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### Does Municipal Amalgamation Strengthen the Financial Viability of Local Government? A Canadian Example

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#### Recommended Citation

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**International Center for Public Policy  
Working Paper 13-05  
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# ***Does Municipal Amalgamation Strengthen the Financial Viability of Local Government? A Canadian Example***

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## **Abstract**

Municipal amalgamation is often seen as one way to ensure that municipalities are large enough to be financially and technically capable of providing the extensive array of services with which they are charged. The idea is presumably that municipalities will be able not only to reap economies of scale, but also to coordinate service delivery over the enlarged territory as well as share costs equitably and reduce (even eliminate) spillovers of service delivery across local boundaries. This paper evaluates the extent to which municipal amalgamation in Toronto, Canada's largest city, in 1998 achieved the provincially-stated objective of saving costs as well as its impact on taxes, financial viability, and local access and responsiveness.

We conclude that the end result was the creation of a city that manages to be both too small and too big at the same time. The amalgamation probably increased the financial viability of at least the smaller and poorer municipalities in the newly created City of Toronto by increasing their access to the tax base of the amalgamated city as a whole and it also equalized local services so that everyone can enjoy a similar level of services. However, it had no significant effect on either the financial sustainability of Toronto or its capacity to deal with financial crises, nor did it achieve cost savings or solve any of the problems that the city and region faced in the last decade and continue to face in this one. The new city remains much too small to address the regional issues that plague the greater Toronto region (such as transportation and land use planning and economic development) while resulting in reduced access and participation by residents in local decision-making. On balance, it seems unlikely that anyone looking back with knowledge of the small and questionable gains that appear to have been realized would willingly have undertaken the complex, extended and painful process of metropolitan amalgamation.

**Key words:** local government, metropolitan area, amalgamation, municipal reorganization/

**JEL codes:** H11, H70, N42, N92

## 1. Introduction

Municipal amalgamation is often seen as one way to ensure that municipalities are large enough to be financially and technically capable of providing the extensive array of services with which they are charged. The idea is presumably that municipalities will be able not only to reap economies of scale, but also to coordinate service delivery over the enlarged territory as well as share costs equitably and reduce (even eliminate) spillovers of service delivery across local boundaries. Instead of enlarging municipal boundaries horizontally, another way to achieve these legitimate objectives is vertically, either by shifting services upwards to existing higher levels or by introducing a new tier of local government with larger units superimposed on top of existing units. The ‘two-tier’ approach may be preferred, for example, because relatively small government units are considered to play an important role in ensuring adequate local voice and accountability. However, all these approaches in the end rest on the argument that larger consolidated government units will produce better outcomes than small separate municipalities.

These issues have mainly been discussed in most countries with respect to the governance of metropolitan regions, although no one-size-fits-all model has emerged from this discussion (Bird and Slack 2008). As is often the case with institutional design, while the questions to be dealt with may be universal, the answers are invariably context-specific, and policy choices are seldom clear-cut (Stren and Cameron 2005). In particular, there appears to be surprisingly little evidence of the actual impact of metropolitan amalgamation on costs and service levels.

This paper assesses some aspects of the impact of municipal amalgamation in Toronto, Canada’s largest city, in 1998.<sup>1</sup> The next section briefly describes municipal governments in Ontario and their financial circumstances over the past decade. The third section sets out the history of municipal amalgamations in the province over the last 40 years. Against this background, the fourth section provides a more detailed description of the convoluted history of the recent amalgamation in Toronto. The fifth section evaluates the extent to which Toronto’s amalgamation achieved the provincially-stated objective of saving costs as well as its impact on taxes, financial viability, and local access and responsiveness. The sixth section concludes.

## 2. Municipal Finance in Ontario

Canada has three levels of government: the federal government, ten provincial and three territorial governments, and over 3,700 local governments. Local governments are often referred to as “creatures of the provinces” because Canada’s Constitution assigns local institutions as a provincial responsibility and each province has its own legislation governing municipalities.

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<sup>1</sup> Toronto has a population of 2.6 million and is situated in the Province of Ontario with a population of 13.5 million.

Municipalities have only those powers that are delegated to them by the province in which they are situated.

Municipalities in Ontario, as in other provinces, are largely responsible for delivering such important services as protection (police and fire), transportation (roads and transit), environmental services (water, sewers, and solid waste collection and disposal), social services and social housing, recreation and culture, and planning. As Table 1 shows, transportation (roads and transit) is the largest expenditure in per capita terms followed by social services and protection (fire and police). Unsurprisingly, per capita expenditures in Toronto, by far the largest city, were almost 30 percent higher in 2011 than for all municipalities, particularly for transportation, social services, and social housing.

By far the largest source of revenue for municipal governments in Ontario is the property tax, which represents over 38 percent of total revenues across the province and almost 31 percent in Toronto (see Table 2). The second largest source of revenue is grants, largely conditional grants from the provincial government. Provincial grants to Ontario municipalities are higher than in other provinces because social service costs, which are provincially funded elsewhere, are shared in Ontario. User fees for services such as water and sewers, transit, and recreation represent the third largest source of municipal revenue. Toronto is unique in the province in that it has the ability to levy taxes other than the property tax.<sup>2</sup> The City of Toronto levies a land transfer tax and a billboard tax; it also levied an annual personal vehicle registration tax but it was discontinued in 2011.

As Figure 1 suggests, the recent recession was considerably milder in Canada and in Ontario than in other parts of the world.<sup>3</sup> Although municipal operating expenditures per capita (in constant dollars) have declined steadily over the last decade or so, and there was a dip from 2008 to 2009, expenditures actually increased in 2010. Much the same happened with respect to property taxes. On the other hand, although transfers increased slightly in 2008 and 2009, they began to decline in 2010.

There are several reasons why Ontario municipalities did not noticeably suffer from the recession. First, although municipalities often lament the extent to which they depend on the property tax, that tax is much less responsive to changes in the economy than other taxes such as income and sales (Bird, Slack and Tassonyi, 2012) both because property values do not change as rapidly as incomes when there are changes in economic activity and because there is a lag in assessment values.<sup>4</sup> Second, a special federal Infrastructure Stimulus Fund provided many

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<sup>2</sup> Under the *City of Toronto Act* which came into effect on January 1, 2007, Toronto has the authority to levy any tax with the exception of taxes on income, profits, capital, wealth (including inheritance taxes), machinery and equipment used in research or development or manufacturing and processing, payroll, gasoline, natural resources, energy consumption, general sales of goods, use of highways, and accommodation (including hotels, motels, apartment houses, etc.). The city also cannot levy a poll tax. The city is permitted to tax alcoholic beverage entertainment establishments, motor vehicle ownership, land transfers, parking lots, road pricing, and billboards.

