralized.

A recent article by Andrew Sancton[42] argues that the important element in a city region's competitiveness is not its governmental structure, but its access to customers and suppliers, its location, the political stability of the region, the skills of the labour force, municipal, provincial and federal taxation, and the availability of cultural and other activities. Another important element in attracting new firms is the incentives offered for firms to locate in the city region. None of these elements depend on the governmental structure of the city region.

Conclusions

Mergers that are imposed on communities despite the opposition of the residents are in conflict with basic democratic principles. The mergers are based on the view that the senior levels of government and its civil servants know what is best for the residents of the amalgamated communities.

The principal human rights organization in Europe, the Council of Europe, is opposed to forced amalgamations. The Council's view is incorporated in the European Charter of Local Self-Government. The document states that "Changes in local-authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by law."[43]

In Canada, the Canadian Federation of Municipalities has also approved a resolution to "support the rights of citizens to decide the form and structure of their own municipal government." [44]

Bish expresses similar views when he states that, “the 21st century will require institutional adaptability to rapid change. Yet in that critical area of the relationship among citizens, the civil community and local governance, some provincial governments are imposing an intellectual fashion of the nineteenth century in the form of an almost religious faith in monolithic government organisations and central control.” [45]

Municipalities have two major roles. They serve as agencies for the delivery of local services. They also serve as access points for citizens to voice their opinions on the nature of local governments. In amalgamated cities, the access function becomes more difficult for the city’s residents. This dissatisfaction has lead to secessionist movements because residents feel isolated from their political representatives. They cannot complain about local issues to the Mayor as they can in a small town.

In my interviews with Toronto councillors, I was told they have staff members who are dedicated to looking after citizens’ complaints and to helping resolve problems with the city administration. The Toronto merger also created the Community Councils, which are an attempt to allow Councillors to look after local issues in each of the former merged municipalities. How well they work is not clear at this time.

One of the justifications given by the provincial government to support amalgamation was that it would reduce costs by eliminating duplication and simplifying municipal government. The evidence indicates that amalgamation has not reduced costs. On the contrary, it has increased costs. Whether the city is able cut costs in the future without reducing service levels is not clear at this stage. Most studies on amalgamation, however, show that a reduction in costs is not likely. [46]

One positive aspect of amalgamation is that it has allowed some municipalities in the former Municipality of Metropolitan Toronto, and especially the City of York, to provide a higher service level for its residents than it could with its own revenue. This is related to the harmonizing service levels. Service levels have risen for some municipalities and fallen for others; therefore, some residents are better off while others are worse off. The negative aspect of service harmonization is that some communities are being forced to pay for services they do not want. They are also denied services that they do want and would be willing to pay for if they controlled their own budgets. Since there is no reason for all services and tax rates to be harmonized, this problem could be easily remedied.[47]

Looking back over the reports on governance in the GTA, it is evident that the major concern was the co-ordination of service delivery across the region. The creation of the new City of Toronto has not addressed this fundamental regional problem. The only provincial government agency currently involved co-ordinating transportation services in the GTA is Go Transit. This agency is viewed by many experts on transportation in the GTA as the key building block for the GTA’s transportation future.[48]

Combining amalgamation and downloading has produced an untenable financial situation for the new city. The city is not financially self-sufficient. Toronto is faced with the operating and capital costs of downloading imposed by the province, putting a significant burden on the property tax. The province currently restricts the city to the property tax and to user fees for additional revenue. Other revenue sources are needed to help the city meet its financial requirements. The lack of funds, other than borrowing, to maintain and add to its infrastructure, means that the city's infrastructure is deteriorating and that borrowing costs will place an additional future burden on the city's operating costs. The inability to maintain and add to the city's and the GTA's infrastructure will increase urban sprawl which places additional costs on the city's and on the GTA's businesses and residents.

Toronto is one of the main engines of growth for both Ontario and the rest of Canada. If the provincial and federal Governments continue to deny additional funds to Toronto and to restrict the tax sources open to the city, the cost of living and of doing business in Toronto will increase. Toronto's ability to provide the services required to attract and retain businesses and residents will decline. This will seriously handicap Toronto's and the GTA's growth generating capacity and reduce Ontario's and Canada's future growth rates.

