

A Preliminary Assessment of the New City of Toronto

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On January 1, 1998, the new City of Toronto came into being by replacing the former metropolitan level of government and its constituent lower-tier municipalities (Toronto, Etobicoke, North York, Scarborough, York and East York) with a single-tier city.¹ This restructuring was not initiated by local initiative but by the provincial government through the passage of Bill 103, the *City of Toronto Act, 1996*.² Indeed, opposition to the proposed amalgamation came from many different quarters: local municipalities (both inside and outside of Metro Toronto), the opposition parties, citizen organisations, and from within the Conservative party itself (see Stevenson and Gilbert 1999; Sancton 1998). The major citizen opposition was led by a former mayor of Toronto, John Sewell, who was behind the formation of the Citizens for Local Democracy in late 1996. Sewell's opposition to amalgamation centred on the loss of local identity and

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1. The new City of Toronto is contained within the Greater Toronto Area (GTA) which is comprised of the City of Toronto plus the two-tier regions of Durham, Halton, Peel and York. The population of Toronto in 1999 was 2,385,421. The populations of the other regions of the GTA are: Durham -- 452,608; Halton -- 329,613; Peel -- 869,219; and York -- 618,497. These estimates, which were taken from the 1999 Ontario Municipal Directory, show that the population of Toronto represents about half of the population of the GTA.
 2. Municipal restructuring in Ontario is widespread. In some cases, restructuring was initiated locally with provincial assistance such as in Kingston. At the request of some municipalities (for example, local municipalities in Kent County and Chatham, Temagami and others), the provincial government appointed a commissioner to make recommendations on restructuring. In four regions (Ottawa-Carleton, Hamilton-Wentworth, Sudbury and Haldimand-Norfolk), the Province appointed special advisors whose recommendations were subsequently adopted and turned into provincial legislation (the first three are one-tier megacities; Haldimand-Norfolk has been divided into two single-tier cities). Yet other municipalities have initiated and implemented restructuring voluntarily at the local level. To date, all but four counties in Ontario have undertaken some restructuring.

reduced access to local government. In the broader context of the GTA, it was felt that amalgamation would result in increased polarisation within the region.

On March 3, 1997, referenda on amalgamation were held in each of the lower-tier municipalities in Metro Toronto; about 36 % of eligible voters voted. Opposition to the proposed amalgamated City of Toronto (referred to as the “megacity”) ranged from 70 to 81 % of voters depending on the municipality.

Furthermore, none of the studies of governance in the Greater Toronto Area (GTA) commissioned by the Province (discussed below) emphasized problems within Metropolitan Toronto or the need to create a megacity. Rather, these studies identified problems with the coordination of transportation, planning, water provision and waste management among the regions within the GTA and focussed on the need for a GTA governing body to address these service coordination issues.

This paper provides a preliminary assessment of the creation of the new City of Toronto, focussing on the financial aspects. It is preliminary because one year of post-amalgamation data is not sufficient to estimate the full impact of a restructuring. The paper briefly reviews the history leading up to the creation of the new City, summarises its finances and provides an initial analysis of the impact. In the paper, the reasons for restructuring are evaluated and it is concluded that it is unlikely that this type of restructuring will result in cost savings nor will it solve many of the non-financial problems currently faced by the new City of Toronto. Nevertheless, there may be some benefits from amalgamation.

The Need for Regional Governance in the GTA

Amalgamation had not been on the agenda prior to the introduction of Bill 103. The Office of the Greater Toronto Area (OGTA), which was established by the Province in 1988, focussed on a strategic vision for the GTA and the coordination of regional issues (Stevenson and Gilbert 1999). A forum of GTA mayors (of local municipalities) and chairs (of regional governments) concentrated its efforts on economic development and marketing in the GTA.

Further issues around regional coordination were raised by the GTA Task Force (chaired by Anne Golden). The Task Force was created by the Premier of Ontario on April 1, 1995, in response to growing concerns about the future of the economic performance of the urban region. The major conclusions of the GTA

Task Force (1996) were that³:

- ▶ the entire GTA needs to be treated as a single economic unit with a unified economic strategy;

3. There were also recommendations on property tax reform.

- ▶ a new GTA governmental body is needed to deal with GTA-wide environmental and planning issues and to share major infrastructure and social costs;
- ▶ more compact urban development that contains sprawl will make transit more viable and reduce infrastructure costs (the Task Force estimated savings at an average of \$700 million to \$1 billion per year for the next 25 years);
- ▶ local government within the GTA needs to be simplified by eliminating Toronto's upper tier (Metro) and the four surrounding regional governments, and by reducing the number of local municipalities.