<sup>3</sup> Expenditures per capita for 2011 in Table 1 include some capital components; expenditures in Figure 1 only include operating expenditures. A change in reporting requirements in 2009 make it difficult to compare operating expenditures before and after 2009.

<sup>4</sup> In Ontario, properties are re-assessed every four years and the assessment increases are phased in over a four-year



municipalities with additional funding to invest in infrastructure in 2009 and 2010.<sup>5</sup> Third, although there were some negative impacts on municipalities from the decline in investment income as a result of declining interest rates, investment income does not account for a significant portion of municipal revenues. Fourth, municipalities in Ontario, as in the rest of Canada, are not permitted to borrow to meet operating expenditures and borrowing for capital expenditures is restricted.<sup>6</sup> Even though municipal borrowing increased in some municipalities to finance their share of the federal infrastructure program, debt repayment costs are still well below provincial limits for most municipalities.

Table 1: Municipal Expenditures: Ontario and Toronto, 2011

	Ontario		Toronto	
	\$ per capita	%	\$ per capita	%
General government	154	5.3	222	5.9
Protection	506	17.3	623	16.5
Transportation	643	22.0	978	25.9
Environmental	420	14.4	351	9.3
Health	150	5.1	154	4.1
Social services	494	16.9	757	20.1
Social housing	176	6.0	288	7.6
Recreation and culture	11	0.4	378	10.0
Planning & development	62	2.1	21	0.5
Other	23	0.8	0	0.0
Total expenditures	2,922	100.0	3,771	100.0
Source: Ontario Ministry of Municipal Affairs and Housing, Financial Information Returns				

period.

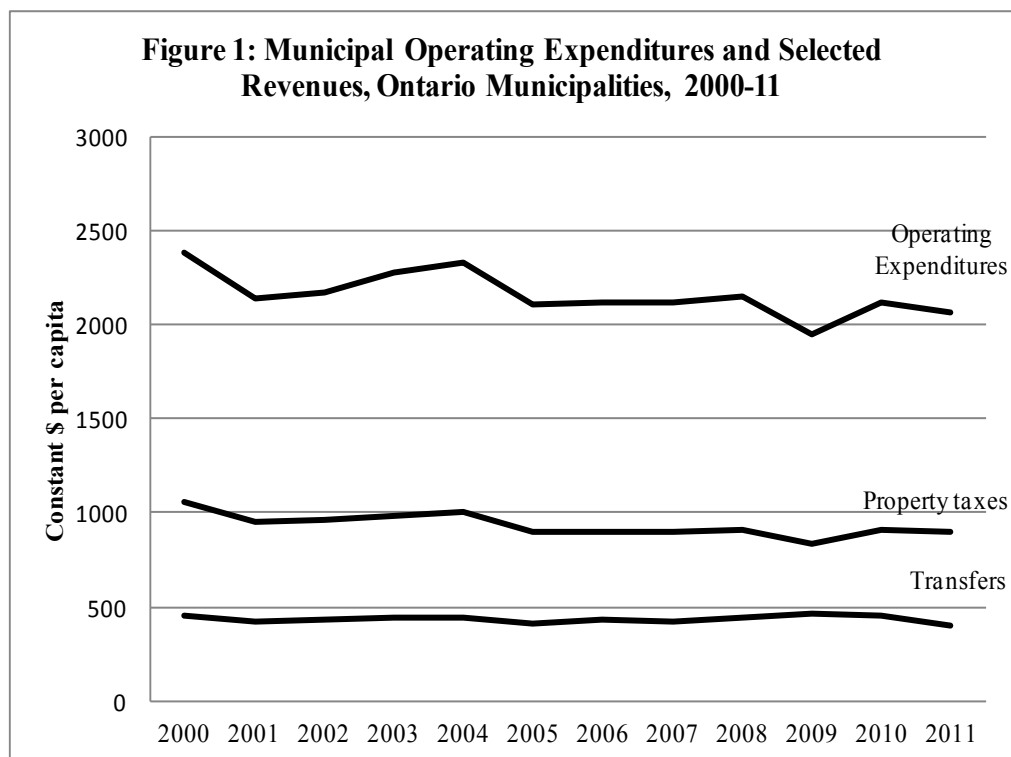
<sup>5</sup> One third of funds came from the federal government, one third from the provincial government, and one third from municipal governments.

<sup>6</sup> In Ontario, for example, municipal debt charges cannot exceed 25 percent of own-source revenues. Only the City of Toronto does not face provincial restrictions on borrowing.

Table 2: Municipal Revenues, Ontario and Toronto, 2011

	Ontario		Toronto	
	\$ per capita	%	\$ per capita	%
<b>Own-source revenues</b>				
Property taxes	1,271	38.1	1,276	30.5
Payments in lieu of taxes	44	1.3	35	0.8
User fees	646	19.4	833	20.0
Licenses, permits, rents	81	2.4	178	4.3
Fines and penalties	44	1.3	61	1.5
Other	431	13.1	486	11.6
Total own-source revenues	2,517	75.6	2,869	68.7
<b>Grants</b>				
Unconditional grants	48	1.4	0	0.0
Conditional grants	718	21.5	1,153	27.6
Total grants	766	22.9	1,152	27.6
<b>Revenues from other municipalities</b>	49	1.5	37	0.9
Total revenues	3,333	100.0	4,176	100.0

Source: Ontario Ministry of Municipal Affairs and Housing, Financial Information Returns



### 3. Municipal Restructuring in Ontario

Municipal restructuring in Ontario occurred in two waves. The first wave began when Metropolitan Toronto was established in 1953 as a two-tier government with a metropolitan tier and 13 lower tiers, as discussed further in section 4 below. Subsequently, eleven additional two-tier regional municipalities were created between 1969 and 1974, covering over one third of the population of Ontario (Tindal and Tindal 2009). The idea behind the creation of Metro Toronto and the other two-tier regional governments was to address such regional issues as land use planning, transportation, social services, and policing at the upper tier level, leaving more local concerns to be dealt with by the lower tier governments.

In 1974, however, municipal restructuring ceased. It began again with a second wave from 1991 to 2001 that reduced the number of municipalities in Ontario from 839 to 448. Subsequent amalgamations reduced the number of municipalities to the present 444 (see Table 3). Many of the mergers during this period were imposed by the provincial government. Although others were voluntary, in some cases they were undertaken in the belief that the province would impose an amalgamation in any case. In a few instances, upper tiers were merged with lower tiers to create single-tier cities from what were formerly two-tier structures.

