Toronto Ten Years after Amalgamation

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This paper reviews what has happened to the City of Toronto 10 years after it was amalgamated. From 1995 to 2003, the Ontario Government made a number of major changes in the way that its municipalities were governed and financed. Some municipalities were forced to amalgamate despite the opposition of their residents. The government also redistributed certain responsibilities of the province to the municipalities through the Local Services Realignment Programme (LSRP). The process is called “disentanglement”. Since the LSRP lead to the cost of many of the shared-cost programmes being shifted to the city, the programme can also be called “downloading”. Other major changes include the use of market value for property tax assessment and the provincial government control of education funding for the local school boards.

The Organization of Local Government

Municipalities, their residents, provincial governments and academics have been concerned with the costs and benefits of a large unified city or “megacity“compared with many small and diverse municipalities within a large metropolitan area. The concept of amalgamation involves the voluntary or forced merger of smaller local governments with a larger municipality to form a large metropolitan area.

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If the municipalities had the power to make their own decisions, theoretically they would select the size of government that would produce municipal goods and services at the lowest possible cost. They could also take advantage of economies of scale through joint buying with other municipalities. Many municipalities within a large urban area may also stimulate 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 the residents could improve their economic welfare by selecting the municipalities where the services and taxes best fit their preferences (Tiebout 1956: 416-424).

Determining the needs and desires of residents in small municipalities is less costly than in large municipalities because there are fewer residents for each elected official. The elected officials can be expected to know the area and the people well. Better information allows the smaller municipalities to adjust more quickly to changing internal and external conditions. Economists support this form of decentralized decision-making because it produces a more efficient allocation of resources within a municipality and in the economy.

The New City of Toronto

In 1997, Toronto had a regional government that consisted of the upper-tier Municipality of Metropolitan Toronto and the lower-tier municipalities of Toronto, North York, Scarborough, Etobicoke, East York and the borough of York. In late 1996, the Ontario premier decided to amalgamate Metropolitan Toronto. He predicted that an amalgamated city would save up to $645 million after amalgamation and $300 million annually. A report by the consulting firm of KMPG estimated the transition costs at no more than $220 million. Instead, the new city managed to save only $135 million annually. The transition costs totaled $275 million. The city’s operating budget has increased from $5 billion in 1997 to $8.1 billon in 2008 (Table 1). The only component that decreased was the number of politicians. Any cost savings here have been offset by increases in the councillor’s staff and in their office budgets (Levy 2007).

The government of Ontario believed it was simplifying local government by combining smaller units into larger units. They believed that larger cities were better able to reduce costs by eliminating duplication. The evidence however does not support this view.

Amalgamation has made local government more complicated and this has increased costs. 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: 19-20 and 29-35). Sancton has made the same point in a number of his papers (Sancton 2000).

TABLE 1 Operating Cost Budget for the City of Toronto before Amalgamation and after Amalgamation 1990 to 2002 (Millions of Constant 1997 Dollars)

	Metro	Toronto	North York	Scarbor.	Etobicoke	East York	York	Total	%
1990	2300	554	273	211	91.6	56.3	60	3,546	0
1991	2900	596	276.7	220.4	94.2	60.2	64	4,211	13
1992	3200	589	271.6	223	97.6	61.5	65	4,507	5
1993	3429	579	265.5	226.5	97	59.4	69	4,726	3
1994	3452	553	270.4	209	96	57.7	65	4,703	-2
1995	3457	522	270.8	213	95	58.5	87.3	4,704	-2
1996	3121	511.0	246.9	208	94	59	85.5	4,325	-10
1997	3112	771.0	270.4	209	93	58.9	79.9	4,595	5
1998	--	5,600	--	--	--	--	--	5,600	18
1999	--	5,500	--	--	--	--	--	5,500	-4
2000	--	5,590	--	--	--	--	--	5,900	3
2001	--	6,100	--	--	--	--	--	6,100	2
2002	--	6,200	--	--	--	--	--	6,200	2
2003	--	6,439	--	--	--	--	--	6,439	1
2004	--	6,646	--	--	--	--	--	6,646	1
2005	--	7,100	--	--	--	--	--	7,100	1
2006	--	7,650	--	--	--	--	--	7,650	1
2007	--	7,800	--	--	--	--	--	7,800	1

Source: City of Metropolitan Toronto and the City of Toronto, Operating Cost Budgets.