The Who Does What (WDW) Panel, appointed by the provincial government in 1996 and chaired by David Crombie, also called on the Province to set up a GTA governance structure. It recommended:

- ▶ the creation of a Greater Toronto Services Board (GTSB) eliminating the five metropolitan and regional governments;
- ▶ consolidations of member municipalities into strong cities;
- ▶ consolidations in Metro to create a strong urban core for the GTA; however, there was no consensus on whether there should be one city of Toronto or four cities.

Notwithstanding ten years of provincially-commissioned reports on the need to coordinate service delivery between Toronto and the surrounding regions, the provincial government chose to amalgamate the municipalities within Toronto. The stated rationale was to save taxpayers' money by replacing six lower-tier governments and the metropolitan level of government with one municipal government -- the new City of Toronto.

Following the amalgamation of Toronto, the Province also established the Greater Toronto Services Board (GTSB).⁴ The GTSB was given no legislative authority except to oversee regional transit. It was not designed to be a level of government nor was it given direct taxing authority. The GTSB is comprised of 40 members plus the Chair. The members include the 25 mayors in the GTA, the four regional chairs, ten additional members from the City of Toronto council and one additional member who sits on both the Mississauga and Peel councils. For GT Transit matters, the City of Hamilton is represented on the GTSB.

Looking back over the reports on governance in the GTA, it is evident that the major concern was coordination of service delivery across the region. Neither the creation of the new City of Toronto nor the GTSB has adequately addressed these fundamental regional problems.

4. The *Greater Toronto Services Board Act, 1998* sets out the structure and responsibilities of the Greater Toronto Services Board (GTSB) and the Greater Toronto Transit Authority.

Characteristics of the New City of Toronto

The new City of Toronto has 2.4 million people and is 632 square kilometres. The operating budget of the new City of Toronto is about \$6 billion, larger than six Canadian provinces. There are 26,000 people working for the City and an additional 18,000 working for the 214 agencies, boards and commissions. The number of departments in the new City was reduced from 52 (in the seven former municipalities) to six. The number of divisions was reduced from 206 to 37. The number of executive positions was reduced from 381 to 154. The number of management positions was reduced from 1,837 to 1,204 (City of Toronto 1999).

The new council was originally comprised of 57 councillors (two elected from each ward) plus the mayor. Although this is a much larger council than in other Ontario municipalities (Stevenson and Gilbert 1999), each councillor also represents a much larger number of people than in other municipalities in the GTA. The number of representatives in the GTA ranges from 38 in Peel Region to 75 in York Region. In terms of representation by population, the range is from one councillor for every 7,300 people in Durham to one councillor for every 41,850 persons in Toronto. For the 2000 municipal election, the number of councillors in Toronto was reduced (unilaterally by provincial legislation) to 44. This resulted in one councillor for every 54,214 persons in Toronto.

Much of the work of council is handled by six standing committees and other sub-committees and task forces. The City is also required to have community councils with members of council representing a particular area of the city. Community councils deal with neighbourhood issues such as development applications and local recreation needs. All recommendations must be approved by city council to be implemented.

Financial Profile of the New City of Toronto

Table 1 shows expenditures per household by category for the seven municipalities in the former Metropolitan Toronto for the five years leading up to amalgamation and for the one year following amalgamation. Total operating expenditures per household fell at an annual average rate of about 1.5 % over the five-year period before amalgamation. The decrease can largely be explained by a decrease in general welfare assistance (at an annual average rate of 7.4 %), reflecting a time of economic recovery and changes to the social assistance program.

