THE FINANCIAL IMPLICATIONS OF AMALGAMATION: THE CASE OF THE CITY OF TORONTO

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BACKGROUND

The rapid population and economic growth of the Greater Toronto Area (GTA) in the late 1940's and early 1950's put a significant strain on the financial and administrative capabilities of the existing municipal governments. However, the existing municipalities wanted to preserve local interest and citizen participation. The province's solution was a two-tier system of local government that more or less satisfied both objectives. [(1)]

The new upper-tier Municipality of Metropolitan Toronto was created in 1954 to provide services for the whole community, where spillover effects or economies of scale were important. At the same time, the individual communities retained their autonomy over local services.

In the 1995 provincial election, a new Progressive Conservative government was elected under a platform called the "Common Sense Revolution." The government promised smaller government, less red tape, and lower taxes. In the case of the municipalities, it promised to reduce duplication and lower the costs of local government. It also promised to clarify the functions of the provincial and municipal governments. [(2)]

In 1996, the new provincial government set up the provincial-municipal, "Who Does What Taskforce" headed by David Crombie, a former mayor of the City of Toronto, to look at the question of disentangling provincial-municipal relationships. It made its report in late 1996. [(3)]

In January 1997, the provincial government made a series of policy announcements proposing new legislation for education, market value property assessment, and the redistribution of the responsibilities between the provincial and municipal governments. Most of the announcements involved the downloading of costs on the municipalities for programs that were previously paid for by the province or cost-shared with the municipalities. [(4)]

The province looked at the amalgamation of the Municipality of Metropolitan Toronto in 1996. To help make a decision, it hired KPMG Consulting to prepare a report on the savings and costs of amalgamation. [(5)] The province's stated goal was to reduce costs by eliminating duplication and to improve the efficiency of the delivery of services. The KPMG report estimated that the annual cost savings from amalgamation would be $82-$112 million. They also estimated additional annual efficiency savings of $148 to $252 million by the year 2000. The

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	
Target Annual Saving	$150	from Tax Supported Amalgamated Programs
	$ 17.3	from Rate Supported Programs
Target Totals	$167.3	
Actual Annual Saving	$136	from Tax Supported Amalgamated Programs
	$17	from Rate Supported Programs
	0	from Efficiency Savings
Total Annual Saving	$153	per year
Annual Cost	$153	from Service Level Harmonization
	N/A	from Wage Harmonization
	$29	from Annual Financing Costs (for a ten year period)
Total Annual Cost	$182	
One-time Transition Cost	$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	$275	

Source: Toronto Staff Report To Budget Advisory Committee "*Summary of Amalgamation Savings and Costs*", March 9, 2001, Appendix B total annual savings were estimated at $230 to $364 per year by the year 2000. The one-time amalgamation costs were estimated at $150 to $220 million.[6)]

The province decided to proceed with the amalgamation by passing Bill 103, the City of Toronto Act in 1996. [(7)] This was done in spite of the fact that on March 3, 1997, a referendum was held on amalgamation in the six local municipalities and from 70 to 81% of the voters were opposed to it. Bill 103 set out the political structure of the new City of Toronto (City) and authorized the transfer of assets and liabilities and the by-laws of the previous seven municipalities to the new City of Toronto. The Act also created two boards to supervise the transition from the old structure to the new one. The transitional boards were the Financial Advisory Board and the Transition Team. Both were dissolved on January 31, 1998.

This paper will look at two aspects of the changes. The first is the financial implications of the amalgamation. The second is the financial consequences of the decision to redistribute the responsibilities of the provincial and the municipal governments. Cost estimates as well as the estimates of the other financial implications will be provided for both topics.

AMALGAMATION SAVINGS AND COSTS

AMMALGAMATION SAVINGS

When the city was amalgamated in 1998, it set 3-year annual targets for cost reductions. The targets were 10% of the $1.5 billion budget for newly amalgamated programs that were tax supported, or $150 million per year. The city excluded expenditures for programs that were previously amalgamated under the former Municipality of Metropolitan Toronto (Metro). They made up about 73% of the new city's operating budget. [(8) (9)] The city also set an additional 10% target on the $173 million budgeted for rate supported programs, such as water and wastewater. The annual target was $167.3 million. [(10)]

Table 1 shows the cost savings achieved by the city up to the end of 2000. The data show that most programs met their targets. The city was able to achieve annual savings of $49.6 million in 1998, $64.4 million in 1999 and $19.5 million in 2000. By the end of 2000, annual cost savings directly related to amalgamation were $136.2 million for the property tax supported programs and $17.3 million for the rate-supported programs. The annual total for the 3 years was $153.5 million. [(11)]

