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Financing Large Canadian Cities in the 21st Century:

The Case of the City of Toronto

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Introduction

Canadian Cities in the 21st Century

This paper is concerned with two questions. What are the major problems facing Canadian cities in the 21st century? (The City of Toronto is used as an example). Are large amalgamated cities or decentralized cities better suited to compete in the 21st century?

From 1995 to 2003 the Ontario 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 their residents. The government also redistributed the responsibilities of the province and the municipalities through the Local Service Realignment Programme (LSRP). This process is called “disentanglement”. Since the LSRP lead to the cost of many of the shared-cost programmes being shifted to the cities, the programme is also called “downloading”. Other major changes include the use of market value for property tax assessment and the transfer of education funding for the local school boards to the provincial government.[1]

The Organization of Local Government

Municipalities, their residents, the 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.

If municipalities have the power to make their own decisions, they can select the size of local government that will theoretically 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 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 residents could improve their economic welfare by selecting

1 Prior to amalgamation, 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 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.

the municipality where the services and taxes best fit their preferences (Tiebout 1956:416-424).

Determining needs and desires in smaller municipalities may be less costly because there are fewer residents for each elected official. The elected officials 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 an economy.

Ontario has proceeded to simplify local government by combining smaller units into larger units. The previous conservative government believed that large cities are able to reduce costs by eliminating duplication.

In December 1996, the Minister of Municipal Affairs and Housing announced legislation to amalgamate Metro and its six member municipalities. "Residents, taxpayers and business will all benefit from one Toronto," he said; "It will reduce duplication and overlap; local government will be streamlined, more accountable, more efficient."(Ontario Ministry of Municipal Affairs and Housing: 1997). The underlying assumption of these forced amalgamations was that "bigger is better," and "better," meant lower costs.

The savings would be found "through changes in government structure, service management and a reduction of employees." No mention was made about the effect on the range and quality of the services being delivered. 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 argument in a number of papers (Sancton 2000).

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 involved reductions in the workforce. A city report states that executive management positions were reduced by 60 per cent (City of Toronto 2001a: Appendix B).

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 programmes that were already amalgamated and to provide services in the downloaded programmes. Therefore, between 1998 and 2002 there was a net increase in employment of 826 positions (City of Toronto: 2003c). Amalgamation and downloading did not reduce the city’s wage bill, they increased it. The harmonization of wages and salaries, discussed below, further increased the city’s wage bill. None of this is a surprise to scholars who study amalgamations (Bish 2001).

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

The important measure is the net difference between the savings and the increased costs from amalgamation. Since the adjustment process and downloading are ongoing and changing, it is difficult to determine whether the overall result will produce a net cost saving or a net cost increase (Slack 2000a).

Bish, Scanton, and Vojnovic have all stated that amalgamations do not lower costs, they increase them. Downloading has clearly increased the new city's costs. When downloading is included, the new city's costs have increased despite what Slack has concluded.

After amalgamation, the new city hired Professor Henry Mintzberg to comment on the restructuring that had taken place or was planned in the future. Instead of praising the restructuring, Mintzberg told the new city that the megacity had no rational organization and no hope for efficient operation. His overall assessment was that the new city was of such a scale that it was fundamentally unmanageable by anyone, no matter how talented. (Barber 2004b) This is consistent with the views of other observers of amalgamations. The point is that bigger is not better.

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 the costs, such as the upgrading of data services, would have been incurred even without amalgamation. Therefore, not all of the increased costs are transition costs. Vojnovic states that municipal amalgamations generally result in transitional costs that are often higher than anticipated (Vojnovic 1998: 239-283).

Annual amalgamation costs include three sets of costs: the harmonization of services, the harmonization of wages and salaries, and the annual debt servicing costs.

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

Harmonization of Wages and Salaries

Prior to amalgamation, Metro and each of the six local municipalities paid their employees different wages and salaries for the same jobs. The city harmonized the wages and salaries of management and its non-union workforce, at a one-time cost of $2 million.