In 1998, total operating expenditures in the new City of Toronto were over

\$5.6 billion or \$6,013 per household. The three largest expenditure categories -- general welfare assistance (19.5 %), transit (14.3 %), and policing (9.5 %) -- were all metropolitan level services prior to the amalgamation. Expenditures increased by 6.1 % over the previous year. As noted below, this increase could reflect the impact of amalgamation or other public policies that were implemented at the same time such as provincial downloading of general welfare

TABLE 1 Operating Expenditures per Household, New City of Toronto, 1993 to 1998 (\$)

1993	1994	1995	1996	1997	1998
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General Government	585	642	709	648	697	660
Fire	254	248	252	258	254	242
Police	618	585	583	568	580	569
Conservation authority	12	13	12	11	10	8
Protective inspection and control	68	65	64	63	62	57
Subtotal protection to persons & property	952	912	911	900	906	877
Roadways	247	243	244	262	267	258
Winter control	36	38	32	29	36	42
Transit	804	793	800	839	842	860
Parking	65	71	70	73	76	63
Street lighting	22	19	20	18	16	17
Other	0	0	0	3	3	0
Subtotal transportation services	1,174	1,164	1,166	1,223	1,240	1,239
Sanitary sewer system	249	231	236	250	248	228
Storm sewer system	8	7	6	6	6	3
Waterworks system	187	198	195	207	206	192
Garbage collection	83	75	76	68	68	66
Garbage disposal	95	77	71	67	66	77
Pollution control	1	4	6	4	5	6
Other	0	0	0	2	2	0
Subtotal environmental services	622	592	590	604	601	572
Public health services	95	91	88	88	78	86
Public inspections and control	6	5	5	3	8	9
Hospitals	3	1	1	1	0	0
Ambulance services	81	77	76	71	71	73
Subtotal health services	185	175	171	163	158	167
General assistance	1,442	1,513	1,464	1,131	1,061	1,175
Assistance to aged persons	207	182	169	158	153	149
Assistance to children	26	23	25	24	24	0
Day nurseries	200	202	206	197	215	214
Subtotal social and family services	1,875	1,921	1,864	1,510	1,453	1,539
Parks and recreation	330	331	316	316	326	342
Libraries	154	152	147	142	141	131
Other cultural	63	63	69	69	67	49
Subtotal recreation and cultural services	547	546	532	527	534	522
Planning and development	88	81	86	78	80	436 ¹
Total	6,029	6,032	6,027	5,652	5,669	6,013

Note: 1. This includes \$374 per household for social housing in 1998.

Source: Calculated from MARS data, Ministry of Municipal Affairs and Housing.

TABLE 2 Distribution of Operating Revenues, New City of Toronto, 1998 (%)

	1993	1994	1995	1996	1997	1998
Property Taxes	41.2	41.2	41.4	44.0	44.0	45.2
Water and Sewer Billings	2.0	2.1	2.3	2.5	2.5	6.9
Total Taxation	43.2	43.3	43.7	46.5	46.5	52.1
Payments in Lieu of Taxes	2.8	2.8	2.8	3.0	3.0	3.6
Provincial Unconditional Grants	2.3	1.9	1.9	1.9	1.5	0.9
Provincial Conditional Grants	28.6	29.6	28.4	23.4	22.3	14.2
Total Provincial Grants	30.9	31.5	30.3	25.3	23.8	15.1
User Fees	13.6	14.0	14.3	16.5	18.0	16.6
Other Municipalities Grants and Fees	0.7	0.6	0.6	0.6	0.5	3.8
Other Revenues	8.8	7.9	8.3	8.1	8.1	8.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from MARS data, Ministry of Municipal Affairs and Housing.

assistance.

Since municipalities are not permitted to incur a deficit in their operating budget, operating revenues are roughly equal to operating expenditures. Table 2 summarises the distribution of operating revenues by source for the seven former municipalities in Metropolitan Toronto from 1993 to 1997 and for the new City of Toronto in 1998.

The main source of revenue to municipalities in Toronto, as elsewhere in Ontario, is the property tax followed by user fees (mainly for transit, parks and recreation, parking, garbage disposal and assistance to the aged). Provincial grants came third; most of these grants were conditional in that they have to be spent on functions designated by the provincial government. The largest conditional grants in 1998 were for social and family services. The only unconditional grant that Toronto received in 1998 was \$50 million for transitional assistance related to the amalgamation and the downloading of provincial services. Other revenues include licenses and permits, contributions from reserve funds, investments and other income.

Table 2 shows that property taxes as a percent of total operating revenues have increased steadily over the period. At the same time, provincial unconditional grants have steadily declined. The large drop in grants from 1997 to 1998 reflects the downloading of services to municipalities in that year. User fees increased as a percentage of revenues from 1993 to 1997 and then declined in 1998.