Because most municipal costs are related to staffing, most of the cost savings involved reductions in the workforce. These included eliminating vacant positions, attrition, retirements, voluntary exits and targeted exits. The report notes that there was a reduction of 60% in executive management positions in the seven former municipalities. [(12)]

AMMALGAMATION COSTS

One-Time Costs

The city also faced one-time costs from amalgamation. These were transition costs to consolidate and integrate the various programs of the amalgamated municipalities. [(13)] By the end of 2000, these costs were $275 million. Some of the costs would have been incurred even without amalgamation. Therefore, all of the costs are not directly related to amalgamation. [14]

Annual Amalgamation Costs

Annual amalgamation costs include three sets of costs.

(a) The Harmonization of Services and User Fees

These costs arose from the need to equalize services and fees for waste and recycling collection, winter maintenance, public health, parks and recreation user fees, and boulevard and parking fees. The five services were identified by the new city as having the most significant differences in service levels or user fees 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, services levels are being reduced in some parts of the new city areas and raised in other parts. Fees are being harmonized in the same way. [15]

Up to the end of 2000, the cost of harmonization was $15.3 million. Since the process is still underway, the costs will continue to rise. When the services and fees are fully harmonized, the city expects that annual costs will be reduced by $17.8 million. [16]

(b) The 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 for management and its non-union workforce first. The estimated cost was $2 million. [17]
The issues were more complex for the unionised workforce since the new City faced 56 separate collective agreements in the seven former municipalities. [18] In March and April of 2000, the unionized inside and outside workers went on strike. [19]

The contracts negotiated by the City reduced the number of bargaining units and collective agreements from 56 to 6. [20] The negotiations also settled a large number of issues involving harmonization. However, the key demand for the harmonization of wage rates and benefits was not settled in the negotiations, and the issue was sent to arbitration and mediation. [21]
The reduction of the differentials is inevitable even if the union's 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 through the possibly privatisation of some services. Despite these measures, equalization will place an increasing strain on the new city's future operating budget. [22] [23]

A recent arbitration award involving the firefighters was reported in the Globe and Mail. [24] The arbitrator harmonized the firefighters' wages at the highest rate paid in the six former municipalities. The firefighters were also given wage parity with a first-class Toronto Police constable. The city estimated the cost of this wage harmonization component at $3 million. [25]

The Globe and Mail article quoted a city councillor as estimating the cost of the award at $18.3

million for 2001. The awards are also to be made retroactive, but the 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 at $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. (26)

(c) Annual Financing Costs

The one-time transition costs were funded by drawing $80 million from the City's reserves and by a $195 million provincial loan. The annual debt payments are estimated at $29 million over a ten-year period. (27) The City's debt burden has also been growing because of downloading. Indeed, this is a much more serious problem and it will be discussed later under the financial costs of downloading.

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. It also promised to redistribute the responsibilities of the provincial and municipal governments. (28) Downloading costs on the municipalities was one way that the provincial government could meet its commitment to cut the income tax. However, downloading costs made it difficult for the municipalities to support their spending on social services and other programs.

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. (29) Under the reforms, the province continued to set program standards, but the municipalities became responsible for running the programs and for paying a larger share of their 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 viewed as the most effective level of government to operate such programs because mobility would offset attempts to redistribute income. (30) Property taxpayers could avoid paying for the programs by moving outside of the municipality's boundaries. The availability of social service programs would also attract migrants to the municipality.
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. By shifting the responsibility and cost of social service programs from the provincial level to the municipal

level, the operation of the programs was made less effective.

A related argument involves the type of tax used to pay for income redistribution programs. Before the reforms, social services were paid for by the provincial government, by intergovernmental transfers from the province to the municipality, and by income raised by the municipality from property taxes and user fees. After the reforms, most of the revenue came from the property tax and from user fees.

The conventional view in public finance is that broadly based taxes are a more effective way of raising funds for redistribution programs than the local property tax. [31] The problem could be remedied by allowing municipalities to tax incomes earned in the municipality

Another problem is related to the generation of spillover effects. Toronto's rapid economic growth and generous social service programs have attracted migrants from the rest of the GTA and Canada. Canada's Immigration and Refugee programs have also attracted immigrants from other countries to the City of Toronto and increased Toronto's social services costs since the immigrants and refugees are eligible for welfare payments and other social services. Therefore, the inflows from elsewhere have created negative externalities for Toronto. This argument alone provides a strong justification for provincial and federal government funding.