The issues were more complex for the unionized workforce because the city faced fifty-six separate collective agreements in the seven former municipalities. In March and April of 2000, the unionized inside and outside workers went on strike (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.
Since the city's employment costs are rising because of wage harmonization, if the city does not get long-term financial help from the provincial and the federal governments it will have to reduce costs and increase its revenue. The city can choose to cut more services, raise taxes or privatize some of its functions.

Toronto's problems are illustrated in Table 1. 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 reluctance of the provincial and federal governments to provide additional aid. Most of the 38 largest U.S. cities have the legal right to use sales taxes and a municipal income tax. They also receive substantial help from the state and federal governments.

Table 2 shows the city's capital budget and the percentage change in the capital budget from 1990 to 2005. The data show that capital costs increased significantly between 1990 and 1991. The earlier NDP government tried to fight the recession by increasing capital spending. Between 1992 and 1993 the capital budget showed a sharp decline in percentage terms because the government became concerned about its large budget deficit.

After 1993 the capital budget showed moderate changes until 2000 when it declined by 23%. By 2005 the new city was spending about the same amount on capital expenditures as it spent before amalgamation. This was true even though the city had a much larger population and a large backlog of required infrastructure and maintenance of its existing infrastructure. The problem that the city faces is that it does not have the money to pay for the needed capital expenditures because downloading substantially increased operating costs.

Financing Capital Expenditures

Ontario, as well as other provinces, faces a growing concern about the deteriorating infrastructure of their municipalities. Capital expenditures involve the construction or acquisition of new buildings, roads, sewage facilities, buses, and other assets that provide the goods and services required by a city's residents. Capital expenditures also involve the maintenance and repair of existing municipal capital assets.

Many small municipalities have annual capital budgets based on their response to provincial government grants and the needs of the municipality's residents. Large municipalities, such as Toronto, have multi-year capital budgets of 5 to 10 years. The budgets lay out the timing of the construction or acquisition of the capital assets. The budgets also show the maintenance required for existing capital assets and how the new capital assets and the maintenance of existing capital assets are to be financed.

Table 1

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

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

Source: City of Toronto 2001a p.33 and City of Toronto 2003a.

The financing can come from the province or from the municipalities' reserve funds accumulated out of their operating cost surpluses. Municipalities can also borrow from the province or from the capital market. The province can require that a local government obtain prior approval before they borrow. The province can also restrict debt payments to some percentage of municipal revenue.

Slack provides evidence on the city's deteriorating financial position. (Slack: 2000b) Slack quotes a report by Urban Strategies Inc. estimated that Toronto is investing in new infrastructure at about one-fifth the rate of equivalent U.S. cities. Studies done by the IBI Group, Hemson Consulting Ltd. and C.N. Watson & Associates show a gap of $800 million between budgeted and required investment for roads, bridges and urban transit in the GTA.[2] The reports conclude that the under-investment will lead to major traffic congestion, and a reduction in the quality of a resident's life. (Hume, 2003 and Abate, 2003)

Operating Costs

Table 3 shows the operating cost budget for Toronto before and after amalgamation. The data show a significant increase in operating costs when Toronto was amalgamated and when downloading was introduced. The operating budget jumped by 18% between 1997 and 1998. After 1998 the changes were small but in most years the operating budget increased. Clearly the increase in the operating budget despite attempts to reduce costs indicates that amalgamation did not reduce costs, it increased them.

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.

[2].The GTA municipalities include the City of Toronto and the Regional Municipalities of Halton, Peel, Durham, and York.