The stated rationale for this second wave of restructuring was to save costs. It was argued that fewer and larger municipalities would reduce municipal bureaucracy and inefficiency; realize cost savings from economies of scale by reducing duplication and overlap in service provision;<sup>7</sup> provide clearer accountability; and accommodate the services downloaded in the local services realignment (discussed next) by pooling resources, increasing fiscal capacity, and creating stronger and more sustainable municipalities. A major realignment of local services in 1998 resulted in the transfer of full responsibility for many previously cost-shared services such as water, sewers, roads, transit, social housing, public health, ambulances, and some increased responsibility for social services to municipalities. In return, the provincial government transferred responsibility for primary and secondary education from school boards as well as a few services from municipalities to the provincial level and took over tax-rate setting for the education portion of the property tax, which it then lowered to give municipalities more tax room.<sup>8</sup>

Three pieces of legislation led to these amalgamations. The first was the *Savings and Restructuring Act, 1995* which laid out a two-pronged approach (Tindal and Tindal 2009). First, restructuring could be achieved if supported by a majority of the affected municipalities containing a majority of the population and, in a two-tier structure, where a majority of members of the upper tier council also agreed. If there was no local agreement, however, the second prong provided that if even one municipality requested a change, the minister could appoint a

<sup>7</sup> The extent to which consolidated local governments take advantage of economies of scale is debatable. For a review of the literature on economies of scale, see Slack and Bird (2013).

<sup>8</sup> A more detailed discussion of the local services realignment may be found in Bird, Tassonyi and Slack (2012). At the time of the realignment, the outcome was assumed to be revenue neutral. However, in part because it did not work out this way, some of the services downloaded in 1998 are currently in the process of being uploaded to the Province e.g. court security, social assistance.

commission with the authority to determine the new structure for the municipal area. This provision was used in 1997, for example, to amalgamate the upper-tier county of Kent with its constituent municipalities and the separated City of Chatham to create the first city-county single-tier municipality, known as the Municipality of Chatham-Kent, even though 22 of the 23 municipalities affected were opposed to the amalgamation. The result of this restructuring was to increase the pressure on other smaller municipalities to amalgamate lest the province appoint a commissioner to do it for them (Tindal and Tindal 2009).

The second piece of legislation, the *City of Toronto Act, 1997*, was drafted to amalgamate the upper-tier municipality of Metropolitan Toronto with its six constituent lower-tier municipalities. This amalgamation is discussed in more detail in section 4 below. Finally, the *Fewer Municipal Politicians Act, 1999*, led to the provincial appointment of special advisors to study and report on restructuring options for four two-tier municipalities: Sudbury, Ottawa-Carleton, Hamilton-Wentworth, and Haldimand-Norfolk. The reports of the special advisors resulted in five single-tier municipalities: the City of Greater Sudbury, the new City of Ottawa, the new City of Hamilton, the County of Haldimand, and the County of Norfolk.

In 2001, however, the provincial government announced that it would no longer impose amalgamations on municipalities. Under the current legislation (the *Municipal Act, 2001*), the consent of all affected municipalities through their elected councils is required to gain provincial approval for a locally initiated amalgamation. As a result, there have been few amalgamations since 2001 and little interest at either the provincial or municipal levels in going down that road.<sup>9</sup> To the extent that municipalities are concerned about financial viability, they are looking for new sources of revenue rather than joining up with their neighbours (Tindal and Tindal 2009).

Table 3: Municipal Structure in Ontario, 2013

	Number of Municipalities
Single Tiers	
- Southern Ontario	144
- Northern Ontario	29
- Total single tiers	173
Lower Tiers	
- Within a region	43
- Within a county	198
- Total lower tiers	241
Upper Tiers	
- Region	8
- County	22
- Total	30
Total number of municipalities	444

Source: Found (2012)

<sup>9</sup> Since 2001, there were only three more amalgamations that resulted in the creation of the Municipality of Charlton and Dack in 2003, the City of Temiskaming Shores in 2004, and the Township of Gordon-Barrie Island in 2009.

#### 4. Toronto: From One Tier (Fragmented) to Two Tier to One Tier (Unified)<sup>10</sup>

Before 1953, the City of Toronto was surrounded by 12 municipalities, all of which had been growing rapidly in the postwar period in large part because Toronto had no vacant land for the single-family housing developments that accommodated most of the growing regional population.<sup>11</sup> This growth placed huge demands on the capacity of these relatively small municipalities to provide services. In addition, since these municipalities were largely residential they did not have an adequate tax base to finance such needed infrastructure as educational facilities, roads, sidewalks, lighting, and water and sewerage. The City of Toronto, on the other hand, which had significant commercial and industrial property, had a solid financial base.<sup>12</sup>

In addition to this imbalance in service demands and resources, the political boundaries of the City of Toronto no longer reflected the social and economic realities of the metropolitan area (Kulisek and Price 1988). Although there was some cooperation with surrounding municipalities, planning was restricted to the boundaries of the City of Toronto and further problems arose because each municipality acted independently with respect to transportation, land use, and housing—issues that needed to be addressed on a region-wide basis.

In response to these problems, in 1954 the province passed legislation to create Metropolitan Toronto.<sup>13</sup> The *Metropolitan Toronto Act* established a two-tier government with a metropolitan tier and 13 lower-tier municipalities (the City of Toronto plus the 12 suburban municipalities). The metropolitan government (Metro) was initially given responsibility for planning, borrowing, assessment, transportation (transit and some roads), and the administration of justice. Local area municipalities were responsible for fire protection, garbage collection and disposal, licensing and inspection, local distribution of hydroelectric power, policing, public health, general welfare assistance,<sup>14</sup> recreation and community services, and the collection of taxes. Both tiers shared responsibility for parks, planning, roads and traffic control, sewage disposal, and water supply. Costs were shared on the basis of property tax base. This meant that, in 1954, the City of Toronto picked up 62 percent of the costs of Metro.<sup>15</sup>

Over the next 40 years, other lower-tier responsibilities migrated to the Metro level. Metro took over responsibility for police services, social assistance, traffic control and operations, licensing, conservation, waste disposal, and ambulance services. In 1967, following

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<sup>10</sup> An earlier version of the impact of the Toronto amalgamation on expenditures and revenues was presented at a workshop on Rethinking Local Government sponsored by the Government Institute for Economic Research in Helsinki, Finland on October 2, 2012.

<sup>11</sup> The 12 municipalities included the Towns of Leaside, Mimico, New Toronto, and Weston; the Villages of Forest Hill, Long Branch, and Swansea; and the Townships of East York, Etobicoke, North York, Scarborough, and York.

<sup>12</sup> As noted earlier, the only tax base open to municipalities in Ontario was real property and residential properties have long been taxed much less heavily than non-residential (commercial and industrial) properties. For a detailed examination of the development and operation of the Ontario property tax system, see Bird, Slack, and Tassonyi (2012).