Amalgamation Savings and Costs

Amalgamation produces savings as well as costs. Because most municipal costs are related to staffing, the bulk of the cost savings involves reductions in the workforce. One city report states that executive management positions were reduced by 60 % (City of Toronto 2001a: Appendix B).

Recent data on the city's employment show that in 1998 the city had 45,860 employees. In 2008, the number of council approved employees was 50,601. Therefore, since 1998 city employment has increased by 4,741 (City of Toronto 2008).

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 have studied amalgamations (Bish 2001).

Tables 1 and 2 show the capital and operating budgets for the old and the new City of Toronto. Any savings that the city was able to make were gross savings. They do not net out the new revenue from increased service and user fees. The savings estimates do not take into account any savings that the new city made from amalgamation.

TABLE 2 Capital Cost Budget for the City of Toronto before Amalgamation and after Amalgamation 1990 to 2006 (Millions of 1997 Dollars)

	Metro	Toronto	North York	Scarbor.	Etobicoke	East York	York	Total	Change
1990	313.8	111.3	35.9	51.3	22.7	5	7.4	547	0
1991	741	136.1	41.1	38.5	23.5	14.5	12.1	1007	1.84
1992	661.8	54.5	47	26.2	22.6	4.6	7.7	824	0.82
1993	625.8	49.8	43.2	19.4	24.8	6.6	8.1	778	0.94
1994	609.6	37.5	70	55.1	33.9	11.8	8.1	826	1.06
1995	750	39.7	38.7	16.8	21.5	5.3	11.1	883	1.07
1996	858.9	44.9	16.3	21.1	19.8	5.7	4.8	972	1.1
1997	816.8	59	36.9	19.8	20.4	6.7	7.2	967	0.99
1998	--	1000	--	--	--	--	--	1000	1.03
1999	--	1175	--	--	--	--	--	1175	1.18
2000	--	981	--	--	--	--	--	981	0.83
2001	--	1120	--	--	--	--	--	1120	1.41
2002	--	954	--	--	--	--	--	954	0.85
2003	--	965	--	--	--	--	--	965	1.01
2004	--	1671.7	--	--	--	--	--	1672	1.73
2005	--	1000	--	--	--	--	--	1000	0.6
2006	--	1,250.00	--	--	--	--	--	1,250	1.25
2007	--	1,430.00	--	--	--	--	--	1,430	1.144

Source: Statistic Canada, Government Gross Fixed Capital Formation, V3860236; The City of Metropolitan Toronto and the City of Toronto, Capital budgets 1990 to 2007.

Amalgamation Costs

The city incurred transition costs to consolidate and integrate the various programmes of the amalgamated municipalities. By the end of 2000, transition costs were $275 million. Some of these costs, such as the upgrading of data services, would have been incurred even without amalgamation. Annual amalgamation costs include three sets of costs: the harmonization of services, the harmonization of wages and salaries and the annual debt service costs. The debt service costs are discussed below.

Harmonization of Services

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 services had been identified as showing the most significant differences when amalgamation took place. The financial constraints faced by the new city prevented these services from being harmonized

TABLE 3 Revenue Sources as a Percentage of Total Revenue: City of Toronto and the Average of the 38 Largest United States Cities

Type of Revenue Sources	City of Toronto	Total of 38 Largest U.S. Cities
Property Tax	45%	18%
Provincial/State Gov. Grants	23%	29%
Federal Government Funding	--	7%
User Charges	16%	14%
Sales Taxes	--	12%
Income and Other Taxes	--	13%
Other Revenue	16%	7%
Total	100%	100%

Source: City of Toronto (2001a: 33) and City of Toronto (2003a).

at the highest level, as is normally the case (Bish 2001: 19-20 and 29-35). Instead, services levels in some parts of the new city rose and in other parts they fell. Fees were 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 job. The city first harmonized the wages and salaries of management and its non-union workforce at a one-time cost of $2 million. The wages and salaries were set at the highest level paid by the separate municipalities. This was the level paid by the former City of Toronto.