Table 2
Capital Cost Budget for the City of Toronto
Before and After Amalgamation
1990 to 2005
(Millions of Constant 1997 Dollars)

	Metro	Toronto	North York	Scarborough	Etobicoke	East York	York	Total	Price Index	Adjusted
1990	314	111	36	51	23	5	7	547	99	553
1991	741	136	41	39	24	15	12	1007	94	1067
1992	662	55	47	26	23	7	8	824	94	874
1993	626	50	43	19	25	7	8	778	95	820
1994	610	38	70	55	34	12	8	826	97	856
1995	750	40	39	17	22	5	11	883	99	896
1996	869	45	16	21	20	6	5	972	99	980
1997	817	59	37	20	20	7	7	967	100	997
1998		1000						1000	100	1096
1999		1175						1175	100	1177
2000		981						981	102	958
2001		1120						1120	102	1095
2002		954						1120	103	1090
2003		965						954	103	932
2004		1672						1671	104	1602
2005		1000						1033	105	980

Sources:
City of Toronto Capital Cost Budget. The 2005 values are projected sending,
Statistics Canada, Implicit Chain Price Index: Government Gross Fixed Capital Formation, V3860236

Graph 1 shows the city’s current dollar estimates of the size of its debt from 1998 to 2007 based on the city’s proposed capital budget. The data show a continuous increase from 1999 to 2007. The increase is based on the proposed capital budget up to 2007. The increased debt arises because Toronto’s capital infrastructure is considerably older than the rest of the GTA.

The city’s capital needs will increase in the future because the city’s infrastructure will require increasing and ongoing maintenance and replacement. For example, a recent city report estimates that the cost of repairing and replacing the city’s water and sewer system at $4.4 billion. (City of Toronto, Budget Advisory Report 2004:10)

Because of the increasing capital requirements, the city’s debt will increase in the future unless other levels of government provide larger transfers. Most of the increasing capital expenditures are related to the public transit system.

Graph 1 is a worst-case scenario. It assumes no change in provincial and federal government assistance. The increasing debt will create significant problems because of the cost of servicing the debt. The increasing service costs will come from the city’s operating budget. (City of Toronto 2003a)

Local Services Realignment Program

Determining which level of government is responsible for the provision of local goods and services is a difficult task. Different levels of government can undertake the service management and the funding of the service. The purpose of the LSRP is to make each level of government accountability for specific functions and the authority to fund them. Once the responsibility for providing a good or service is determined, the local government can produce it, contract it out to another level of government, or it can be provided by the private sector.

Matching Services with Government

One important characteristic of a good or service that the government provides is related to spillovers or externalities. Spillovers are the benefits or costs that other people receive when someone else consumes a good or service. If there are no spillovers, then the municipality should have the responsibility for the good or service by acting as a manager and funding the cost of the good or service. If spillovers are present and they affect only adjacent municipalities, than the good or service can be managed and funded by a regional government or by a regional
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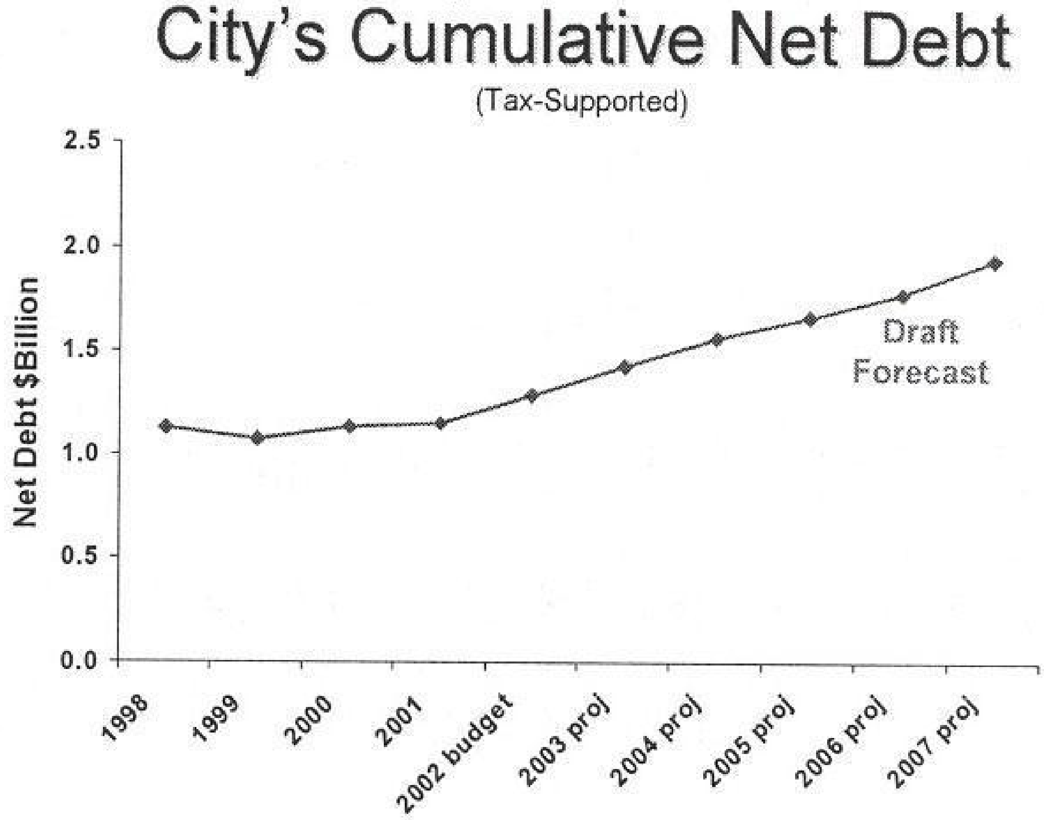
Table 3
Operating Cost Budget for the City of Toronto
Before and After Amalgamation
1990 to 2002
(Millions of 1997 Dollars)