<sup>13</sup> In Canada, all aspects of municipal government—boundaries, responsibilities, taxing powers—are completely controlled by the provincial governments.

<sup>14</sup> The costs of general welfare assistance are shared with the provincial government.

<sup>15</sup> See the Report of the Royal Commission on Metropolitan Toronto, cited in Sancton (1994).

the recommendations of a provincial commission, the number of municipalities in Metro was reduced from 13 to 6.<sup>16</sup> Property assessment and the administration of justice became provincial responsibilities in 1970.

Early reviews of Metro government applauded its success in meeting its intended objectives: “the creation of a federated form of metropolitan government for the city of Toronto and its 12 suburbs in 1953 and the rapidity with which it was able to overcome serious public service deficiencies made the Toronto model an object of admiration for students of metropolitan affairs throughout the continent” (Friskin 1993). The new governance structure provided the necessary infrastructure for the orderly growth of the suburbs, maintained a vibrant core, and pooled revenues over the whole metropolitan area. It solved the water and sewage treatment problems, constructed rapid transit lines, established a network of arterial highways, built housing for seniors, and created a Metro parks system.

Spillovers of benefits from transportation and planning were now contained within Metro’s borders. Redistribution from the City of Toronto to the suburbs enabled the latter to provide needed infrastructure. Local autonomy was achieved in part by differentiating local services across the lower tiers: for example, waste collection in the former Village of Forest Hill continued to be twice weekly instead of once a week, as it was in the rest of Metro.

By the 1970s, however, the nature of the problem had changed as expansion in the region migrated outside the boundaries of Metropolitan Toronto. The problem was no longer to accommodate growth within Metro but rather to deal with the reality that growth was increasingly occurring outside Metro in what became known as the Greater Toronto Area (GTA). The province’s first reaction in the early 1970s was to create four new two-tier regional governments around Metro—Durham, Halton, Peel, and York – as part of the first wave of amalgamation discussed in section 3. However, it was not until 1988 that the province established the Office of the Greater Toronto Area (OGTA) to encourage Metro and the surrounding regions to coordinate their efforts with respect to critical areas—waste disposal, regional transportation, land use, and infrastructure planning. In addition, a forum of GTA mayors (of the lower-tier municipalities) and chairs (of the regional governments) was established to encourage and market economic development in the GTA.

Subsequently, in response to growing concerns about the future economic performance of the urban region as whole, a GTA Task Force was established in 1995. The resulting report emphasized the need to treat the entire GTA as a single economic unit with a unified economic strategy and to create a new GTA governmental body not only to deal more effectively with GTA-wide environmental and planning issues but also to share major infrastructure and social costs (GTA Task Force 1996). The report also recommended that local government within the GTA be simplified by creating a Greater Toronto Council for the region, eliminating Toronto’s

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<sup>16</sup> Forest Hill and Swansea were amalgamated with Toronto; New Toronto, Mimico, and Long Branch with Etobicoke; Weston with York; and Leaside with East York. North York and Scarborough (with Etobicoke, York, and East York) became the five boroughs which, together with the City of Toronto, constituted the Metro region.

upper tier (Metro) as well as the other four GTA regional governments, and reducing the number of lower-tier municipalities through further amalgamation.

In 1996, yet another expert group was appointed by the provincial government, the Who Does What Panel. This group similarly called on the province to set up a governance structure for the GTA as a whole. Specifically, it recommended the creation of a Greater Toronto Services Board (GTSB), the elimination of the five upper-tier (metropolitan and regional) governments, and the consolidation of some of the lower-tier municipalities into strong cities. However, there was no consensus within the Panel on whether the six lower-tier municipalities in Metro Toronto should be merged into one city or four cities.

Despite these recommendations by two different provincial commissions on the need to coordinate service delivery between Toronto and its surrounding regions, the provincial government chose instead 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. Since in Canadian municipal affairs, provinces get what provinces want, the result was that a new unified City of Toronto was created by provincial fiat on January 1, 1998. The upper-tier (metropolitan) government and six local area municipalities were merged into a single-tier city.

This restructuring did not arise from any local initiative. Indeed, opposition to the proposed amalgamation came from many different quarters: local municipalities (both inside and outside Metro Toronto), the opposition parties in the provincial legislature, citizen organizations, and even from within the governing party itself (Stevenson and Gilbert 1999). Before the legislation was passed, referenda were held in each of the lower-tier municipalities in Metro Toronto. Although only 36 percent of eligible voters voted, opposition to the proposed amalgamated City of Toronto ranged from 70 to 81 percent of voters, depending on the municipality, with opposition centering on the loss of local identity and the reduced access to local government. In addition, in the broader context of the GTA, municipalities outside Toronto were concerned that Metro amalgamation would result in increased polarization within the region.

Once Toronto was amalgamated, the provincial government established the Greater Toronto Services Board (GTSB) initially suggested by the Who Does What Panel in 1996.<sup>17</sup> However, the GTSB was given no legislative authority, except to oversee regional transit with some limited powers to coordinate decision-making among its member municipalities and to provide strategic growth management. It was not designed to be a level of government nor was it given direct taxing authority. The GTSB comprised elected representatives from each of the municipalities in the region. A 2001 review of the GTSB concluded that to have any real effect, the role and powers of the Board should be strengthened significantly through provincial legislation to include responsibility to develop a growth management strategy and to create a transportation authority for the region that would address growing transportation concerns

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<sup>17</sup>The *Greater Toronto Services Board Act* (1998) set out the structure and responsibilities of the Greater Toronto Services Board (GTSB).

(Deloitte Consulting 2001). Later that year, however, the provincial government once again went in a quite different direction and disbanded the GTSB. To this day, there is still no effective regional governance structure in the Toronto metropolitan region.<sup>18</sup>

What regional governance there is in the GTA lies largely in the hands of the province. For example, the provincial government has largely taken over responsibility for transportation and land use planning for the Toronto region. Metrolinx (originally known as the Greater Toronto Transit Authority) was created by the province to be responsible for transportation in the region. Similarly, provincial legislation on growth management (the *Places to Grow Act* and the *Greenbelt Act*, both passed in 2005) put the province squarely in charge of regional land-use planning. The *Places to Grow Act* gives the province the authority to designate any geographic region of the province as a growth plan area; develop a growth plan in consultation with local officials, stakeholders, public groups, and members of the public; and develop growth plans in any part of Ontario. The *Greenbelt Act* authorizes the provincial government to designate a Greenbelt Area and establish a Greenbelt Plan for the Toronto region (defined more broadly than the GTA). Moreover, as has long been true, the development of major water and sewer facilities—essentially a provincial responsibility—continues to be a major factor in determining where development actually takes place.