ENDNOTES

1. Prior to amalgamation, the current city of Toronto had a two- tier governmental structure. This consisted of the upper-tier Municipality of Metropolitan Toronto and the lower-tier Cities of Toronto, Etobicoke, North York, Scarborough and York and the Borough of East York. The Municipality of Metropolitan Toronto was responsible for area-wide services such as transit, traffic control, major roads, and area wide planning. The lower-tier municipalities looked after local services such as local roads, sidewalks, street lighting, sidewalks and other services. In the 1996 Census, the City of Toronto had a population of 653,784 and Metro had a population of 2,385,400. Therefore, Toronto accounted for about 27% of the upper-tier total population. The former city of Toronto also accounted for 641 sq. a 97 sq. Km. out of Metro's total area of Km, or 15% of the total.
2. Bish. 200. 74-76.
3. Ibid.
4. Tiebout, 1956, 416-424.
5. Province of Ontario, 1990.
6. Ontario, Ministry of Municipal Affairs and Housing, 2001.
7. Bish, 2001, 19-20 and 29-35.
8. Sancton, 2000.
9. City of Toronto, March 9, 2001, 2.
10. City of Toronto, Building the New City of Toronto, 1999, 24.
11. City of Toronto, March 9, 2001, Appendix B.
12. City of Toronto, Budget 2003-background information, City of Toronto website, 3.
13. Bish, March 2001.
14. Slack, spring 2000.
15. Vojnovic, 239-283.
16. Abbate, 2000.
17. Rusk, 2000.
18. City of Toronto, Toronto Staff Report 1999, 4, and Abbate, 2000.
19. An arbitration award involving the fire fighters was reported in the Globe and Mail (Barber, 2001). The arbitrator harmonized their wages at the highest rate paid in the six former municipalities. The fire fighters were also given wage parity with first-class Toronto police constables. The city estimated the cost of this wage harmonization at $3 million. The Globe and Mail article quoted Councillor Brad Duguid's estimate of the cost as $18.3 million for 2001. The awards were also to be retroactive, but how far back they will go was not announced when the first decision was made. Benefits are also to be harmonized and made retroactive. The newspaper story quotes the same city councillor's estimate of a retroactive wage award back to 1998 as $50 million. The councillor also estimated the non-wage costs of amalgamating the six

former fire departments at about $100 million. These costs included a new radio system, a new computer system and other costs to standardize equipment. Given what has already happened, the overall costs of amalgamation will be much higher than the city's estimate. This is especially true for the wage and salary bill (City of Toronto, Toronto Staff Report, 1999, 4).

20. Bird and Slack, Chapter 3.
21. Ibid.
22. City of Toronto, Budget, 1999.
23. City of Toronto, December 1, 1999. The GTA municipalities included the City of Toronto and the Regional Municipalities of Halton, Peel, and York.
24. Pooling is based on a formula using the weighted average assessment values in each of the GTA's municipalities. The inclusion of different tax rates in the formula is also allowed, if it is unanimously agreed upon by all of the municipalities. Association of Municipalities of Ontario, 4.52.
    The GTA cost equalization shares are set by provincial regulation. Because the rest of the GTA is growing faster than the city, the city's share of pooled social service costs will fall over time. In 1998, the city's share was 52.4 per cent. In 1999 it had fallen to 51.57 per cent. In 2001, it was set at 50.9 per cent (City of Toronto, December 1, 1999, 3). For 2002, the city's share will increase to about 53% because property values were reassessed in the GTA and the Toronto's assessed property value rose by more than the rest of the other GTA municipalities.
25. Under the Superbuild program, the province agreed to pay for one-third of the capital costs of GO Transit over a three- year period, the municipalities will pay the other two-thirds. The province has also agreed to pay for GO Transit's operating costs.
    The province has also agreed to invest $15 billion for more than 4,000 projects. The projects are cost shared with the municipalities and the federal government. The province sought proposals for infrastructure spending starting in December 2001. In 2003, some programs were announced. These included a $3.25 billion program to expand and improve public transit over the next 10 years. Matching funds were sought from the federal government and the municipalities. The province stated that their spending under Superbuild would save the municipalities in southern Ontario $10 billion over the next 10 years. (Province of Ontario's website and Richard Mackie, Government targets rail transit, the Globe and Mail, March 27, 2003.)
26. Province of Ontario website, April 2003.
27. City of Toronto, City Budget 2003, questions and answers, City of Toronto Web Site, 2003.
28. Province of Ontario, Municipal Affairs and Housing Web site, Press Release, February 20th, 2003
29. Rusk, 2002.
30. Aubin, 2001.

31. Slack, 199.
32. There are many articles on Toronto' s deteriorating infrastructure. For example see, Christopher Hume, "City crumbling top planner says" The Toronto Star, July 11, 2003 and Gay Abbate, "State of Tracks forces streetcars to crawl" The Globe and Mail, Toronto, July 14, 2003.
33. Province of Ontario, 2001.
34. Royson, 2001.
35. Rusk, 2000
36. John Sewell, Local Government Bulletin No. 37. May 2003.
37. Ibid.
38. Ibid.
39. Ibid.
40. L. A. Poitras, "Municipal Demergers in Quebec", March 17, 2003.
41. "To the barricades, again", Toronto Star, June 14, 2003.
42. Sancton, Andrew, Globalization Does not Require Amalgamation, /Policy options, Nov. 1999, pp. 54-58.
43. Council of Europe, 1985.
44. Aubin, 2001.
45. Bish, 2001, summary.
46. Bish and Vojnovic, 2000, 415.
47. Vojnovic and Poel, 2000, 70-77
48. John Barber, "Pinning for transit authority we already have", the Globe and Mail, March 19, 2003.