Table 3 shows capital expenditures per household for the former lower-tier municipalities and Metropolitan Toronto for the years from 1993 to 1997 and for the new City of Toronto in 1998. Capital expenditures do not follow a pattern

TABLE 3 Capital Expenditures per Household, New City of Toronto, 1993 to 1998 (\$)

	1993	1994	1995	1996	1997	1998
General Government	26	22	41	54	50	46
Fire	9	9	9	8	9	11
Police	29	22	27	22	24	33
Other	3	4	4	4	5	5
Subtotal protection to persons & property	41	35	40	34	38	48
Roadways	123	111	152	138	177	138
Transit	201	276	323	357	421	611
Other	14	28	19	18	9	7
Subtotal transportation services	338	414	494	514	607	757
Sanitary sewer system	67	58	52	52	55	81
Storm sewer system	5	3	3	7	8	22
Waterworks system	27	36	26	39	58	39
Garbage collection	3	1	27	22	3	9
Garbage disposal	9	10	0	0	12	8
Other	0	0	8	1	12	1
Subtotal environmental services	112	108	116	122	148	159
Health services	15	7	7	9	3	2
General assistance	17	10	12	13	5	5
Assistance to aged persons	10	9	4	6	18	14
Assistance to children	0	0	0	0	0	1
Subtotal social and family services	27	19	16	20	23	20
Parks and recreation	66	39	95	216	97	65
Libraries	17	23	20	13	12	23
Other cultural	23	10	8	14	17	6
Subtotal recreation and cultural services	106	73	122	242	126	94
Planning and development	68	23	54	29	8	41
Total	732	704	894	1,023	1,005	1,167

Source: Calculated from MARS data, Ministry of Municipal Affairs and Housing.

over time in the same way as do operating expenditures. Rather, they fluctuate from year to year in response to particular needs. For example, capital expenditures for parks were high in 1996 but were considerably less in other years.

The largest capital expenditures are generally for transit and roads followed by sewers and water. Transit expenditures increased steadily from 1993 to 1997 and then jumped up significantly in 1998. This large increase likely reflects the downloading of transit (both capital and operating expenditures) to municipalities in that year.

In terms of capital financing, the main sources are current revenues, contributions from reserves and reserve funds (which comprise property taxes and user

fees set aside for capital purposes), development charges, provincial grants and loan forgiveness, and municipal borrowing.

Impact of Restructuring

Understanding the impact of amalgamation in Toronto is difficult, not only because it takes about five years for all of the changes to work their way through the system but also because other changes in municipal finance have been taking place at the same time in Ontario: the realignment of local services and property tax reform were both implemented in 1998.

Local services realignment (more commonly referred to as downloading) in Ontario resulted in the transfer of responsibility for many “hard” services (such as water, sewers, roads and transit) plus social housing, public health and ambulances to municipalities. Furthermore, it downloaded increased responsibility for social services to municipal governments. Regional pooling of the costs of social services, social housing, and transit costs among municipalities in the GTA has spread the impact of downloading throughout the region. In return for the services that were downloaded to municipalities, the Province took over the funding of elementary and secondary education and cut residential property taxes for education in half in 1998 and made further cuts in 1999. Also in 1999, the Province took back some funding responsibility for ambulances and public health.

Property tax reform meant that a uniform assessment system based on “current value” (interpreted as market value) was implemented province-wide. Because the change to a uniform province-wide assessment system by itself would have resulted in large shifts in tax burdens within and between classes of property, tax policy changes were introduced at the same time. The result was a new property tax system in Ontario with an impact on virtually every taxpayer.

Although the local services realignment and the details of property tax reform are beyond the scope of this paper (see Slack 1999) for a review of property tax reform in Ontario), suffice it to say that it is impossible for a taxpayer to separate out the property tax impact arising from property tax reform, local services realignment or amalgamation. This confusion not only makes it difficult to sort out the impact of any one policy, but it seriously compromises accountability when taxpayers do not know why their taxes have changed.