Within the new expanded City of Toronto, however, the governance structure was substantially simplified. The City Council now consists of a mayor who is elected at large and 44 councillors elected in wards (constituencies). The defining feature of this model is the supremacy of Council as the decision-making body, as the mayor has only one vote on council.<sup>19</sup> In addition to the strong community affiliation of most city councillors, community councils were formed to deal with local issues pertaining to the community and neighbourhood (such as signs; traffic plans; parking regulations; and fence, ravine, and tree by-laws) as well as to provide a place for local input into council's decision-making process. Community councils are composed of elected officials representing between 10 and 12 electoral wards. Each member of council serves on the community council that incorporates his or her ward.

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<sup>18</sup>There has been some sharing of costs, however. Following amalgamation, the provincial government introduced pooling of the municipal portion of social service costs in the GTA. Because social service costs are much higher in the City of Toronto than they are in the rest of the region, pooling (which the regions referred to as the "Toronto tax") meant that the regions were paying taxes for services in Toronto without having any say over how their tax dollars were being spent. The obvious resentment on the part of the regions led to the gradual (and ongoing) phasing out of pooling.

<sup>19</sup>Under the *City of Toronto Act, 2006*, the mayor was given some additional powers, such as the ability to set the council agenda for the coming term and to appoint members of a new Executive Committee that focuses on priority-setting for council. The mayor has not been given the power to appoint and direct city officials nor to veto council decisions, as in the U.S.-style "strong mayor" system, however.



## 5. What has the Toronto amalgamation achieved?

Amalgamation in Toronto has resulted in the creation of a city that manages to be both too small and too big (Slack 2005). The city is too small to address the regional issues that plague the GTA (such as transportation and land use planning and economic development) and too big to be very responsive to local residents. Moreover, it does not appear that amalgamation has achieved the underlying provincial objective of saving costs.

Before amalgamation became a reality, it had not been on anyone's agenda. Most provincial government efforts had been directed at addressing regional issues across the entire Greater Toronto Area. The OGTA, for example, focused on a strategic vision for the GTA and the coordination of regional issues; the forum of GTA mayors and chairs concentrated on economic development and marketing in the GTA; and the GTA Task Force and the Who Does What Panel emphasized the need for a government body to cover the entire region. The major policy concern was the coordination of service delivery across the region and, in particular, the coordination of transportation and land-use planning, water provision, and waste management. The creation of the new City of Toronto and the GTSB did not adequately address these fundamental regional problems. The boundaries of the City of Toronto made it too small to address the regional issues; the GTSB was not given sufficient authority to accomplish anything and was soon dissolved. Regional land-use planning and transportation issues remain essentially in the hands of the provincial government.

### Cost savings?

The main stated rationale for Toronto's amalgamation was to save money.<sup>20</sup> At its simplest, the argument that reducing the number of local governments will cut costs is true in the sense that amalgamation usually reduces the number of politicians and administrators. However, the amalgamation of municipalities with different service levels and different wage scales tends to increase expenditures. In Toronto, potential cost savings were in any case fairly small, since the three largest expenditures (welfare assistance, transit, and policing) were already Metro responsibilities before the 1998 amalgamation.<sup>21</sup> These three services accounted for 70 percent of the total upper-tier and lower-tier expenditures combined. Potential cost savings were thus limited to 30 percent of the total budget of the new city.

Some savings did occur, mostly from staff reductions. Between 1998 and 2002, about 2,700 positions were eliminated through amalgamation. Over the same period, however, an additional 3,600 positions were added to improve service levels, for a net *increase* in employment over the period (Schwartz 2004). Unfortunately, it is not possible to determine the extent to which these new positions may have been created in response to the amalgamation,

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<sup>20</sup> This section draws on Slack (2000).

<sup>21</sup> The provincial government based much of its case on the potential savings from the Toronto amalgamation on a study it had commissioned (KPMG 1996). This study, however, estimated cost savings in the area of policing, a service that had already been amalgamated in 1967. The study also did not estimate the potential impact of the harmonization of wages and salaries and services that would occur following the amalgamation.

owing to the wide variety of other provincial initiatives affecting local government spending that were also introduced in 1998, notably the Local Services Realignment discussed earlier.

To determine the long-term effect of amalgamation on local spending, we assembled a data base of expenditures per household for four services—fire, garbage, libraries, and parks and recreation—in constant 2008 dollars for the six lower-tier municipalities (and, for some services, also for Metro) from 1988 to 1997 and for the amalgamated city from 1998 to 2008.<sup>22</sup> We chose fire and garbage expenditures because they were solely lower-tier expenditures before the amalgamation. Although parks and recreation as well as libraries were also largely lower-tier responsibilities, each had a small upper-tier component. These four services accounted for about 40 percent of the 30 percent of lower-tier expenditures where there was potential for cost savings (i.e., those that were not already amalgamated at the upper tier).<sup>23</sup>

Another reason for focusing on these four services is that they were not affected by the province-wide Local Services Realignment that also occurred in 1998. Unfortunately, it is not possible to separate the impact of amalgamation from the impact of Local Services Realignment for the downloaded activities.

For fire services, expenditures per household before amalgamation were much higher in the City of Toronto than in the other municipalities. This difference likely reflects the higher density of the downtown area and the concentration of commercial buildings. However, as Figure 2 shows, the linear trend line for all fire expenditures (even in Toronto) was downward-sloping prior to amalgamation.<sup>24</sup> After amalgamation, the trend is decidedly upward. Fire expenditures have clearly increased since amalgamation. Of course, in some cases higher expenditures may mean higher service levels; in other cases, they may reflect the increased need for specialized services as new commercial growth took place outside the central business district in the former City of Toronto. Unfortunately, no consistent and comparable information on changes in either costs (e.g., wages) or service levels (e.g., response times) is available.

As Figure 3 shows, the trends for expenditures on garbage collection are similar. As with fire services, these costs were higher in the former City of Toronto than they were in other lower-tier municipalities before amalgamation. This difference likely reflects the fact that the City of Toronto provided pick-up service to commercial properties, whereas other municipalities did not, as well as the greater proportion of commercial properties in the City. Again, however, the trend in expenditures on garbage collection was downward both in total and in the former City prior to amalgamation, but turned upward following amalgamation. As with fire services, it is not clear to what extent the expenditure increase reflects higher wages and salaries or higher service levels. Interestingly, one municipality (Etobicoke) had contracted out garbage collection to the private sector before amalgamation, and private-sector delivery of this service continued in that part of the new city after amalgamation.

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<sup>22</sup>We are grateful to Adam Found for invaluable assistance in assembling and analyzing these data.