Appendix Table 1
Changes in Responsibilities of the Provincial and Municipal Governments
As a result of the Local Realignment of Services (LRS) Program

Service	Before LRS	After LRS
Social and Community Services	Most social and community services were either funded by the province or cost shared with the municipalities under the General Welfare Assistance Act, the Family Benefits Act, and the Vocational Rehabilitation Act. These programs were replaced by the Social Assistance Reform Act (1997). Under the new Act, the provincial government created the Ontario Works Act (1997), and the Ontario Disability Support Act (1997). These Acts significantly changed the social assistance programs.	The Ontario Works Act insures that financial and employment assistance is available for people in need. However, it also encourages such people to become self-sufficient. (Section 4-1)
To be eligible for the Ontario Works Program, a recipient must take training to help them become employable. Drug Benefits for people on this Program.	100% provincial	Municipalities fund and deliver the program. Assistance, 80% provincial/ 20% municipal Implementation, 80% provincial/ 20% municipal Administration, 50% provincial /50% municipal 80% provincial/20% municipal (Section 4.2)
Sole Parent Support (now part of Ontario Works Program).	100% provincial	Benefits, 80% provincial /20% municipal Administration, 50% provincial/50% municipal (Section 4.2)
Ontario Disability Support Program.	Allowances and Benefits, 100% provincial Administration, 100% provincial Services, 100% provincial	
Child Care	100% provincial	Program Costs, 80% provincial/20% municipal administration, 50% provincial/50% municipal (Section 4.3)
Long-term Care	100% provincial	50% provincial/50% municipal (Province of Ontario "Who Does What Reforms", 1997)
Hostels	80% provincial /20% municipal	Transferred to the municipalities. (Province of Ontario "Who Does What Reforms", 1997). In June 1998, the province announced that hostels would be cost shared on an 80% provincial /20% municipal bases retroactive to January 1, 1998. (Section 4.6)
Homes for Special Care	100% provincial	50% provincial/ 50% municipal (Province of Ontario "Who Does What Reforms", 1997)

Public Health The new program is based on the Health Protection and Promotion Act (1997) as amended by the Services Improvement Act (1997).	The province sets the standards, but the municipalities or local Boards of Health delivered the services. Funding was 100% provincial.	The province sets the standards. The municipalities or local Boards of Health deliver the services. After 1998, the programs were funded 100% by the municipalities, except for certain designated services, such as vaccines, which are funded 100% by the province. On March 23, 1999, the province agreed to pay 50% of the costs, except for the designated programs, which are 100% funded by the province. The administration and the cost of the administration of the program were transferred to the municipalities. (Section 4.4)
Land Ambulance Services The changes are based on the Ambulance Act as amended by the Services Improvement Act (1997), and the Tax Credit and Revenue Protection Act (1998)	100% provincial	The cost of operation, equipment and administration was transferred to the municipalities after January 1, 1998. The transfer was to be completed by January 1, 2001. On March 23, 1999, the province changed the program and agreed to 50%/50% cost sharing with the municipalities. (Section 4.5)
Social Housing The changes are set out in Schedule F of The Services Improvement Act (1997). This involves the transfer of costs to the municipalities, the reform and simplification of administration, and the transfer of responsibility for social housing to Consolidated Municipal Service Managers. Changes were also made to the Social Housing Act (1997).	The federal, provincial and municipal governments own social housing. Some privately owned housing also received subsidies from the Federal and provincial governments. The Federal and provincial governments paid the costs of social housing.	The first stage of social housing devolution started on January 1, 1998, when the province began to charge the municipalities for the cost of social housing. After a Federal-Provincial Agreement was negotiated, the province would begin to simplify program administration based on the recommendations of advisory groups. The Report of the Social Housing Committee was released in August 1998. The third and final stage was to transfer most of the responsibility for administration and for provincial cost to the municipalities. Some exceptions included dedicated supportive housing for people who need support services to live independently. Provincial costs and administrative responsibility were transferred to the municipalities. In the GTA, the Local Services Alignment Program (see below) mandated cost sharing of social housing in the GTA among the five local governments of Toronto, Peel, York, Durham and Halton. (Section 4.6)
Women’s Shelter’s	80% provincial /20% municipal	100% provincial. (Province of Ontario “Who Does What Reforms”, 1997).
Municipal Transit, Operating and Capital Cost.	Cost shared. For the Toronto Transit Commission, the Province paid 75% of the Capital Costs and 50% of the operating cost deficit.	100% municipal, Provincial Subsidies ended on January 1, 1998. (Section 5.1)