Toronto's problems are illustrated in Table 3. In 2003, Toronto received no federal government transfers and a much smaller amount of provincial government transfers than did the 38 largest cities in the United States. Toronto's ability to raise revenue was constrained by the Ontario Municipal Act and the reluctance of the provincial and federal governments to provide additional aid. Most of the 38 largest cities 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. Provincial and federal government transfers to municipalities have in fact increased since this table was prepared. The city has a new act, The City of Toronto Act, which came into force on January 1, 2008. The new act gives the city more scope in raising revenue.

TABLE 4 15 Year Capital Plan 2009 to 2018 (Millions of Current 2008 Dollars)

		Financing		
Year	Estimated Gross Capital Spending	Debt	Other	Total
2009	8,532	2,600	5,932	8,532
2010	12,265	1,300	10,935	12,265
2011	7,400	1,300	6,100	5,300
2012	5,300	1,300	4,000	5,300
2013	5,300	1,300	4,000	5,300
2014	5,300	1,300	4,000	5,300
2015	5,300	1,300	4,000	5,300
2016	5,300	1,300	4,000	5,300
2017	5,300	1,300	4,000	5,300
2018	5,300	1,300	4,000	5,300

Source: City of Toronto, Analyst Briefing Notes, October, 30, 2008.

Financing Capital Expenditures

Ontario, as well as other provinces, has been concerned about its deteriorating infrastructure. Capital expenditures involve the construction or acquisition of new buildings, roads, sewage facilities, buses and other capital assets that provide the goods and services required by the city's residents and businesses. Capital expenditures also involve the maintenance and repair of existing municipal capital assets. A large share of the revenue to finance the city's capital assets has come from borrowing from the province and the capital market.

Tables 2 and 4 show the city's capital budget from 2007 to 2012 and beyond. They show that the city's debt has been increasing. However, the city's capital budget also shows that the city's new debt is expected to fall each year to 2012. Nevertheless, the overall debt will grow and the interest charges to pay for the debt will place a significant burden on the city's operating costs.

Table 2 also shows the city's capital budget and the percentage change in the capital budget from 1998 to 2008. The data show little change in capital spending between 1998 and 2004. This was true despite the fact that the new city had a much larger population and a large backlog of needed new infrastructure and the maintenance of existing infrastructure. Capital spending was previously constrained by a lack of funds. Before 2004, the city had to borrow from the province to finance its capital expenditures. After 2004, the city received increased funding from provincial government transfers. This allowed for a significant increase in the capital budget as the city tried to meet its infrastructure needs.

In the 2008 federal government budget, the government set up the Building Canada Fund. This will provide grants to help finance provincial highways, public transit, rural infrastructure, rural internet access and other infrastructure under a new federal provincial-government programme. The amount allocated to Ontario is \$6.1B. Additional funding will come from a gas tax refund programme of \$2.98B. The total for all programmes is \$6.2 B. Ontario will match the federal grant of \$3.1 B to bring the total for Ontario to \$9.3 B.

Operating Costs

Table 1 shows the operating costs for Toronto before and after amalgamation. The data show a $744.2M increase in operating costs when Toronto was amalgamated and when downloading was introduced. The operating cost budget jumped by 18% between 1997 and 1998. After 1998, the changes were small but in most years there was an increase in the operating budget.

Since the current mayor took office in 2004, the net debt has increased by $1.2 B. The city has serious financial problems that are not being addressed by the current administration (Levy 2007). The increase in the size of the operating budget despite attempts to reduce costs indicates that amalgamation has not reduced costs; rather, it has increased them.