<sup>23</sup>This estimate does not include the portion of libraries and parks that were already at the upper tier.

<sup>24</sup>The dotted line in each graph shows the linear predicted trend for the newly amalgamated city from 1998 to 2008. The solid line shows the trend for the Metro total (upper and lower tiers) from 1988 to 1997 and hence where the pre-amalgamation structure would have ended up had the 1988 to 1997 trend persisted.

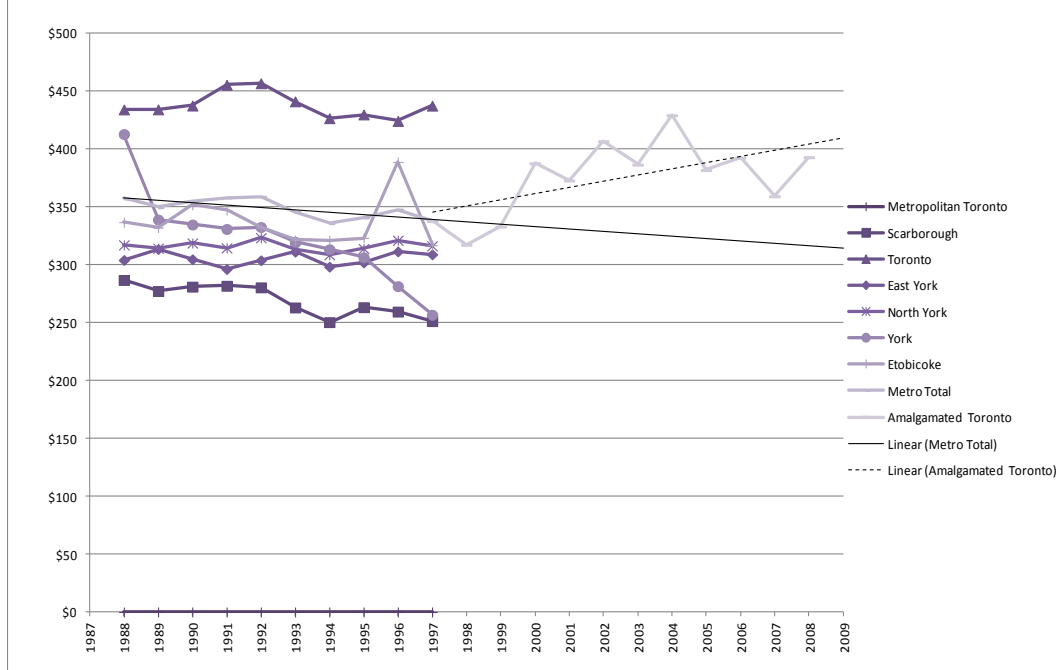
Amalgamation also appears to have increased expenditures for parks and recreation (Figure 4). For libraries, however, the previous downward trend in expenditures per household continued after amalgamation (Figure 5), even though service levels almost certainly increased, since access to the library system for the whole metropolitan area was much easier following the amalgamation. This decline is especially noteworthy in a period in which the nature of public library service changed markedly from handing out books to providing electronic and Internet services.

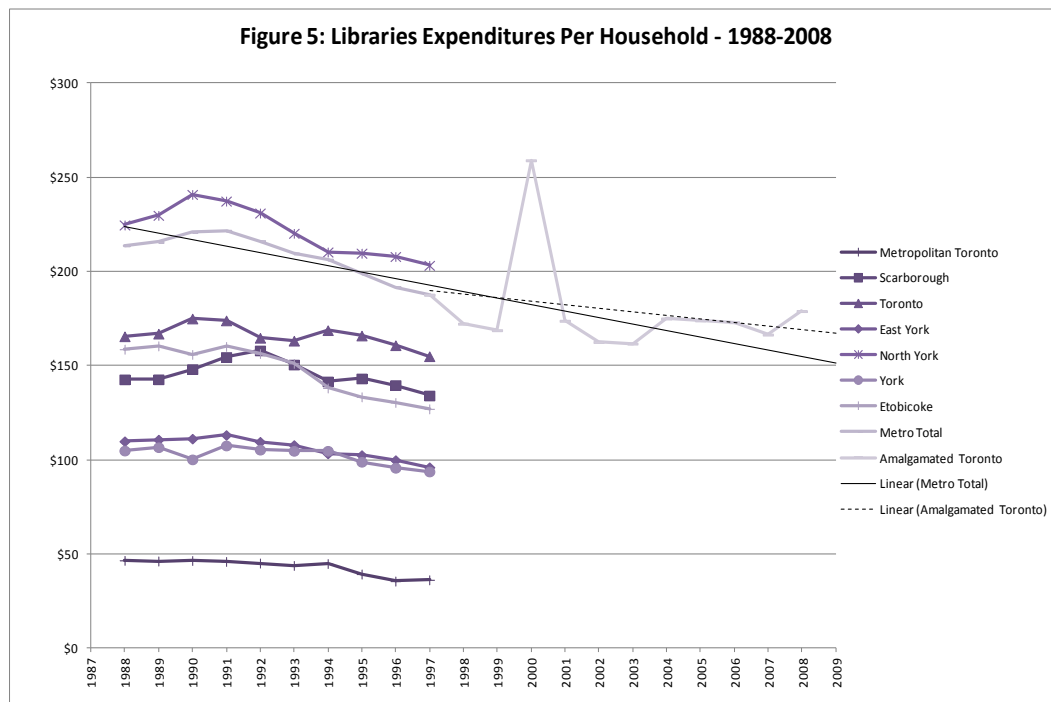
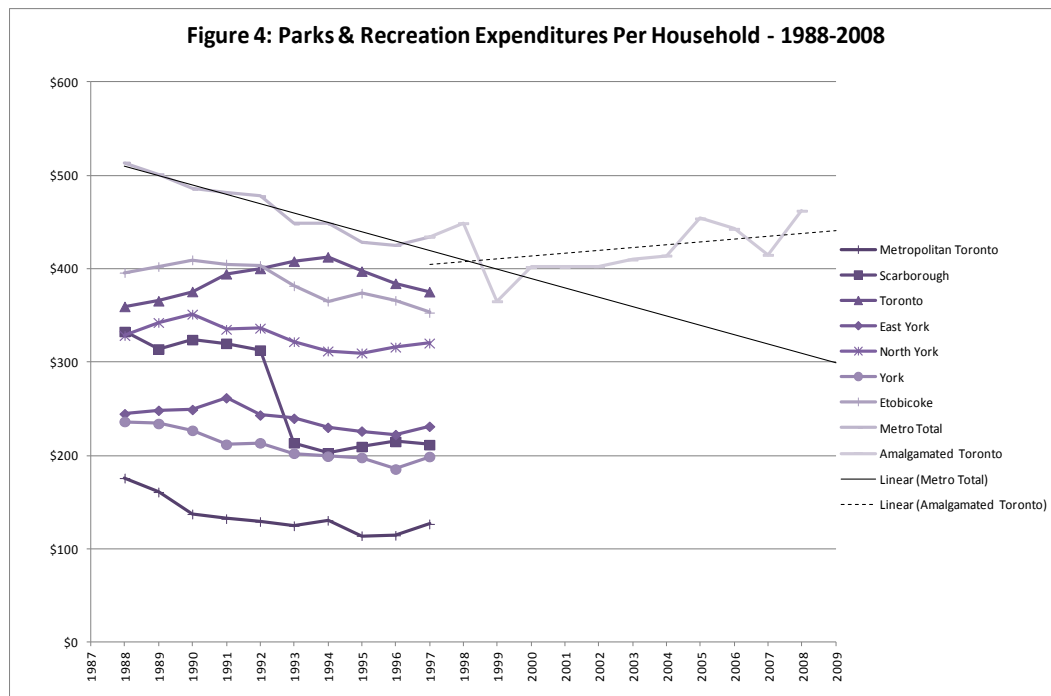
In addition to the higher costs for services, municipal amalgamations generally result in transitional costs, which are—as is perhaps to be expected (Flyvbjerg 2008)—almost always higher than anticipated (Vojnovic 1998). If the transition is towards a more efficient, effective, and accountable local government, then the costs may be more than offset by the benefits. If not, transitional costs become an additional argument against amalgamation. One-time transition costs in Toronto, for example, included the acquisition of new technology for financial, human resources, and payroll systems; the renovation of existing facilities such as the Toronto City Hall; and the hiring of technical and professional expertise in areas such as telecommunications (City of Toronto 2000).<sup>25</sup>