Year	Metro	Toronto	North York	Scarborough	Etobicoke	East York	York	Total	Price Index	Adjusted Total	Percentage Change
1990	2300	553.6	273	211	91.6	56.3	60	3546	89	3991	0%
1991	2900	595.8	276.7	220.4	94.2	60.2	64	4211	91	4605	13%
1992	3200	588.6	271.6	223	97.6	61.5	65	4507	94	4815	4%
1993	3429	579.3	265.5	226.5	97	59.4	69	4726	94	5028	4%
1994	3452	553.3	270.4	209	96	57.7	65	4703	95	4947	-2%
1995	3457	522.3	270.8	213	95	58.5	87.3	4704	97	4838	-2%
1996	3121	511.0	246.9	208	94	59	85.5	4325	99	4379	-10%
1997	3112	771.4	270.4	209	93	58.9	79.9	4595	100	4595	5%
1998		5600						5600	100	5625	18%
1999		5500						5500	101	4531	-24%
2000		5900						5900	106	5592	19%
2001		6100						6100	105	5812	4%
2002		6200						6200	108	5754	-1%
2003		6200						6439	111	5783	1%
2004		6439						6646	115	5793	0%
2005		7100						7100	117	6084	5%

Source: City of Metropolitan Toronto and the City of Toronto, Operating Cost Budgets
Statistics Canada, Implicit Chain Price Index for Gross Domestic Product, Cansim D1000465

Graph 1



City of Toronto Web Site, Fact Sheet, Understanding the City's Debt, January 21, 2003.

authority. If the spillovers occur only within the province, the good or service should be managed and funded by the provincial government. If the spillovers are national, than the federal Government should be responsible for managing and funding the good or service.

Redistribution

Programs that involve the redistribution of income should be funded by the federal or provincial governments or by both levels of government via cost sharing. The municipal or provincial governments can manage the delivery of the good or service. The mix of taxes available to higher levels of governments are broader than those available to the municipalities. The income tax is based on the “ability to pay” principal and it is the most logical tax to fund redistribution programmes. The municipal government can still administer programme delivery such as housing subsidies or public housing programmes.

Taxation

Toronto is faced with increased responsibilities and lower provincial government grants. To fund its increased responsibilities, the new city has had to use its existing sources of revenue, the property tax and user fees. Unfortunately, these revenue sources are not sufficient to fund its additional responsibilities and it has been forced to borrow from the province and the capital market.

