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THE NEW GOVERNMENTAL STRUCTURE OF TORONTO AND ITS RELEVANCE FOR THE ECONOMIC AND SOCIAL ENVIRONMENT OF THE 21ST CENTURY

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INTRODUCTION

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

This paper is concerned with two aspects of these changes. Are megacities less costly to operate than many small municipalities in a large urban area? The recent amalgamation of the City of Toronto is used to examine this question. Since the amalgamation occurred in 1998, the new city is still adjusting to the change, and only preliminary conclusions can be drawn about this question.

The second question is concerned with the impact of downloading on the municipalities. The experience of the new City of Toronto is again used to examine this question.

THE ORGANIZATION OF LOCAL GOVERNMENT

Municipalities, their residents, 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. (1)

Large municipalities can produce some services at a lower per unit cost than smaller municipalities because the services are subject to economies of scale. Other services, such as water and sewage, require a large fixed capital input. The spreading of the fixed capital costs over a large output lowers the per unit costs of production. Many municipal services, especially ones that are labour intensive, show increasing costs as output is increased. Therefore, municipalities can experience both increasing as well as decreasing costs with increasing size. Bish's review of the literature indicates that only about 20 per cent of municipal services have lower per unit costs as the size of the municipality increases. (2)

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 their costs down. Since different municipalities produce different packages of services and taxes, Tiebout argues that residents can improve their economic welfare by selecting the municipality where the services and taxes best fits their preferences. (3)

Obtaining information in smaller municipalities may be less costly because they have fewer residents for each elected official. The elected officials know the area and the people well. Better information flows allow smaller municipalities to adjust more quickly to changing internal and external conditions. Economists favour this form of decentralized decision making because it produces a more efficient allocation of resources within a municipality and in an economy. Provinces such as Ontario, however, use centralized decision making. The province and the Provincial Ministry of Municipal Affairs and Housing make decisions on municipal organization and on the powers of municipalities within the framework of the Ontario Municipal Act. (4) The current Municipal Act sets out what municipalities can and cannot do and it is very restrictive in how it treats the municipalities. The Act dates from 1849. It has been amended many times, but it has never undergone a comprehensive overhaul. It is now being revised to make it simpler and less paternalistic. The process began over three years ago but it is not yet complete. (5)

Ontario has favored simplifying local government by combining smaller units into one large unit. The larger municipality can take advantage of economies of scale, the spreading of fixed costs and the economies of scope in producing and purchasing services. The provincial government has also argued that large cities are able to reduce costs by eliminating duplication. Many studies have found, however, that amalgamations do not lower costs they increase costs. Bish provides an extensive list of references to document this point. (6) Sancton has made the same argument in a number of papers. (7)

AMALGAMATION SAVINGS AND COSTS

Amalgamation Savings

When Toronto was amalgamated in 1998, it set three year annual targets for cost reductions. One target was 10 per cent of the $1.5 billion budgeted for newly amalgamated programs that were tax supported ($150 million per year). (8) The city excluded expenditures for programs that were previously amalgamated under the Municipality of Metropolitan Toronto. These expenditures made up about 73 per cent of the new city's operating budget. (9) The city set a second target of 10 per cent of the $173 million budgeted for rate supported programs ($17.3 million), 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 date 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, most of the cost savings involved reductions in the workforce. These included eliminating vacant positions; retirements; voluntary exits; and targeted exits. The report notes that executive management positions were reduced by 60 per cent.

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

The important measure is the net difference between the savings and the increased costs from amalgamation. Because of downloading, it is difficult to separate out the savings and costs of amalgamation and those for downloading to determine whether amalgamation will produce a net cost saving or a net cost increase. This is certainly true today, since the adjustment process and downloading are ongoing and changing. (10) Nevertheless, an attempt to do this will be made below.