In addition to the one-time costs, there are also costs associated with staff layoffs. One of the major challenges of Toronto's amalgamation has been the amalgamation of the seven previous administrations: "the key post-amalgamation problem has been leading and controlling the vast administrative behemoth that the amalgamation created" (Sancton 2004, 28). The task of integrating the operations and services of the seven municipalities following amalgamation was enormous. It required the creation of a new administrative and reporting structure; the implementation of new information systems; the consolidation of corporate services, real estate portfolios, and other functions; and the harmonization of human resources policies and classifications (Côté 2009).

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<sup>25</sup> One-time transition costs were estimated to be \$275 million at the end of 2000.

**Figure 2: Fire Expenditures Per Household - 1988-2008****Figure 3: Garbage Collection Expenditures Per Household - 1988-2008**



### Tax increases or decreases?

One way of considering the overall impact of amalgamation on financial sustainability is to ask whether taxes increased or decreased as a result. On the whole, as Figures 6 and 7 show,

taxes declined, particularly those on business property.<sup>26</sup> Before amalgamation, residential property taxes per household (in constant 2008 dollars) were highest at the Metro level of government, which is hardly surprising since that level accounted for 70 percent of total expenditures. Residential property taxes per household were next highest in the City of York, the poorest municipality in Metro, and were lowest in Etobicoke and Scarborough. Although residential property taxes per household were generally declining prior to amalgamation in the lower-tier municipalities, they were rising in Metro. In 1998, residential property taxes increased sharply because of the Local Services Realignment. The downloading of some services to municipalities coupled with lower education property taxes (now levied by the province) resulted in higher municipal property taxes. Despite this important change, however, as Figure 6 shows, residential property taxes in the amalgamated city have declined slightly (in real terms) since 1998, with the result that residential property taxes after amalgamation appear to be roughly what they would likely have been in the absence of amalgamation.

Before amalgamation, business property taxes per household were much higher in the City of Toronto than in any of the other constituent municipalities, partly because of the City's much larger commercial and industrial tax base compared to the suburban municipalities and partly because of the higher tax rates applied in the city. But business property taxes for the amalgamated city have fallen since 1998 both because the amalgamated city is deliberately trying to reduce the tax burden on business for competitive reasons and because of the way in which the complex and changing set of provincial rules governing property taxes have affected Toronto (Bird, Slack, and Tassonyi 2012).

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<sup>26</sup> In a more detailed empirical analysis of local tax competition in the GTA, Bird, Slack and Tassonyi (2012) find that amalgamation had a significant negative impact on both residential and non-residential effective tax rates not only in Toronto but in several neighboring jurisdictions (in some of which the business property assessment base was also negatively affected).

Figure 6: Residential Taxes Per Household - 1988-2008

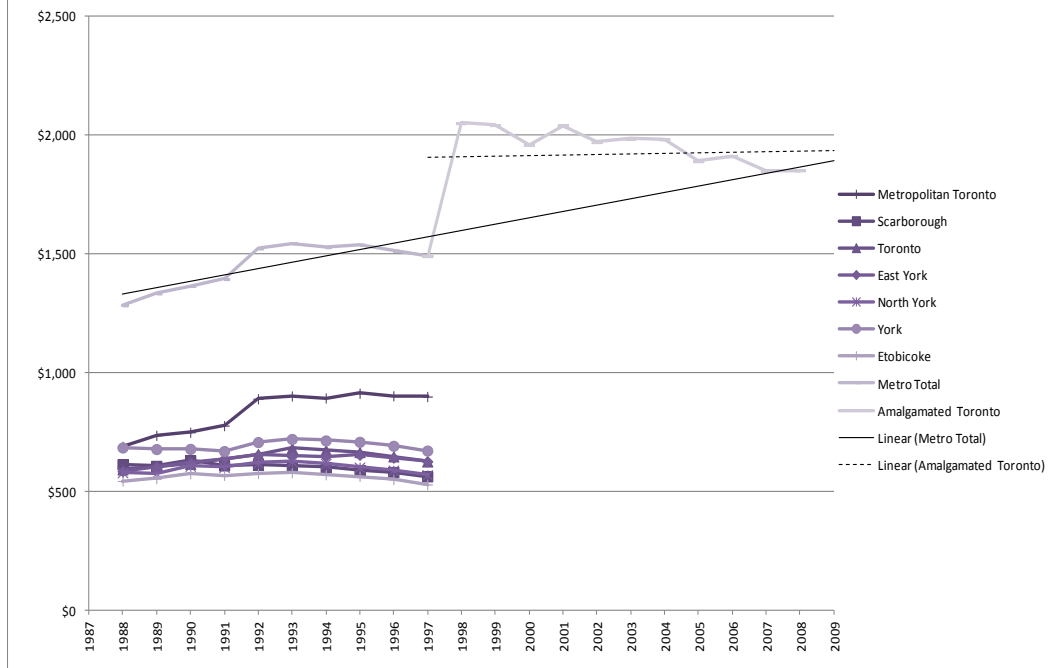


Figure 7: Business Taxes Per Household - 1988-2008



**Financial viability of lower tiers**

Whenever there are many local government jurisdictions in a metropolitan area, there are likely to be some rich communities and some poor communities. The rich communities are those which have a more adequate tax base with which to provide services and in some instances may not have very great demands for some services (such as education or social services). On the other hand, the poor communities are those which may require more services but have only a small tax base on which to levy taxes. An important equity rationale for amalgamation – though not one much discussed in the case of Toronto’s recent amalgamation – might therefore be to establish a larger government jurisdiction with a stronger administrative and fiscal base in order to help all communities in a given area to provide adequate and perhaps similar levels of service.