Service and User Fee Harmonisation

Service harmonisation applied to only 30 % of the total expenditures of the new City because 70 % of total expenditures (social services, transit and policing) had already been amalgamated at the metropolitan level of government. To

ensure that there were no disruptions in service, harmonisation did not begin until 1999 and it is expected to continue over a period of years. The areas targeted for harmonisation were solid waste collection and recycling, winter control activities, **TABLE 4 Operating Expenditures per Household for Selected Services, Lower-Tier Municipalities in Metropolitan Toronto, 1997 (\$)**

	Tor.	Etob.	Scar.	North York	York	East York
Fire	329	238	189	238	193	232
Protective inspection and control	68	43	44	42	47	38
Roadways	145	171	137	177	187	88
Winter control	19	30	30	26	0	112
Parking	138	9	1	18	7	4
Street lighting	16	21	15	16	0	13
Sanitary sewer system	76	44	16	42	48	20
Waterworks system	96	137	108	156	92	27
Garbage collection	102	49	50	63	34	47
Public health services	99	56	64	70	69	104
Public inspections and control	12	8	6	9	0	0
Parks and recreation	282	265	159	241	149	174
Libraries	116	95	101	153	70	72
Other cultural	47	4	1	15	2	5
Planning and development	156	21	34	25	30	21
Total operating expenditures ¹	2,284	1,592	1,259	1,545	1,191	1,161

Note: 1. Columns do not add because only selected expenditures are included in the table.
Source: Calculated from MARS data, Ministry of Municipal Affairs and Housing.

public health services and library services.

To illustrate the challenges associated with service harmonisation, Table 4 highlights some interesting differences in per household expenditures among the former lower-tier municipalities. In some cases, higher expenditures mean higher service levels; in other cases, they reflect the need for specialised services. For example, fire expenditures per household have been considerably higher in Toronto than in the other lower-tier municipalities because of the higher density of the downtown area. Garbage collection costs were higher in the former City of Toronto likely because of the greater proportion of commercial properties that require pickup and because the City of Toronto provided that service when other municipalities did not. Public health expenditures are higher in the former City of Toronto because of the diversity of the population living downtown. Expenditures on winter control were higher in the former City of North York because it cleared sidewalks as well as roads while other municipalities did not.

An initial review of service harmonisation in the new City (City of Toronto 1999) shows an overall increase in annual expenditures for winter control and public health and some reductions in expenditures for solid waste management. This initial review of service harmonisation excluded fire protection. Subsequent analysis has revealed the need for significant expenditure increases for fire (City of Toronto 2000).

The main areas for user fee harmonisation are recreation centres, water and commercial garbage collection. Surprisingly, the harmonisation of user fees has led to a reduction in user fee revenues in the new City of Toronto compared to the combined revenues of the former municipalities. In particular, fees for parks and recreation have fallen. Although user fees are being charged for recreation services in the City of Toronto where they were not charged in the past, the fees have been reduced in other parts of the city. Recent reports suggest that too many people have signed up for the free services and too few for the ones that are not free with the result that the city is facing significant cost overruns in its parks and recreation department (*Toronto Star* 2000). Overall, the service and user harmonisation is expected to result in increased costs to the City of Toronto in 2000 and beyond (City of Toronto 1999).

Transitional Costs

Municipal amalgamations generally result in transitional costs and they are often higher than anticipated (Vojnovic 1998). If the transition is towards a more efficient, effective, and accountable local government, then the costs are probably worth it. If not, transitional costs become an additional argument against amalgamation. One-time transition costs in Toronto include: acquisition of new technology for financial, human resources and payroll systems, renovation of existing facilities such as the Toronto City Hall, and hiring of technical and professional expertise with respect to areas such as telecommunications (City of Toronto 1999). In addition to the one-time costs, there are also costs associated with downloading and staff exits.

It has been estimated that the one-time transitional costs for Toronto will be about \$153 million over the period from 1998 to 2001. The cost of staff exits and preparation for downloading adds a further one-time cost of \$56 million for 1998 and 1999 (City of Toronto 1999). The City received a \$50 million grant from the Province and an interest-free loan of \$50 million in 1998. A further \$63 million interest-free loan was granted by the Province in 1999. This assistance from the Province is to help with the transitional costs of downloading. The loan arrangements call for the repayment of the loan from savings achieved following the completion of the amalgamation process.