Amalgamation Costs

The city incurred transition costs to consolidate and integrate the various programs of the amalgamated municipalities. By the end of 2000, transition costs were $275 million. Some of the costs, such as the upgrading of data services, would have been incurred even without amalgamation. Therefore, not all of the costs are transition costs. Moreover, as Vojnovic notes, municipal amalgamations generally result in transitional costs that are often higher than anticipated. (11)

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: These costs arose from the desire to equalize 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 by the new city as having the most significant differences when amalgamation took place. The financial constraints faced by the new city prevented these services and fees from being harmonized at the highest level, as is normally the case. Instead, service levels are being reduced in some parts of the new city and raised in other parts. Fees are being harmonized in the same way.
- Harmonization of Wages and Salaries: Prior to amalgamation, Metro and each of the six local municipalities paid their employees different wages and salaries for the same jobs. The city harmonized the wages and salaries of management and its non-union workforce first, at an estimated cost of $2 million. The issues were more complex for the unionized workforce because the city faced fifty-six separate collective agreements in the seven former municipalities. In March and April of 2000, the unionized inside and outside workers went on strike. (12) The contracts negotiated by the city reduced the number of bargaining units and collective agreements from fifty-six to six. (13) The negotiations also settled a large number of issues involving harmonization. The key demand for the harmonization of wage rates and benefits, however, was not settled in the negotiations and the issue was sent to either arbitration or mediation.

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

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

Source: Toronto Staff Report To Budget Advisory Committee "*Summary of Amalgamation Savings and Costs*", March 9, 2001, Appendix B

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. (14) (15)

An arbitration award involving the firefighters was reported in the *Globe and Mail.* (16) The arbitrator harmonized their wages at the highest rate paid in the six former municipalities. The firefighters were also given wage parity with first-class Toronto police constables. The city estimated the cost of this wage harmonization at $3 million. The *Globe and Mail* article quoted Councillor Brad Duguid's estimate of the cost as $18.3 million for 2001. The awards were also to be retroactive, but how far back they will go was not announced when the first decision was made. Benefits are also to be harmonized and made retroactive. The newspaper story quotes the same city councillor's estimate of a retroactive wage award back to 1998 as $50 million. The councillor also estimated the non-wage costs of amalgamating the six former fire departments at about $100 million. These costs included a new radio system, a new computer system and other costs to standardize equipment. Given what has already happened, the overall costs of amalgamation will be much higher than the city's estimate. This is especially true for the wage and salary bill. (17)

- Annual Financing Costs: The one-time transition costs were funded by drawing $80 million from the city's reserves and by a $195 million provincial loan. The annual debt payments are estimated at $29 million over a ten-year period. The city's debt burden has also been growing because of downloading. This very serious problem is discussed below.

The Financial Consequences of Downloading

Social Services

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

The Consequences of Downloading

The redistribution of responsibilities for social and other programs between the province and the municipalities are summarized in Appendix Table 1. Under the reforms, the province continued to set program standards, but the municipalities became responsible for running many programs and for paying a larger share of the costs from the property tax and user fees. The social service programs involve a redistribution of income from taxpayers as a whole to low-income households. In the public finance literature, local government is not usually viewed as the most effective level of government to operate such programs because mobility would offset attempts to redistribute income. (18) 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.

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

	Actual Budget 1997 (1)	Actual Budget 1998 (2)	Actual Budget 1999 (3)	Actual Budget 2000 (4)	Actual Budget 2001 (5)	Approved Budget 2002 (6)	1998 as a per cent of 1997 Actual Budget (7)	1999 as a per cent of 1998 Actual Budget (8)	2000 as a per cent of 1999 Actual Budget (9)	2001 as a per cent of 2000 actual Budget (10)	2002 Approved Budget as percent of 2001 Actual Budget (9)
Children's Services	41.3	32.5	41.5	52.8	57.3	60.6	78.7	127.7	127.3	108.5	105.8
Long-term Care and Homes for the Aged	23.2	23.2	14.8	18.2	20.8	25.8	100.0	63.8	182.4	114.3	124.0
Shelters, Housing and Support	14.2	273.4	271.3	252.9	270.9	268.2	1925.4	99.2	99.7	107.1	99.0
Library	107.8	104.5	97.9	105.1	110.3	114.4	96.9	93.7	105.4	104.9	103.7
Public Health	47.1	83.5	49.6	56.5	60.2	62.1	177.3	59.4	115.2	106.5	103.2
Social Services	162.6	281.1	255.3	257.0	230.7	229.4	172.9	90.8	101.7	89.8	99.4
Sub-total	396.2	798.2	730.4	742.5	750.2	760.5	201.5	91.5	1.05	101.0	101.4