To the extent that higher costs of services are associated with the equalization of service levels, they are thus not necessarily bad. If some municipalities provide lower levels of services than their citizens would prefer simply because they have inadequate resources, amalgamation allows them to provide at least the same level of service as other municipalities in the region. Of course, equalization in this sense means that costs are likely to rise, not fall. For example, poorer municipalities such as York and East York had declining tax bases (assessments) and hence relatively high residential property taxes but nonetheless relatively low expenditures in the years before amalgamation. These cities presumably benefited from Toronto’s amalgamation by becoming more financially viable in the sense that tax rates fell and expenditures increased.

**Governance and citizen participation**

Some authors have argued that one of the main failures of Toronto’s amalgamation has been the decline in citizen participation (Golden and Slack 2006). Before amalgamation, the city provided many opportunities for citizen participation (Toronto Transition Team 1999): community development initiatives; direct contact with politicians; deputations to committees of council and participation in public consultations on specific issues; opportunities for involvement in council subcommittees and task forces; membership on municipal agencies, boards, and commissions; involvement in partnerships, coalitions, and joint working groups among citizens, business groups, elected representatives, and municipal staff.

Although governance processes remained transparent and accessible after amalgamation, local government in Toronto is definitely less participatory than it was before amalgamation (Côté 2009). The creation of a much larger city has reduced the opportunities for citizen involvement. The creation of community councils was designed, to some extent, to improve citizen access and participation. The councils were intended to be accessible to citizens and to provide a forum for local concerns. In reality, however, community councils operate mostly as local planning committees rather than as forums in which broader community issues can be addressed (Golden and Slack 2006). The number of community councils was also reduced from six to four in 2003, further reducing their accessibility to citizens. In addition, the councils almost invariably address localized and individual interests rather than city-wide issues.



The business community expected that amalgamation would create a more effective entity for economic development and marketing (Stevenson and Gilbert 1999). Indeed, the Toronto Board of Trade strongly supported the amalgamation on these grounds.<sup>27</sup> A larger government was thought to be more effective at promoting economic development by reducing bureaucracy and duplication and eliminating inter-municipal competition. In reality, there is still duplication, the bureaucracy faces persistent problems in merging both organizational cultures and such governance tools as zoning by-laws, and inter-municipal competition between Toronto and its surrounding municipalities persists.

The new *City of Toronto Act* did give the city somewhat more authority and autonomy than other municipalities in the province. In particular, the Act gave the City the power to impose “direct taxes,” although, as noted earlier, only a land transfer tax and billboard tax are currently levied in response to the granting of these new powers.<sup>28</sup> In addition, this legislation represented a fundamental shift in the traditional relationship between the City and the Province, replacing the prescriptive framework with broad permissive powers for the City. The Act recognized that the City of Toronto was unique and gave it authority to negotiate directly with the federal government rather than going through the Province, as it had done in the past and as other municipalities still must do (Côté 2009). As a larger one-tier government with more powers, it can play a stronger role on the regional, provincial, national, and international stage. In the late 1990s, for example, Toronto took the lead in bringing national attention to the issue of homelessness and advocated for a new deal for cities nationally through the Federation of Canadian Municipalities and the Big City Mayors’ Caucus (Côté 2009).

## 6. Conclusion

Since 1991, municipalities in Ontario have experienced a wave of municipal restructurings that reduced their number from 839 to 444. The primary rationale of the provincial government in directing and shaping these restructurings was to save costs by reducing waste and duplication. In addition, the provincial government seems also to have thought that municipal restructuring would result in larger municipalities that would be more financially viable and capable of accommodating the provincial downloading of services (Found 2012).

The amalgamation of Toronto in 1998 probably did increase the financial viability of at least the smaller and poorer municipalities in the newly created City of Toronto by increasing their access to the tax base of the amalgamated city as a whole. It also equalized local services so that everyone can enjoy a similar level of services. The amalgamation may have also had some other benefits, for example, by giving Toronto a stronger presence in economic development and a stronger voice with respect to municipal issues within the region and across the province and country.

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<sup>27</sup> The Toronto Board of Trade is a voluntary organization with about 10,000 members from the business community, including large and small businesses and individual members.

<sup>28</sup> These taxes account for less than 1 percent of total revenues in Toronto.

What the amalgamation did not achieve, however, is any visible cost savings. Indeed, expenditures increased following the amalgamation for fire services, garbage collection, and parks and recreation. These findings are not surprising. Although some duplication is obviously eliminated with amalgamation, when municipalities with different service levels and different wage scales merge, expenditures are likely to increase. When the fire departments of several municipalities are amalgamated, for example, it is possible to reduce costs by eliminating a number of fire chiefs. However, all fire fighters in the newly amalgamated municipality are doing the same job and working for the same employer—the newly created city. Understandably, they will want to be paid comparable salaries and benefits, and no one will be willing to take a pay cut. Salaries and benefits tend to equalize up to the level of the former municipality with the highest expenditures. This upward harmonization of wages and salaries generally outweighs any cost savings.

Not only did the Toronto amalgamation not achieve cost savings, it did not solve any of the problems that the city and region faced in the last decade and continue to face in this one. The creation of the new city was largely irrelevant to the problems faced both by Toronto and by the GTA as a whole in coordinating services. Regional issues need regional solutions that go beyond Toronto's boundaries. The problems currently facing the new City of Toronto are no less significant now than they were before the city was created. The new amalgamated city has neither made them go away nor made them any easier to deal with. Nor did the amalgamation have any significant effect on either the financial sustainability of Toronto or its capacity to deal with financial crises. At the same time, the amalgamated city seems clearly to have resulted in reduced access and participation by residents in local decision-making. Although the new structure appears now to be well accepted, and no one is urging a return to the past, on balance it seems unlikely that anyone looking back with knowledge of the small and questionable gains that appear to have been realized would willingly have undertaken the complex, extended and painful process of metropolitan amalgamation.

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