Cost Savings

From a municipal finance perspective, one of the key questions about the amalgamation is whether there have been cost savings. In 1998, the City set a \$150 million target for amalgamation savings over three years or a 10 % reduction of the \$1.5 billion gross expenditures of the amalgamating programs. As noted in City of Toronto (1999: 10), “the source of amalgamation savings are possible through reductions in expenditures of the amalgamating programs...”. Savings were realised in staff reductions and service rationalisation; there was no mention of a reduction in services. It is too soon to determine if service levels have changed following the amalgamation.

The City claims that it is on target -- most of the savings have come from staff reductions. The City does not, however, compare these savings to the increased costs associated with service and user fee harmonisation (noted above) or with other budget increases. For example, it does not net out increased costs such as: 62 new fire fighters recommended following a review of fire services in the new City, 21 new planning staff (because too many were let go at the time of the amalgamation), costs of administrative restructuring, service expansion for solid waste, enhanced litter cleaning and other changes in service delivery. Furthermore, new collective agreements with inside and outside workers will have a major impact on the budget. Finally, the zero tax increases in 1998, 1999, and 2000 indicate that any cost savings that were realised did not reduce property taxes. Unfortunately, it is difficult to separate the impact of amalgamation from the impact of provincial downloading.

Reasons for Restructuring

The provincial government has stated that the main reason for municipal restructuring is to achieve cost savings by reducing waste and duplication. Other reasons for restructuring include: the ability to coordinate services across municipal boundaries, the need to spread the costs of local government in general and the costs of downloading in particular across a broader tax base, equalisation of service levels and the need for a stronger voice for Toronto (Slack 1997).

The argument on cost savings asserts that amalgamation can reduce the number of politicians and administrators. Although this argument is valid, it also true that the amalgamation of municipalities with different service levels and different wage scales results in expenditure increases.⁵ As Tindal (1996: 5) notes: “past experience tells us that there are strong upward pressures on costs after an amalgamation” and the pressures are to level services up, not down.

A review of American empirical evidence on fragmented versus consolidated local governments (Boyne 1992) concludes that lower spending is a feature of

5. Sancton (1996) reviewed municipal consolidations in three provinces and concluded that the evidence does not support the view that consolidations result in cost savings.

fragmented local government systems; consolidated structures are associated with higher spending. Indeed, he notes that very large consolidated units of government will be subject to 'diseconomies of scale' because of 'bureaucratic congestion' and problems delivering services to remote areas. Both Boyne and the GTA Task Force noted that amalgamation reduces competition between municipalities because there is less incentive to be concerned with efficiency and less incentive to be responsive to local needs. Competition increases efficiency in the delivery of services and results in lower costs.

Recent studies on cost savings under one-tier versus two-tier governments in Ontario all indicate the opposite; they conclude that significant cost savings can be achieved through amalgamation. The reports of the four special advisors, appointed by the provincial government (in Ottawa-Carleton, Hamilton-Wentworth, Sudbury and Haldimand-Norfolk) project significant amalgamation savings. It should be noted, however, that the special advisors were required to find ways of saving costs as part of their mandate so it is highly unlikely that they would not find any. Furthermore, the advisors have only projected cost savings; the actual service levels and expenditures will be determined by the newly-elected municipal councils. It is impossible to know in advance what these service levels will be. Finally, many of the cost savings that are listed in these reports could be achieved without amalgamation because they address improvements in service delivery.

The amalgamation of Chatham-Kent is often cited as a model of how amalgamation can lead to cost savings. Savings predicted in Chatham-Kent, however, were not fully realised and property taxes did not fall in the amalgamated municipality. A recent article in the local newspaper (*The Daily News* December 17, 1999) quotes the mayor as saying that amalgamation "was not quite the savings extravaganza we were led to believe it was". The article also says that there has been an under-investment in public works in Chatham-Kent in the two years following the amalgamation in the order of \$2.5 million per year. The municipality is now faced with an increase in property taxes or its debt burden or both.

Higher costs associated with the equalisation of service levels is not necessarily a bad thing. If some municipalities cannot provide an adequate level of service because they do not have adequate resources, amalgamation allows them to provide the same level of service as other municipalities in the region. But this means that costs are likely to rise, not fall. For example, the former City of York and the former Borough of East York were experiencing declining levels of assessment and inadequate levels of service. As Table 4 showed, they did not achieve the same expenditure per household as did the other municipalities in the former Metropolitan Toronto. Amalgamation has presumably increased the level of services for residents in these two municipalities and resulted in increased equity within the former metropolitan area.