Financing Local Services

The municipalities and school boards are created and controlled by the province. The province can change the municipality’s boundaries, their sources of revenue and their responsibilities for expenditures. The province can also change the fiscal relationship between the municipalities to bring their objectives into line.

The city’s role is to produce and fund the goods and services that their residents want. Financing is determined by who receives the benefits. The benefits principal is based on the proposition that those who receive the benefits from consuming a good or service should pay for them. The problems associated with the benefits principal 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 local goods and services, such as the construction and maintenance of local roads, identifying who benefits is not simple.

Setting a price that the users are willing to pay for a good or service is one possible approach. If this is approximated in the production and sale of any local good or service, society's resources will be put to their best use. (Kitchen 2002: 46) In the case of the goods and services where it is not possible to determine who receives the benefit, taxes are used to pay for the goods and services.

Financing Public Education.

As part of the process of disentanglement, the province removed the city's responsibility for funding primary and secondary education. Bill 160, the Education and Quality Improvement Act, 1997, allows the province to set the education property tax rates for all classes of property. The taxes are collected by the municipalities and given to the province. The province allocates the funds for the local school boards based on their enrolments. The funds collected from the tax on businesses are shared among all of the school boards. The province also provides grants to school boards from general revenues based on student needs.

The Property Tax

In 2001, the province passed Bill 140 "An Act to Amend the Assessment Act, the Municipal Act and other Acts with respect to Property Taxes". (Province of Ontario, Bill 140, 2001) The 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. The ratio is determined by taking the ratio of the commercial tax rate over the residential rate. In 2001, the ratio was set at 1.417. Any municipality with a ratio greater than 1.417 cannot increase the tax rate on non-residential property. Since Toronto's tax rate in January 2004 was 3.52, only the residential tax rate could be increased. However, because of Toronto's budget problems, the province waved this restriction for 2004 and 2005.

Provincial and Federal 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 for service equalization programs.

Federal grants are small compared with provincial government grants. They are useful when municipal spending is related to federal policies such as immigration policy.

<u>Other Ways of Raising Revenue</u>

Income Tax

The first Ontario Municipal Tax legislation was introduced in 1850. Between 1835 and the early 1940's, the tax imposed on income by the province and municipalities was set at the same flat rate as the property tax. (Silver: 398-406)

In 1941, the provinces entered into a Wartime Tax Rental Agreement with the Federal Government. Under this Agreement the provinces surrendered their right and the right of their local governments to impose an income tax. After the end of the war, the provinces reassumed the right to impose an income tax but they have not allowed local government to impose an income tax.

Today, the personal and corporate income tax is shared between the federal government and the provinces. Most provinces set their own rates and allow the federal government to collect the tax along with the Federal Income Tax. However, Quebec imposes its own personal and corporate income tax and Ontario and Alberta impose their own corporate income tax.

Some of the larger municipalities have asked for additional sources of revenue, including an income tax. However, the provinces have been reluctant to give local governments the right to impose their own personal or corporate income tax. Manitoba is an exception. Manitoba gives 2% of its personal income tax and 1% of its corporate tax to local governments in the form of an unconditional per capita grant.

In other countries, especially the United States, many large cities impose their own income tax on their residents, and in some cases, on commuters, by deducting the tax from business and government payrolls.

The most cost efficient way for local government to impose a municipal income tax is by adding the tax to the provincial income tax and letting the province collect the tax. The revenue yield for Toronto from a 1% surtax on the provincial income tax has been estimated at $45 million. This is equal to 1% of property tax revenue. (Kitchen and Slack, 2003, 2234-2238)

The revenue yield for the GTA from a 1% surtax on the Provincial personal income tax has been estimated at $92.2 million. This is equal to 2% of the property tax. A 1% surtax would increase the provincial effective personal income tax rate by 6/100 – 8/100 of 1%. (Kitchen and Slack, 2003, 2234-2238)

Sales Tax

The federal government and all provinces except Alberta impose a sales tax. Quebec is the only province that has allowed municipalities to impose a sales tax. Montreal introduced the first municipal sales tax, a 2% tax, in 1935 to meet the relief costs during the great depression. In 1940, Quebec also imposed a sales tax of 2%. The Montreal tax continues, but the province now collects it. Other local governments in Quebec have introduced a sales tax. In 1964, Quebec took over the sales tax, and it established a uniform rate over the whole province.

