The Relevance of Toronto's New Governmental Structure for the 21st Century

Harvey Schwartz
Department of Economics
Faculty of Arts
York University
Toronto, M3J 1P3

The 1995 to 2003 Ontario Conservative government made a number of major changes in the way that municipalities were governed and financed. Some municipalities were forced to amalgamate despite the opposition of the residents. The government 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 included the use of market value for property tax assessment and the transfer of education funding to the province from the local school boards.

The previous P.Q. government of Quebec merged the adjacent municipalities of Montreal, Quebec City and Longueuil into three large cities on January 1, 2002. This was also pursued despite the objections of the residents in local referendums. This paper is concerned with two questions about the changes. The first is whether megacities are less costly to operate than many small municipalities in a large urban area. The recent amalgamations of Toronto and of the cities in Quebec are used to examine this question. Since the Toronto amalgamation occurred in 1998, the new city is still adjusting to the change, and only preliminary conclusions can be drawn at this time. This comment also applies to the cities in Quebec since they were merged in 2002. The second question is concerned with the impact of downloading on the municipalities. Because downloading did not take place in Quebec, the experience of the City of Toronto is used to examine this question.

1. Editor's note: This situation is now changing as several former municipalities voted in referenda to demerge from these newly created mega-cities in June 2004. The present article was accepted before these votes took place.

2. Prior to amalgamation, the 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, garbage collection and other services. In the 1996
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 give 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 (Bish 2001).

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 the 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% of municipal services have lower per unit costs as the size of the municipality increases.

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 argued that residents could improve their economic welfare by selecting the municipality where the services and taxes best fit their preferences (Tiebout 1956).

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

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

Census, the City of Toronto had a population of 653,784 and Metro had a population of 2,385,400. Toronto accounted for about 27% of the upper-tier’s total population.

Amalgamation Savings and Costs

Amalgamation Savings

When Toronto was amalgamated in 1998, it set three-year annual targets for cost reductions. One target was to cut 10% of the $1.5 billion budgeted for newly amalgamated programs that were tax supported (City of Toronto 2001a). The city excluded expenditures for programs that were previously amalgamated under the Municipality of Metropolitan Toronto. These expenditures made up about 73% of the new city’s operating budget (City of Toronto 1999b). The city set a second target of 10% 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 shows the cost savings achieved by the city up to the end of 2000, the most recent year for which 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% (City of Toronto 2001a).

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

On December 12, 2002, Royal Assent was given to the Municipal Act of 2001 which came into force on January 1, 2003. The new Act gives the municipalities their 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 centralised powers of the province are retained.

Ontario has favoured simplifying local government by combining smaller units into one large unit. The government 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 (Bish 2001). Sancton has made the same argument in a number of papers (Sancton 2000).

THE RELEVANCE OF TORONTO'S NEW GOVERNMENTAL STRUCTURE

THE RELEVANCE OF TORONTO'S NEW GOVERNMENTAL STRUCTURE
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 (Vojnovic 2000).

Annual amalgamation costs include three sets of costs: the harmonisation of services, the harmonisation of wages and salaries, and the annual debt servicing costs. The debt servicing costs are discussed later in the paper.

Harmonisation of Services: The new city wanted to equalise 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 harmonised 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 harmonised in the same way.

Harmonisation 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 harmonised 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 unionised workforce because the city faced fifty-six separate collective agreements in the seven former municipalities. In March and April of 2000, the unionised inside and outside workers went on strike (Abbate 2000). The contracts negotiated by the city reduced the number of bargaining units and collective agreements from fifty-six to six (Rusk 2000a). 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 (City of Toronto 1999d) and (Abbate 2003).

3. An arbitration award involving the fire fighters was reported in the Globe and Mail (Barber 2001). The arbitrator harmonised 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 harmonisation at $3 million. The Globe and Mail article quoted Councillor Brad Dugvid'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 harmonised and made retroactive. The newspaper
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 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 municipalities collected the tax. 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 are intended to support this argument.

The Consequences of Downloading

A summary of the redistribution of responsibilities for social and other programs between the province and the municipalities is available by writing the author at schwartz@dept.econ.yorku.ca. 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 cost of these programs 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 (Bird and Slack 1993). 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 to the municipalities. The municipalities also paid part of the cost from the 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 (Bird and Slack 1993).

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 (City of Toronto 1999a). The impact on the city is 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, on social housing, and for the province's commuter transit service, Go Transit, among all of the Greater Toronto Area (GTA) municipalities. 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.

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

4. The GTA municipalities include the City of Toronto and the Regional Municipalities of Halton, Peel, Durham, and York.
5. 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 1999).
Through increased borrowing. In 1998, the province gave the city a $50 million
of the capital grants for public transit. In 1998, 1999 and 2000, the city did not
Toronto Transit Commission (TTC). The remaining costs in Table 3 show the loss
payments to support the operating costs of public transit (GO) and the city owned
eders. The net data show a significant increase of $101.9 million between 1997 and
sumed responsibility for education. Since the city previously flanked 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 taxpay-
ers. The net data show a significant increase of $101.9 million between 1997 and
1998.