The Metropolitan Board of Trade saw amalgamation as creating a more effective entity for economic development and marketing (Stevenson and Gilbert 1999). The larger government would be more effective at promoting economic

development by reducing the bureaucracy and duplication and by eliminating inter-municipal competition. The Greater Toronto Marketing Alliance (GTMA) was created in response to these arguments but the City of Toronto has threatened to pull out. Furthermore, large property tax differentials between the City of Toronto and the rest of the GTA have kept the new City of Toronto at a competitive disadvantage in the region (Slack 1994).

The Toronto amalgamation has resulted in some important influences on policy formation. Homelessness, for example, is a problem that needs to be addressed across the entire new City. Attempts are being made to co-ordinate shelters, drop-ins and service delivery on a broader, city-wide basis than in the past. Second suites (mainly basement apartments) are an important component of the affordable rental housing stock in the city. Previously, they were only permitted in some of the municipalities in Metro Toronto. The new city council has adopted Official Plan and zoning by-laws to permit second suites as-of-right in single and semi-detached houses throughout the new city.

In terms of a stronger, unified voice in the region and across the province, Toronto's leadership role in a national attack on homelessness shows that it is making its presence felt on a broader scale (Stevenson and Gilbert 1999). Efforts to improve the waterfront are another example of the clout that can be exercised by a city of 2.4 million people on the provincial and federal governments. The 2008 Olympic bid also exemplifies the stronger position of the new, larger city compared to the earlier bid of the former City of Toronto.

In summary, although there are unlikely to be cost savings from amalgamation, there may be other reasons to amalgamate. To the extent that service levels do equalise up to the level of the highest municipality, those with poor services gain from amalgamation. Furthermore, the costs of providing those services are spread over a broader tax base. This allows each municipality to provide a similar standard of service at similar tax rates. Although the amalgamation of Toronto may have given the City more influence with both the provincial and federal governments, there is some dispute over whether it has more influence within the GTA. The amalgamation may have increased the polarisation between the city and the suburbs.

Challenges Facing the New City of Toronto within the GTA

Toronto is increasingly recognised around the world as an international city and as one of the best places to live and work. Courchene (1999), for example, argues that Toronto is key to the Ontario economy. As all cities in Canada, however, Toronto remains a creature of the Province with few key economic and social levers at its own discretion. The challenges that face Toronto are to continue to provide the services that people and businesses want and to attract new businesses while keeping taxes at a reasonable level. This may be an increasingly difficult challenge.

Poverty Is on the Rise

Research for the Mayor's Tax Force on Homelessness showed that the incidence of poverty is increasing in Toronto and homelessness is on the rise. In 1996, almost 26,000 different people used the shelter system in Toronto. Furthermore, there is a growing disparity in incomes between Toronto and the rest of the GTA. According to the 1996 Census, the incidence of poverty for families in Toronto was 24.4 % compared to 11.5 % for the rest of the GTA and 12.2 % for Ontario outside of Toronto. Although the incidence of poverty in other municipalities in the GTA has increased, it still remains less than half of the rate in Toronto. Toronto has a disproportionate share of poor households.

With a larger share of low-income households, Toronto will face a greater demand for social services and fewer resources to pay for them. The further downloading of social services to municipalities in 1998 has exacerbated the problem. To some extent, the pooling of social service and social housing costs across the GTA has cushioned the impact on Toronto. Although pooling is a step in the right direction, it is less effective than provincial funding of social services and it is contentious within GTA municipalities. Poverty and homelessness have to be addressed on a GTA-wide basis.

Infrastructure is Deteriorating

Continued under-investment in roads and bridges and the deferral of essential rehabilitation means that Toronto is falling behind other major cities in maintaining basic infrastructure. A recent report (Urban Strategies Inc. 1999) suggests that Toronto is investing in new infrastructure at about one-fifth the rate of equivalent U.S. cities. A study by the IBI Group, Hemson Consulting Ltd. and C.N. Watson & Associates cited in the above report shows a gap of \$800 million between budgeted investment and required investment in the GTA for roads and transit. The long-term consequences of continuing to under-invest in infrastructure will be major traffic congestion and a significant reduction in quality of life. This situation will have serious implications for Toronto's ability to attract business in the future and for its ability to compete in the global economy. The transportation system has to be addressed on a GTA-wide basis.