Total Net Operating Costs	2,571.7	2,531.2	2,536.1	2,605.2	2,737.7	98.4%	100.2%	102.7%	105.3%
Percent of Total Net Operating Costs	15.4%	31.5%	28.8%	28.5%	27.72%				

Notes:
Net Expenditures are the amounts that are funded by the property tax. They are net of all other sources of revenue.
Social Services include Social Services and Social Development and Administration.
Source:
City of Toronto, "*1998 Operating Program, as recommended by the Budget Committee*", April 20, 1998.
City of Toronto, "*1999 Operating Budget as recommended by the Budget Committee*", April 12, 1999.
City of Toronto, "*Report of the Chief Financial Officer and Treasurer to the Policy &Finance Committee, December 31, 2000,* "Operating Budget Variance." Report", May 3, 2001.
City of Toronto, "*Report of the Chief Financial Officer and Treasurer to the Budge Advisory Committee, December 31, 2000, Operating Budget Variance Report*", May 3, 2001.
The 2002 approved Operating Budget was obtained from the City of Toronto.

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

Before the reforms, the provincial government paid part of the social services costs, through intergovernmental transfers from the province to the municipalities. The municipalities also paid part of the cost from property tax and user fees. After the reforms, most of the revenue came from the municipal property tax and user fees. The conventional view in public finance is that broadly based taxes, such as the provincial income tax, are a more effective way of raising funds for redistribution programs than the local property tax. (19)

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. (20) The problems faced by the city are illustrated in Table 2, which shows the city's annual net budget expenditures for selected social service programs. These programs were the ones most affected by downloading. Net expenditures are the amounts that are funded by the property tax and are net of all other sources of revenue.

Column 1 shows the 1997 actual net expenditures on social services for the former Municipality of Metropolitan Toronto and its six lower-tier municipalities. Columns 2, 3, 4, and 5 show the same information for the new City of Toronto for 1998, 1999, and 2001. Column 6 shows the approved but not the actual expenditures for 2002. The impact of downloading is shown in the next five columns. Column 7 shows that net expenditures on the selected social service programs more than doubled between 1997 (before amalgamation and downloading) and 1998. The new city experienced large cost increases compared with 1997 in Shelters, Housing and Support; Public Health; and Social Assistance.

From January 1997 to March 2000, nineteen changes were made to the provincial downloading program in response to municipal complaints. Some of the changes increased costs while others, especially after 1998, reduced them. The most significant change occurred in 1998, when the province introduced the pooling of expenditures on social welfare, social housing and for the province's commuter transit service, Go Transit, among all of the Greater Toronto Area (GTA) municipalities. (21)

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. (22) The pooling of expenditures was an attempt to internalize the negative externalities for the city by pooling costs with the rest of the GTA. The GTA cost equalization shares are set by provincial regulation. Because the rest of the GTA is growing faster than the city, the city's share of pooled social service costs will fall over time. In 1998, the city's share was 52.4 per cent. In 1999 it had fallen to 51.57 per cent. For 2001, it was set at 50.9 per cent. (23) For 2002, the city's share will rise to about 53% because property values were reassessed in the GTA and the Toronto's assessed property value rose by more than the rest of the GTA

The Go Transit commuter rail service used to be administered by the Greater Toronto Services Board (GTSB). The funds were obtained from the municipalities of the GTA and the Regional Municipality of Hamilton-Wentworth. Contributions were based on pooled assessment, ridership and desired service levels. The province now pays one-third of the capital costs under its Superbuild Program. The other two-thirds come from the same sources as before. The province now also pays for the Go system's operating costs. Therefore, some of the cost previously downloaded on the municipalities have been shifted back to the province.