Empirical evidence on this point is provided by a recent study prepared by the Canadian Council for Social Development. [32] Based on data from the 1996 Census and Statistics Canada's definition of low-income households, the study found that central cities are attractive locations for the urban poor. [33] About one-half of all the Census Metropolitan Area's (CMA's) populations lived in the central cities, but the central cities had two-thirds of the low-income households. [34

In the Toronto CMA, 27.6% of all households living in the former Metro Toronto fell below the low-income cut-off. Metro's rate was 10% higher than Ontario, and 8% higher than Canada as a whole. The Toronto CMA also had the largest number of low-income immigrants of any city in Canada. People born outside of Canada made up 47.7% of the Toronto CMA's total population and 56.7% of these people who lived below the low-income cut-off. This share was 11.3% higher than for people born in Canada who lived in the Toronto CMA.

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. [35] The problems faced by the City of Toronto are illustrated in Table 2, which shows the City's annual net budget expenditures for selected social service programs. These programs were the ones most affected by downloading. Net expenditures are the amounts that are funded by the property tax. They are net of all other sources of revenue.

Table 2
City of Toronto
Net Expenditure on Selected Social Services,
(millions of dollars)

	Actual Budget 1997 1	Actual Budget 1998 2	Actual Budget 1999 3	Approved Budget 2000 4	Approved Budget 2001 5	1998 as a % of 1997 6	1999 as a % of 1998 7	2000 as a % of 1999 8	2001 as a % of 2000 9
Children's Services	41.3	32.5	41.5	52.8	57.3	78.7	127.7	127.3	108.4
Long-term Care and Homes for the Aged	23.2	23.2	14.8	27.0	25.9	100.0	63.8	182.4	95.8
Shelters, Housing and Support	14.2	273.4	271.3	270.6	270.9	1925.4	99.2	99.7	100.1
Library	107.8	104.5	97.9	103.2	110.3	96.9	93.7	105.4	106.9
Public Health	47.1	83.5	49.6	57.1	59.7	177.3	59.4	115.2	104.6
Social Assistance	162.6	281.1	255.3	259.6	234.9	172.9	90.8	101.7	90.5
Sub-total	396.2	798.2	730.4	770.3	758.9	201.5	91.5	1.05	98.5
Total Net Operating Costs	2,571.7	2,531.2	2,536.1	2,598.9	2,737.7	98.4%	100.2%	102.5%	105.3%
Percent of Total Net Operating Costs	15.4%	31.5%	28.8%	29.64%	27.72%				

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 for 2000 is the budget approved by City Council for January 1 to December 31, 2000, net of all other sources of revenue.
The approved budget for 2001 is the budget approved by City Council for January 1 to December 31, 2001, net of all other sources of revenue.

Source:
City of Toronto, "1998 Operating Program, as recommended by the Budget Committee", April 20, 1998.
City of Toronto, "1999 Operating Budget as recommended by the Budget Committee", April 12, 1999.
The approved budgets for 2000 and 2001 were obtained directly from the City of Toronto, Budget Services.

Column 1 shows the 1997 actual net expenditures on social services for Metropolitan Toronto and its six lower-tier municipalities. Columns 2 and 3 show the same information for the new City of Toronto for 1998 and 1999. Columns 4 and 5 show the approved but not the actual expenditures for 2000 and 2001. The actual expenditures for 2000 are not yet available. The impact of downloading is shown in the next four columns. Column 6 shows that net expenditures on the selected social services programs more than double between 1997 (before Amalgamation and downloading) and 1998 (after Amalgamation and downloading). 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. Some of these changes increased costs while others, especially after 1998, reduced them as the province made adjustments in response to municipal complaints. In 1998, the province introduced the pooling of expenditures on social welfare, social housing and on Go Transit among all of the GTA municipalities. [(36)]

The Local Service Realignment (LSR) Program pooled expenditures on social assistance, hostels and social housing 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. [(37)] The LSR Program was an attempt to internalise the negative externalities for the city by pooling costs with the rest of the GTA. The GTA cost equalization shares are set by provincial regulation. Because the rest of the GTA is growing faster than the City of Toronto, the city's share of pooled social service costs will fall over time. In 1998, the city's share was 52.4%. In 1999 it had fallen to 51.57%. For 2001, it was set at 50.9%. [(38)]

Go Transit costs are also pooled based on assessment, ridership and service levels. The Greater Toronto Service Board (GTSB) sets the share for each member municipality that supports the Go Transit system. The city's share of GO Transit costs was set at 49.9% in 1999. For the year 2001, the city's share of operating costs is set at 47.6% and its share of capital costs is set at 44.6%. [(39)]

Column 7 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 government policy that increased their contributions to the program. [(40)] The reduction in social assistance spending came about from the falling unemployment rate as the Canadian economy moved back to full employment, and from cost cutting and increased user fees. [(41)] Cost cutting and increased user fees place an increased burden on the city's poor.