Financial Sustainability is Being Threatened

A city's underlying fiscal health or its financial sustainability is generally measured by the difference between its expenditure needs and its revenue-raising capacity over time. A city should be able to provide a reasonable (often measured by an average) level of service by levying a reasonable (or average) tax

rate. A positive fiscal health index, which means that its revenue-raising capacity exceeds its expenditure needs, indicates that the municipality would have revenues left over to increase service quality or reduce taxes after it had provided an average level of services at an average tax rate. A negative fiscal health index shows the percentage increase in revenue the municipality needs to receive from outside sources (such as other levels of government) to be able to provide an average level of services at an average tax rate. To measure its fiscal health, it is necessary to determine a reasonable level of service and a reasonable tax rate (see Ladd (1994) for a review of the literature on the measurement of expenditure need and fiscal capacity).⁶

Further research on fiscal health (both fiscal capacity and expenditure need) would provide some useful information about the financial sustainability of Toronto. Based on actual revenues and expenditures, however, it can be concluded that Toronto is not financially self-sufficient (Slack 2000). Local fiscal imbalance occurs when revenues fall short of expenditures. When measured by operating expenditures less own-source operating revenues, local fiscal imbalance shows Toronto's ability to meet its expenditures from its own revenue sources. On the basis of expenditures of \$5.6 billion and revenues from own sources (total revenues less federal and provincial grants) of about \$4.8 billion, the local fiscal imbalance is approximately \$0.8 billion or about \$354 per capita. It is anticipated that, with increased responsibilities at the local level combined with the current wave of property tax freezes across the province, this fiscal imbalance could worsen.

On the capital side, the forecast for the City shows an increase in its net debt load from \$1.1 billion in 1999 to \$2.3 billion in 2004. Although Toronto is well within provincial borrowing guidelines,⁷ its debt load is expected to increase significantly in the next five years. The increased debt load means less money available to meet future operating needs, possible reduction in the level of services, higher property taxes, or all three.

Fiscal imbalance can be addressed by either increasing the sources of revenue at the local level or by reducing expenditure responsibilities. For example, if the Province were to upload the funding for social services,⁸ then the local fiscal imbalance would be reduced. Alternatively, the Province could allow Toronto to raise revenues from taxes other than the property tax. For example, Toronto could receive a share of provincial fuel tax revenues as does the regional transit authority (TransLink) in the Greater Vancouver Regional District. To ensure fiscal balance, the Province needs to transfer some expenditure responsibilities from cities to the provincial level or give cities like Toronto more flexi-

6. Provincial-municipal equalisation grants, used in the past in Ontario, attempted to compare fiscal health but they only looked at fiscal capacity and not expenditure need.

7. The guidelines require that debt charges not exceed 25% of own-source revenues.

8. Social assistance is provincially funded in all provinces except Ontario and Manitoba. Nova Scotia is currently moving towards full provincial funding.

bility in raising revenues. If Toronto is truly an international city and is key to the success of the Ontario economy as Courchene (1999) argues, the Province should take some action to make Toronto financially sustainable by reducing its expenditure responsibilities or by broadening its revenue sources.

Concluding Comments

The studies leading up to the creation of the new City of Toronto all identified problems of service coordination between the former Metropolitan Toronto and the other regions in the GTA. Current problems facing the new City of Toronto are no less significant now than they were before the city was created and they have not been ameliorated by the creation of the new city. Indeed, the creation of the new city has been largely irrelevant to the problems faced both by Toronto and by the GTA as a whole. Regional issues such as transportation and poverty need regional solutions that go beyond Toronto's boundaries. Fiscal issues need provincial government policies to change the way expenditures and revenues are allocated between the Province and cities.

Although the amalgamation has not solved any of the problems identified, there may still have been valid reasons to amalgamate. These include, for example, a stronger presence for economic development, fairer sharing of the tax base, equalising up of local services so that everyone can enjoy a similar level of services, and a stronger voice for Toronto across the province and the country. It is highly unlikely, however, that the amalgamation will lead to cost savings. On the contrary, it is more likely that costs will increase. Given the other changes in municipal finance, however -- downloading and property tax reform -- it may never be possible to determine the impact of amalgamation in Toronto.

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