Capital Costs

Table 4 shows the city's current dollar estimates of the size of the city's debt from 2009 to 2018 based on the city's proposed capital budget. The extra debt is expected to fall after 2010. The debt is based on the city's proposed capital budget up to 2018.

The city's capital needs will increase in the future because the city's infrastructure
needs will require increasing ongoing maintenance and replacement. A recent city report estimates the cost of repairing the city's aging water and sewage system at $4.4 billion (City of Toronto, Budget Advisory Report 2004).

Matching Services with Government

One important characteristic of a good or service provided by government is related to spillovers or externalities. Spillovers or externalities are the benefits or costs that other people incur when someone else consumes a good or service. If there are no spillovers, then the municipality should be responsible for funding the good or service.

If the spillovers are present and they affect adjacent municipalities, then the good or service can be managed and funded by a regional government or regional authority. If the spillovers occur only within the province, then the good or service should be funded by the provincial government. If the spillovers are national, then the federal government should be responsible for providing the good or service. Unfortunately, this is not happening. The city should not have to pay for services that fall within the areas of the province or the federal government. This is true for public housing and public assistance among others. These programmes also involve income redistribution which is not the responsibility of local governments.

Financing Local Services

The city's role is to provide the services mandated by the province. Financing is determined by who receives the benefits. The benefits principle is based on the proposition that those who receive the benefits from consuming a good or service should pay for the costs of producing it. The problems with the benefits principle of course include finding out who benefits from a particular good or service and setting the correct price or tax.

For some services, such as water and sewer services, identifying who benefits is simple. For other goods and services, such as the construction and maintenance of local roads, identifying who benefits is not simple. Setting a price that the user is willing to pay for the service is one possible approach. If this is approximated in the production and sale of any local good or service, society resources will be put to their best use (Kitchen 2002: 46).

How Should Local Taxes and Prices be Set?

Municipalities have a number of revenue generating instruments such as user fees, property taxes and grants from the higher levels of government. Municipalities provide a wide range of goods and services. Some of these goods and services show private good characteristics, whereas others show public good characteristics.

In funding private goods, user fees are more likely to achieve the three goals of efficiency, accountability and fairness. For public goods, funding could use the property tax. If the goods and services have externalities, senior levels of government could provide grants to help the local governments pay for the goods and services. There is no clear way of determining which local tax should be used to finance the production of goods and services that have public-good characteristics.

Provincial and Federal Government Grants

Grants can be conditional or unconditional. Conditional grants are useful when externalities are present. Unconditional grants are useful to bridge the gap between municipal expenditures and revenue. They can also be used for income redistribution and service equalization programmes. Federal grants are small compared to the provincial grants. Federal grants are also useful when municipal spending is related to federal government activity such as immigration policy.

Implications of Amalgamation

Mergers that are imposed on communities despite the opposition of their 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 "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 1998).

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 2001). Bish expressed similar views when he stated that: "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 government, "some provincial governments are imposing an intellectual fashion of the nineteenth century on monolithic government organization and central control" (Bish 2001: Summary).

One of the justifications given by the provincial government in support of 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 would be able to cut costs in the future without reducing service levels is not clear at this stage. Most studies on amalgamation show that a reduction in costs is not likely (Bish and Vojnovic 2006: 415).

Looking back over the reports on government 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 problem of regional governance. The only provincial government agency currently involved in coordinating transportation services is Metrolinx. 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 operating and capital costs that have been downloaded by the province. This has placed a significant burden on the property tax. The province previously restricted the city to the property tax and user fees for additional revenue.

One possible solution is to set up a regional government for the Greater Toronto Area (GTA.) This government would be responsible for service provision and planning for the whole region. At the same time the province should get rid of the existing regional governments since they are costly to run and not effective. In the City of Toronto, a partial deamalgamation is possible based on the four existing community councils, Toronto North, South, East and West. Moving away from a highly centralized city might solve some of the problems faced by the City of Toronto.

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