Between 1999 and 2000, the city's cost for most social services increased. This was especially true for Long-term Care and Homes for the Aged. The increase was related to the continuing implementation of downloading and cost increases.

Column 9 of the Table shows that in the most recent budget, significant cost cutting occurred, and budgeted expenditures on most social service programs decreased.

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 education grants, also obtained from the property tax, are viewed as a reduction of the 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 fall by $61.5 million. However, for 2001 downloading cost increased as a result of the reduction in net operating costs for the reasons discussed earlier and the large increase in the city's payments to support the operating costs of public transit (GO and the TTC).

The remaining costs in Table 3 show the loss of the capital grants for public transit. As noted in Table 3, the amounts may be overestimates because the city neglected to fully account for the $829 million payment from the province to support the new Sheppard subway and other TTC capital costs.

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 it 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 will start in 2001 and it will be funded by selling debentures to the capital market [(42)]

Of greater significance is the city's borrowing to finance the capital expenditures of the TTC. Under provincial law, municipalities can borrow to finance capital costs but not operating costs. Downloading has shifted the capital cost of public transit to the municipalities. In 2001, the TTC capital costs were estimated at $247 million. These costs are to be financed by borrowing. The debt service costs of the borrowing are estimated at $40 million per year. Clearly, the growth of debt servicing is going to place a significant strain on the city's future operating cost budget. The Chief Financial Officer of the city has recently released a report on the future consequences of the increasing debt load for the city. [(43)]

The Implications of Downloading for the Future

Determining the budget for 2001 was a major problem this year. The city's Budget Committee spent 3 months cutting programs and increasing user charges. In April, the Budget Committee still faced a deficit of $143 million. Negotiations with the province produced $125 million in grants, loans and adjustments to programs. The committee recommended that the remaining $48 million be covered by a residential property tax increase of 5%. [(44)] Without significant provincial and federal government help in the future, large residential tax increases may have to be imposed to maintain services. If this does not happen, the city will have to cut its services significantly.

Table 3

The Net Downloading of Costs by the Province of Ontario on 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.

Table 4
A Comparison of the Property Tax Burden on a Typical Detached Single Family Home

Rank Highest to Lowest Tax Burden	Municipality	Assessed Value	2000 Tax Rate	2000 Tax Burden	Comparison to Toronto Property Taxes
1	Oakville	264,000	1.3912%	$ 3,673	$ 32
2	**Toronto**	**300,000**	**1.2137%**	**$ 3,641**	**-**
3	Pickering	219,000	1.5063%	$ 3,299	($ 342)
4	Burlington	227,000	1.4109%	$ 3,203	($ 438)
5	Ajax	192,000	1.6427%	$ 3,154	($ 487)
6	Hamilton	157,000	1.8752%	$ 2,944	($ 697)
7	Oshawa	163,000	1.7614%	$ 2,871	($ 770)
8	Whitby	175,000	1.6250%	$ 2,844	($ 797)
9	Richmond Hill	210,000	1.3097%	$ 2,750	($ 891)
10	Markham	190,000	1.3044%	$ 2,478	($ 1,163)
11	Vaughan	185,000	1.2761%	$ 2,361	($ 1,280)
12	London	135,000	1.6067%	$ 2,169	($ 1,472)

Property Characteristics:

1st Floor Area (sq.ft.)	1,000	Frontage (ft.):	50
2nd Floor Area (sq.ft.)	1,000	Depth (ft.):	110
Basement Area (sq.ft.)	1,000	Lot Size (sq.ft.)	5,500
Baths:	1.5	Year Built:	1970
Attached Garage:	1		

Source: City of Toronto, "Comparison of Residential Property Taxes on Similar Single Family Homes in Selected Ontario Toronto," A Report Prepared by the Chief Financial Officer and Treasurer for the Policy and Finance Committee, April 17, 2001. The Table was based on information obtained from the Ontario Property Assessment Corporation (OPAC).