A municipal sales tax can be imposed in two different ways. One way is to add it to the provincial sales tax and to let the province collect the tax. Another way is to let the municipality collect the tax itself. This increases the administrative costs but it also gives the local government more local autonomy and more flexibility in administrating and changing the tax.

Distortions can arise if adjacent municipalities employ different sales tax rates or allow the tax to cover a different mix of goods and services. This will cause consumers to alter the places where they shop. Different tax mixes in adjacent municipalities can offset the distortions.

A general sales tax can be imposed on top of the provincial sales tax or set as a share of the provincial sales tax. If Toronto had the power to impose a sales tax, the revenue yield from a 1% surtax on the provincial sales tax would be $361-378 million (equal to 15% of the property tax). For the GTA, a 1% surtax would yield $755–791 million or about 17% of the property tax. The estimates are based on 2000-year data. (Kitchen and Slack, 2003, 2238-2243)

Fuel Tax

Municipal taxes on motor fuel are common in the United States but they are not used in Canada. In a few provinces, a share of the fuel tax is returned to the municipality. British Columbia returns 11% of the fuel tax to the Greater Vancouver Transportation Authority or TransLink. The revenue is used for the capital and operating costs of public transit service and the construction and maintenance of major roads in the Greater Vancouver Regional District (GVRD).

Alberta also shares the tax on motor fuel with Calgary and Edmonton. Quebec shares the tax with Montreal. While the cities receive the tax, they have no say in how much they will receive and how the tax is administered. Kitchen estimates that the revenue from a 1-cent share of the Ontario fuel tax would yield between $36 –39 million for Toronto. This is equivalent to 1.5% of the property tax. For the GTA, a 1 percent share of the fuel tax would yield $81-87 million or about 1.9% of the property tax. (Kitchen and Slack, 2003, 2243-2247)

Both the federal and Ontario governments have promised to provide part of their fuel tax revenue to the municipalities. The federal government has agreed to distribute $5 billion over a five-year period. The Ontario government has promised to distribute $680 million of its fuel tax revenue to the cities over the next three years. At this stage, the problem is what formula should be used to distribute the tax? When this paper was written nothing was decided. Moreover, Toronto will not receive any money from the gasoline tax until the end of 2005.

Vehicle Registration and Congestion Charges

Some municipalities have argued that the provinces should return a share of the motor vehicle registration fee. This is done in some parts of the United States. The funds returned are usually earmarked to help local transit and to maintain and build major roads.

Some European cities also employ congestion charges. In 2003, the City of London imposed a fee to drive into the city centre. The funds collected are used to help finance public transit. The fees are also intended to deter vehicles from entering the city, to reduce pollution and to reduce gridlock in the centre of London.

Hotel and Motel Occupancy Tax

The yield from a tax on hotel and motel accommodations will not be large. Montreal and Vancouver use such taxes. Manitoba has passed legislation to permit municipalities to employ this tax. Toronto has also asked the new provincial government to be allowed to impose such a tax.

The tax is usually piggybacked on top of the provincial tax and it is intended to compensate the city for costs incurred when visitors come to the city. These include the cost of the police, of transit services, and of the use of roads among other things. In some U.S. cities, the city collects the tax.

Refunding the Provincial Government Sales Tax

The GTA now pays the provincial government sales tax on its purchases from the private sector. Removing the tax would save the GTA $250 million. (Toronto City Summit Alliance: 23).