Table 3

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

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

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

Column 8 of Table 2 shows how the city began to adjust to the new financial environment. Between 1998 and 1999, the data show only one cost increase, for Children's Services. Decreases are shown for all the other categories. In Public Health, most of the reduction came from a change in provincial policy that increased their contributions to the program. The reduction in social assistance spending came about from falling unemployment rates, as the Canadian economy improved, and from cost cutting. Cost cutting, however, has placed an increased burden on the city's poor. 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 8 of the Table shows that in the 1999 budget, significant cost cutting occurred. As a result, budgeted expenditures on most social service programs decreased. Since 1999, the cost of social services has been rising but not significantly.

Table 3 shows estimates of the net downloading cost for 1997 to 1999 and for 2001. The net costs consist of the increased operating cost from downloading less the amounts that the local Boards of Education received when the province assumed responsibility for education. Since the city previously financed education from the property tax, the provincial government's education grants, also obtained from the property tax, are viewed as a reduction of the burden on city taxpayers. The net data show a significant increase of $101.9 million between 1997 and 1998. Between 1998 and 1999, downloading costs fell by $61.5 million. However, for 2001 downloading costs increased as a result of the reduction in net operating costs for the reasons discussed earlier and the large increase in the city's payments to support the operating costs of public transit (GO) and the city owned Toronto Transit Commission (TTC). The remaining costs in Table 3 show the loss of the capital grants for public transit. As noted in Table 3, the amounts may be overestimates, because the city neglected to fully account for the $829 million payment from the province to support the new Sheppard subway and other TTC capital costs.

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

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 are 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 (24)

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 user fees in 1998, 1999, 2000 and in the 2001 budget, 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 that the city has is to borrow from the province, raise property taxes, raise user fees, contract out or cut back on service levels. A more obvious solution is provincial and federal government financial help and changes in the downloading program.

Toronto's problems are illustrated in Table 4. Compared with major U.S. cities, Toronto's ability to raise additional revenue is constrained by the Ontario Municipal Act and the unwillingness, up until recently, of the provincial and federal governments to provide additional aid. Most of the 38 largest U.S. cities have the legal right to use sales taxes and a municipal income tax. They also receive substantial help from the State and Federal Governments. Table 4 shows that Toronto received no federal government transfers and a much smaller amount of provincial government transfers than did the 38 U.S cities.

Canadian municipalities have been lobbying for additional sources of funding as well the power to levy other taxes than the property tax. This now appears to be happening. In a recent article in the Toronto Star, the mayor of the city of Toronto stated that the city has been promised additional funding from the federal and provincial governments (25) This consists of $1.1 billion from the province for Transit over the next decade. The federal government also promised another $76 million for transit. The province and the federal governments have also promised $90 million each for cultural projects. Also, $1.5 billion has been promised from all three levels of government to help develop the waterfront.

In addition, funds are being made available for low cost rental accommodation. The Ontario Municipal Employment Retirement System (OMERS) has offered $300 million to help build 2,300 to 3,500 rental apartments in the Toronto area. This is based on an agreement between the federal and provincial governments to provide $60 million to help fund about 500 units per year over 5 years. (26) This is short of the city's target of 2,000 new units per year. Social housing is a significant problem. Currently, 61,200 families and single people are on the waiting list for social housing and 4,500 adults and children use emergency shelters nightly. In the case of social housing, the federal and provincial governments have promised $245 million for Ontario over the next 5 years, This is being matched by a combination of provincial and municipal land, tax breaks and cash. Toronto officials estimate that Ontario municipalities are putting up $178 million, the province is putting up $57 million and charitable contributions make up the rest. (27). The program has drawn a lot of criticism. The municipalities are to provide the bulk of the non-federal aid. Also, even with the subsidy, the rental housing will be too costly for people requiring social housing. (28).

An increase in provincial and federal funding is clearly important. However, these funds may not be enough. Without additional sources of tax revenue, the city will have to continue to cut services. A recent column by Henry Aubin in the *Montreal Gazette* provides some evidence that this is already 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 are up at publicly owned recreation facilities. "Restaurants that once received free garbage pick up six nights a week now pay $1,600 a year for it." (29)

Additional evidence on Toronto's deteriorating financial position is provided by Slack. (30) Slack quotes a report by Urban Strategies Inc. They estimate 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 investment 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.