The new city has attempted to cut costs by reducing some of the duplication that existed in the six former lower-tier governments. However, the scope for cost reduction is not large since 73% of the city's operating budget consists of programs previously amalgamated under Metro.

The new city still faces two significant budget problems. The first one is that the wage and salary arbitration decisions discussed earlier will significantly increase future 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 set seven standard classes of property for tax purposes, but it can create additional classes. [(45)] Municipalities can also obtain revenue from fees on the sale of services.

Prior to 1998, school boards were allowed to impose taxes on real estate. However, under The Education Quality Improvement Act, 1997 (Bill 160), the province took control of the funding of education. The province assumed responsibility for setting education rates by regulation for all property classes. The revenue raised is collected by the municipalities and turned over to the school boards.

In 1998, residential taxes for education purposes were reduced by almost $2.5 billion or 50 percent. [(46)] This allowed the municipalities to increase their revenue from the residential property tax and to help pay for the additional responsibilities shifted from the province to the municipalities. The rate set for 1998 was 46%. This was reduced in 1999 to 41.14%. The intention is to reduce the rate by an additional 10% over the next 5 years.

Increases in the education rates on business property because of property tax reform have been capped by the province at 10% for 1998, an additional 5% for 1999 and an additional 5% for 2000. Starting in 1998, education taxes are being phased down to the provincial average rate in those municipalities were the rate is above the provincial average. [(47)]

In 2001, the province passed Bill 140, "An Act to Amend the Assessment Act, Municipal Act and other Acts with respect to Property Taxes" which 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. [(48)]

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 [(49)] Also, the provincial government's share of the commercial property tax rate 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 imposed in Mississauga. Businesses in Toronto are at a significant cost disadvantage compared with those in the rest of the GTA because they pay much higher taxes.

Residential Property Taxes in Toronto

Bill 140 restricts the revenue sources opened to the city to the residential property tax and user fees. The prevailing view in the provincial government and among municipalities in the rest of Ontario is that Toronto's residential property taxes are low compared with the rest of Ontario. Premier Harris has stated, "residents in North Bay pay more residential taxes than do residents in Toronto". [(50)]

A recent study prepared by the city shows that the residential property tax rates are lower in Toronto than in other municipalities in Ontario. However, the assessed value of a standard home is significantly higher in Toronto than in the rest of Ontario. Table 4 shows that because of the higher tax base, the residential taxes paid on a standardized home are the second highest in Ontario.

Conclusions

A recent paper by Robert Bish supports the problems facing the City of Toronto as a result of amalgamation and downloading. [(51)] Bish provides an excellent discussion of the major issues related to municipal amalgamation. As Bish notes, the 21st century will require institutional adaptability to rapid change. "Yet in the critical area of the relationship among citizens, the civil community and local governance, some provincial governments are imposing an intellectual fashion of the ninetieth century in the form of an almost religious faith in monolithic government organizations and central control." [(52)]

After examining a large number of studies on municipal amalgamations, Bish concludes, "smaller governments can cost less…because they can take advantage of specialization and trade in markets." [(53)] More importantly, when looking at a proposed amalgamation, "do not base recommendations on a comparison of the actual situation with an ideal. Such ideals are virtually always ideas from the past that are obsolete by the time they became popular." [(54)]

What has happened in Toronto is consistent with Bish's conclusions. More importantly, Toronto is one of the main engines of growth for both Ontario and the rest of Canada. If 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 continue to increase. Toronto's ability to provide the services required to attract and retain businesses and residents will continue to decline. This will seriously handicap Toronto's growth generating capacity and reduce Ontario and Canada's future growth rates.

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%provincipal/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 a 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).	Social housing was owned by the federal, provincial and municipal governments. 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	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 meet from Go Transit revenue and from funding obtained from the five GTA municipalities and the Regional Municipality of Hamilton - Wentworth. (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%P/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 enrollments. 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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33. The income data in the Census are for 1995. Statistics Canada defines Low Income Cut-off (LICO) households as one that spend 20 percent or more of their before-tax income on food, clothing and shelter. The LICO is adjusted for household size and for the area where the household lives. For example, a one-person household in a rural area has a LICO of $11,661. The same household living in an urban area of 500,000 or more has a LICO of $16,874. Statistics Canada does not define these households as living in poverty. Rather they are referred to as living in "straitened circumstances". For a more complete discussion of the data in the study, see Kevin K. Lee, op. cit., Appendix A.

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