Go Transit	100% provincial	Responsibility for funding and operation was transferred to the GTSB on January 1, 1998. The capital and operating costs are paid from Go Transit revenue and from funding obtained from the five GTA municipalities and the Regional Municipality of Hamilton –Wentworth and the Province of Ontario. (Section 5.2)
Ferries	Provincial with some shared costs.	Ferries serving local needs were transferred to the municipalities. Other ferries, such as the Glenora and Abitibi Ferries are provincially funded. (Province of Ontario "Who Does What Reforms", 1997)
Municipal Airports	100% provincial	Responsibility for the operating and capital costs was transferred to the municipalities on January 1, 1999. (P. 5.6 and 5.7)
Roads and Bridges This program is based on the Public Transportation and Highways Improvement Act.	Cost shared by the province and the municipalities.	The municipalities were made responsible for all roads and bridges that serve local needs, except in sparsely populated areas. On January 1, 1998, the municipalities were responsible for 3,400 km of highways. Another 1,775 km. of provincial highway were transferred to the municipalities in 1997. The province provided the municipalities with a one-time grant of $275 million for capital and maintenance needs. (Section 5.4 and 5.5)
Water and Sewage Facilities operated under the Ontario Clean Water Agency. The Water and Sewage Improvement Act (1997).	25% Provincial/75% municipal	All provincially owned water and sewage facilities have been transferred to the municipalities. The transfer began in late 1997 and it was being phased in over a two-year period. Municipalities selling water and sewage works to the private sector will be required to repay all provincial construction grants paid for the works since 1978. (Section 5.7)
Septic Systems (Services Improvement Act, 1997)	Approval and inspection, was 100% provincial. This is still true for larger or communal sewage systems.	As of April 6, 1998, regulatory authority for approval and inspection of smaller-on-lot sewage systems was transferred to local governments. User fees cover the cost. (Section 5-6).
Policing (Ontario Provincial Police)	This was a provincial responsibility. The Police Services Act is under the jurisdiction of the Solicitor General. Amendments to the Act were made in November 1997. (Section 3.1) The Act sets out the requirements that a municipality must meet for policing services. Before 1997, the province paid the cost of Ontario Provincial Police services for many municipalities. (Section 3.2)	Under the amended Act, the municipalities now pay for all OPP policing. In municipalities that have their own police force, the municipality pays the cost of policing. (Section 3.1)

Property Tax Assessment	Provincial, under the Provincial Assessment Commissioner. The province is still responsible for setting standards and polices for the new assessment system.	The province set up the Ontario Property Assessment Corporation (OPAC) on December 31, 1998. OPAC assesses property based on its market value assessment. Municipalities now deliver and fund assessment services. (Sections 2.1 and 2.2) When market value assessment was introduced, the assessments were based on 1996 values. These were updated using 1999 values for 2001 to 2003 taxes. The next assessments are to be done annually and the assessed values are to be based on 3 year moving averages. (Section 2.11)
Libraries	The municipalities and the province shared the cost of this service.	The municipalities are responsibly for local library services. The province continues to support the system through funding of the province wide network of shared resources, and the telecommunication links to connect the libraries to the global information network. (Province of Ontario “Who Does What Reforms”, 1997)
Provincial Offences Act	100% provincial	Administration, prosecution, and court support for some offences now municipal. The municipalities now also received the revenue from any fines paid. (Section 7.1)
Education	Local School Boards set the tax rates on all classes of municipal property and the municipalities collected and remitted the revenue to the Public, Catholic and French language school boards. The curriculum was a joint provincial and school board responsibility.	Under the Education Quality Improvement Act, 1997 (Bill 160), the province sets the education property tax rates for all classes of property. The taxes are collected by the municipalities and given to the School boards based on their enrolments. The funds collected from the tax on business are shared among all the municipalities. The province also provides grants to School Boards from general revenues based on student needs. The tax rates set on residential property have been reduced from 46% in 1998 to 41.14% in 1999. They are to be reduced by a further 10% over the next ten years. This is done to give the municipalities more revenue from the residential tax rates to help pay for their increased responsibilities. (Section 2.3)

Source: Association of Municipalities of Ontario, *“Local Service Realignment, a user’s guide”*, Queen’s Printer for Ontario, 1999. The section numbers in the Table refer to the sections in the Guide where the information was obtained. Some information was also obtained from the Province of Ontario “*Who Does What Reforms*”, Toronto, 1997.

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