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. (31) Municipalities can also obtain revenue from fees on 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" which gives the province control over how the property tax can be applied to commercial property. Under the Act, the Provincial Treasurer can determine a provincial average tax ratio, which was set at 1.417 for 2001. The ratio is calculated by dividing the residential tax rate into the commercial tax rate. Any municipality with a commercial tax rate greater than 1.417 cannot increase its tax revenue by imposing additional taxes on commercial property. Since Toronto's ratio in January 2001 was 4.27, only the residential property tax rate could be increased to raise additional revenue. (32) 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 significant cost disadvantage compared with those in the rest of the GTA because they pay much higher taxes. A consultant's report prepared for the City of Toronto shows that the residential property tax payers 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.

Table 4

Revenue Sources as a percent of Total Revenues, City of Toronto and an 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	21%	29%
Federal Government Funding		7%
Users Charges	20%	14%
Sales Tax		12%
Income and Other Taxes		13%
Other Revenues	14%	7%
Total	100%	100%

Source: City of Toronto, *Building the New City, Final Three Year Status Report on Amalgamation, January 1998 –December 2000*, Office of the Chief Administrative Officer, May 2001, p.33.

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. (33)

CONCLUSION

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

The principal human rights organization in Europe, the Council of Europe, is opposed to forced amalgamations. The Council's view is incorporated in the European Charter of Local Self-Government. The document states that "Changes in local-authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by law" (34) Other organizations have made similar statements. For the example, the United Nations Center for Human Settlements and the World Associations of Cities and Local Authorities are lobbying the U.N. General Assembly to adopt a World Charter of Local Self-Government.

The draft resolution views forced mergers as being in conflict with democracy. 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."(35) Bish expresses similar views when he states 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 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."(36)

Municipalities have two major roles. They serve as agencies for the delivery of local services. They also serve as access points for citizens to voice their opinions on the nature of local governments. In amalgamated cities, the access function becomes more difficult for the city's residents. This dissatisfaction has lead to secessionist movements because residents feel isolated from their political representatives. They cannot complain about local issues to the Mayor as they can in a small town. In my interviews with Toronto councillors, I was told they have staff members who are dedicated to looking after citizens' complaints and to helping resolve problems with the city administration. The Toronto merger also created the Community Councils, which are an attempt to allow Councillors to look after local issues in each of the former merged municipalities. How well they work is not clear at this stage. This is a subject that requires further study.

One of the justifications given by the provincial government to support amalgamation was that it would reduce costs by eliminating duplication and simplifying municipal government. The evidence indicates that amalgamation has not reduced costs. On the contrary, it has increased costs. Whether the city is able cut costs in the future without reducing service levels is not clear at this stage. Most studies on amalgamation, however, show that a reduction in costs is not likely. (37) One positive aspect of amalgamation is that it has allowed some municipalities in the former Municipality of Metropolitan Toronto, and especially the City of York, to provide a higher service level for its residents than it could with its own revenue. This is related to the harmonizing service levels. Service levels have risen for some municipalities and fallen for others; therefore, some residents are better off while others are worse off. The negative aspect of service harmonization is that some communities are being forced to pay for services they do not want. They are also denied services that they do want and would be willing to pay for if they controlled their own budgets. Since there is no reason for all services and tax rates to be harmonized, this problem could be easily remedied. (38)

Looking back over the reports on governance in the GTA, it is evident that the major concern was the coordination of service delivery across the region. Neither the creation of the new City of Toronto nor the GTSB has adequately addressed this fundamental regional problem. Combining amalgamation and downloading has produced an untenable financial situation for the new city. The city is not financially self-sufficient. Toronto is faced with the operating and capital costs of downloading imposed by the province, putting a significant burden on the property tax. The province currently restricts the city to the property tax and to user fees for additional revenue. Other revenue sources are needed to help the city meet its financial requirements. The lack of funds, other than borrowing, to maintain and add to its infrastructure, means that the city's infrastructure is deteriorating and that borrowing costs will place an additional future burden on the city's operating costs. The inability to maintain and add to the city's and the GTA's infrastructure will increase urban sprawl which places additional costs on the city's and on the GTA's businesses and residents.

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

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

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

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

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

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

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

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