Community Services Infrastructure

Toronto’s community service infrastructure includes libraries, day care centres, community centres, schools, parks and playgrounds, emergency shelters and other facilities.

Growing poverty and a growing population has increased the demand for these services. To reduce its deficits, the city of Toronto has had to reduced its spending on these facilities and their staffing. Many neighbourhoods today lack these basic services. User fees have also reduced their use.

The transfer of funding for community services from the province to the municipalities has forced the city to reduce its spending on these facilities in order to maintain its spending on police and fire protection and other municipal services. The result is increased homelessness. (Royson, 2004)

Transportation

Toronto and the GTA face major transportation problems. Gridlock is a major problem in the city. The problem is more severe in the rest of the GTA. To reduce the problem, significant investment will have to be made on public transportation and on improving the efficiency of the GTA’s road network.

Is There a Role for the Federal Government to Assist Cities?

Municipalities are tightly controlled by provincial legislation. However, there still is a strong case for federal government involvement with the municipalities. This is true when municipal expenditures arise because of federal government programmes, such as the immigration programme.

A federal presence is also supported when the policy issues are of national interest, such as subsidized or low cost housing, and when there are externalities generated by the cities.

Globalization and Urban Government Restructuring

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

A recent article by Andrew Sancton (Sancton 1999) argues that the important elements in a city region's competitiveness is not its governmental structure, but rather its access to customers and suppliers, its location, its political stability, and its labour force skills. In addition new firms are concerned with municipal, provincial and federal taxation, the availability of cultural and other activities, and the incentives offered to attract new firms by the city region. None of these elements depend on the governmental structure of the region.

Globalization offers significant opportunities for cities that can become key centres for the production and distribution of goods and services for the global economy. However, it also requires competent, effective local government that ensures its citizens receive efficiently produced local services, local goods and protection.

Globalization also produces an increasingly unequal world in terms of income distribution, assets and economic power. Inequality occurs within nations and within the global economy. New investments tend to be concentrated in a few major centres within a country and in the world. There are programmes to address inequalities in Canada and within the European Common Market but not in many other countries and within other trading blocks. (Environment and Urbanization, 2002)

Conclusions

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 principle 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 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 organizations and central control” (Bish 2001: summary).

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.

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 the amalgamation has not reduced costs. On the contrary, it has increased them. 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 2000b: 415).

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 harmonization 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 harmonization is that some communities are being forced to pay for services they do not want. They are also denied services that they do want and would be willing to pay for if they controlled their own budgets. Since there is no reason for all services and tax rates to be harmonized, this problem could be easily remedied (Vojnovic 2000: 70-77).

Looking back over the reports on governance in the GTA, it is evident that the major concern is 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 coordinating transportation services in the GTA is Go Transit. Many transportation experts view this agency as the key building block for the GTA’s transportation future (Barber 2003a).

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. This has placed 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.

Looking back over the last seven years since the forced amalgamation was imposed on the city of Toronto, it is clear that amalgamation was a mistake. The problem now is how to fix it? It would be very difficult and costly to go back to a decentralized city. Too many of the city’s services have been integrated to allow them to be returned to the previous decentralized cities.

The best that can be done now is to make the city work better. One obvious remedy is to return many of the downloaded functions to the provincial government. Increased funding from the federal and provincial governments would help the city improve its financial position and help it improve the quality of goods and services provided to its residents. A restructuring of the city would also help if it allowed its citizens to make their views known to their councilors and to help them solve their problems.

Toronto is the main engine of economic growth for both the rest of Canada. If the provincial and federal Governments continue to deny additional funds to Toronto and to restrict the tax sources open to the city, the cost of living and of doing business in Toronto will increase. Toronto’s ability to provide the services required to attract and retain new businesses and residents will decrease. This will seriously handicap Toronto’s and the GTA’s growth generating capacity and reduce Ontario and Canada’s future growth rates. It will also reduce Toronto’s competitiveness in the global economy.

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