The GTA cost equalisation 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 32.4%. In 1999, it
had fallen to 51.57%. In 2001, it was set at 50.9% (City of Toronto 1999e). For
2002, the city's share was expected to increase to 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.

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 Table 3 show 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 taxpay-
ers. 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. In 2001,
downloading costs increased as a result of the reduction in net operating costs for
the reasons discussed earlier and because of a 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. 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

6. 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
eyir spending under Superbuild would save the municipalities in southern Ontario $10 billion
over the next 10 years (Ontario 2003c and Mackie 2003).
TABLE 3 The Net Downloading of Costs by the Province of Ontario to the New City of Toronto, 1998 to 1999, and 2001 (Millions of Dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro Budget</td>
<td>50</td>
<td>693.3</td>
<td>601.4</td>
<td>594.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Budget</td>
<td>0</td>
<td>-573.2</td>
<td>-573.2</td>
<td>-565.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Operating Costs</td>
<td>0</td>
<td>120.1</td>
<td>28.2</td>
<td>29.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Costs</td>
<td>0</td>
<td>180.0</td>
<td>180.0</td>
<td>247.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TTC Subsidy Loss</td>
<td>-2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>310.1</td>
<td>208.2</td>
<td>276.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:
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.
3. The 1997 data are from Municipality of Metropolitan Toronto 1997.
4. The data in columns 2 and 3 are from the City of Toronto 1999f.
5. The data for 2001 were obtained from the City of Toronto, Treasury and Financial Services Division. No data are available for 2000.

Source:
1. The 1997 data are from Municipality of Metropolitan Toronto 1997.
2. The data in columns 2 and 3 are from the City of Toronto 1999f.
3. The data for 2001 were obtained from the City of Toronto, Treasury and Financial Services Division. No data are available for 2000.

grant to help finance its increased expenditures.

The city also obtained a $100 million dollar loan 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 (Ontario 2003c).

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 (City of Toronto Website 2003c). As a result, the City had to raise taxes on residential property by 3 % and to draw on some reserve 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.

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 (Ontario 2003b).

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. 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 used to receive free garbage pickup six nights a week now pay $1,600 a year for it” (Aubin 2001b).

Additional evidence on Toronto’s deteriorating financial position is provided by Slack (Slack 2000b). Slack quotes a report by Urban Strategies Inc. which estimated that Toronto is investing in new infrastructure at about one-fifth the rate of equivalent U.S. cities. Studies undertaken 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 (Hume 2003, Abbate 2003).

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 (Ontario 2001). 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” (Ontario 2001). 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 (Royson 2001).

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 higher property 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 (Rusk 2000b).

At the provincial level, the conservative government released its party platform, called “The Road Ahead” in May 2003. One key point in the platform was 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 (Sewell 2003).

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 that was passed in 2003 (Sewell 2003).

## Demergers in Quebec

The previous P.Q. 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 (Sewell 2003).

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 demergers could be achieved for about $2 per person and they would have positive economic consequences (Poitras 2003). 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% 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. The legislation allowing de-merger referendums was passed in 2003.

Judge Poitras’s report stated that:

- 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.
- 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%.
- 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 concerning the Toronto amalgamation.
- The study estimated the cost of the Montreal merger would be $200 million per year. Therefore the savings from demergers would also be $200 million or $111 per capita per year for Montreal (Poitras 2003).

A de-merger 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, began to campaign to obtain a referendum for Montreal (Cernetig 2003). (Note that the referendum eventually occurred in June 2004.)

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 functions 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.

Globalisation and Urban Government Restructuring

Globalisation, 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 municipal-

ties to make the urban area competitive with other world cities. Empirical 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 centralised.

A recent article by Andrew Sancton (Sancton 1999) 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 by 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 organisation 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 “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” (Council of Europe 1985).

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” (Aubin 2001a).

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” (Bish 2001).

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 help resolve problems with the city administration. The Toronto merger also created the Community Councils. The Councils are an attempt to allow Councillors to look after local
issues in each of the former merged municipalities. How well the Community Councils 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 to 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 (Bish and Vojnovic 2000).

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 harmonisation of 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 harmonisation 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 harmonised, this problem could be easily remedied (Vojnovic and Poel 2000).

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 in co-ordinating transportation services in the GTA is Go Transit. Many experts on transportation view this agency as the key building block for the GTA's transportation future (Barber 2003).

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 to the city and on the GTA's businesses and residents.

Toronto is one of the main engines of growth for both Ontario and for 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 and Canada's future growth rates.

References


______. 1999a. 1999 Operating Budget as recommended by the Budget Committee. Toronto: April 12.


______. 2000. Operating Budget as Recommended by the Budget Committee. Toronto.


______. 2003b. Backgrounder, Where the Money Goes and Comes From. Bud-


