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## IMFG PAPERS ON MUNICIPAL FINANCE AND GOVERNANCE

No. 14 • 2013

# Merging Municipalities: Is Bigger Better?

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Enid Slack and Richard Bird  
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UNIVERSITY OF  
TORONTO

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*By*  
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Institute on Municipal Finance & Governance  
Munk School of Global Affairs  
University of Toronto  
1 Devonshire Place  
Toronto, Ontario, Canada M5S 3K7  
e-mail contact: [info.imfg@utoronto.ca](mailto:info.imfg@utoronto.ca)  
<http://munkschool.utoronto.ca/imfg/>

Series editor: Philippa Campsie

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ISBN 978-0-7727-0904-2  
ISSN 1927-1921

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**Enid Slack** is the director of the Institute on Municipal Finance and Governance and an adjunct professor at the Munk School of Global Affairs, the University of Toronto. Her research interests include property taxation, intergovernmental fiscal relations, and municipal restructuring.

**Richard Bird** is professor emeritus in the Rotman School of Management and Senior Fellow of the Institute on Municipal Finance and Governance at the Munk School of Global Affairs, University of Toronto. His research interests include tax policy and administration, local and regional finance, and intergovernmental fiscal relations.

The views expressed in this paper are those of the author and not IMFG or its funders.

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# Merging Municipalities: Is Bigger Better?

Enid Slack and Richard Bird

## **Abstract**

This paper reviews different ways in which the formal governance of metropolitan areas may be restructured, such as through two-tier structures, voluntary cooperation, special districts, and municipal mergers. The paper includes a case study of the amalgamation in Toronto, which involved the merger of six municipalities and the upper-tier municipality of which they were formerly a part. The authors review this amalgamation in light of its effects on municipal costs, local taxes, governance, and citizen participation and conclude that while the city's amalgamation solved no problems, it may have had some benefits. These include a stronger presence in economic development, a fairer sharing of the tax base among rich and poor municipalities, and the opportunity to equalize local services so that everyone can enjoy a similar level of services. On the whole, however, two-tier structures may be more effective in allowing municipalities to reap the benefits that come with large size, while retaining the responsiveness typical of smaller municipalities.

Keywords: amalgamation, municipal governance, municipal merger, Toronto

JEL codes: H11, H70

An earlier version of this paper was presented at a workshop on Rethinking Local Government sponsored by the Government Institute for Economic Research in Helsinki, Finland, on October 2, 2012.

# Merging Municipalities: Is Bigger Better?

## **I. Introduction**

The quantity and quality of local public services and the efficiency with which they are delivered in a metropolitan area depend, to a considerable extent, on how its governance institutions—especially its formal governmental structures—function. Governance determines how efficiently costs are shared throughout the metropolitan area (as well as how service delivery is coordinated across local government boundaries), how effectively local residents and businesses can access governments and influence their decisions, how accountable local governments are to their citizens, and how responsive they are to their demands. And of course all these relationships themselves affect both the nature and operation of governance institutions.

What is the appropriate governance structure for metropolitan areas? How can services which extend beyond local government boundaries be delivered and financed? Are some local governments within metropolitan areas too small to be able to deliver and finance important services? How can service delivery be coordinated when different jurisdictions are involved? Should large cities be governed by a single-tier government or are some cities simply too large and complex for such an arrangement? How well does voluntary cooperation among local governments work within a metropolitan area?

This paper reviews different ways in which the formal governance of metropolitan areas may be restructured, focusing in particular on municipal mergers, with Toronto's amalgamation as an example. Section 2 sets out criteria that may be used to evaluate mergers and other ways of restructuring metropolitan governance. Section 3 reviews the advantages and disadvantages of local mergers in particular, while Section 4 considers such alternatives to mergers as two-tier structures, voluntary cooperation, and special districts. Section 5 discusses in some detail the convoluted history of amalgamation in Toronto and evaluates what it has achieved. Section 6 concludes.

## **2. Criteria for Evaluating Local Governance Structures**

A common reason for considering municipal amalgamation is to improve the effectiveness and efficiency with which local governments deliver services. Municipal amalgamation is seen as a 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. In more general terms, the intention appears to be to ensure that municipalities will be able not only to reap economies of scale, but also to coordinate service delivery over their entire (enlarged) territory as well as to share costs equitably and to reduce (even eliminate) spillovers of service delivery across local boundaries.

These objectives are legitimate, and may suggest that larger consolidated government units produce better outcomes than small separate municipalities. Most countries have dealt with such issues vertically—by superimposing such

units on top of existing units or by shifting services upwards to higher levels—rather than horizontally by enlarging municipal boundaries. Such alternative approaches are followed because relatively small government units are considered to play an important role in ensuring adequate local voice and accountability. These issues have mainly been discussed in other 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 seem universal, the answers are invariably context-specific, and policy choices are seldom clear-cut (Stren and Cameron 2005).

The subsidiarity principle, for example, suggests that the efficient provision of services requires decision-making to be carried out by the level of government closest to the individual citizen, so that resources will be allocated with the greatest efficiency, accountability, and responsiveness.<sup>1</sup> When there are local differences in tastes and costs, there are clear efficiency gains from delivering services in as decentralized a fashion as possible. Smaller, fragmented general-purpose government units may also stimulate competition between local jurisdictions for mobile residents and tax bases that will induce them to offer the best possible mix of taxes and services (Klink 2008).<sup>2</sup> Access and accountability—both of which depend to a considerable degree upon the extent to which citizens have access to local government through public meetings, hearings, elections, and direct contacts with officials—also appear easier to achieve when local government units are smaller and more fragmented (Faguet 2004, 2011). The larger the local government, the more likely it is that special-interest groups will dominate citizen participation (Bish 2001).

On the other hand, a larger and more consolidated government structure may be able to take advantage of economies of scale in service provision as well as savings in administrative overhead, thus reaping lower per-unit costs as the amount of the service delivered increases.<sup>3</sup> The existence of externalities (interjurisdictional spillovers) may require a larger government jurisdiction to ensure that all benefits of a particular public service are enjoyed within the boundaries of that jurisdiction. A larger government jurisdiction with a stronger

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1. The subsidiarity principle, included in 1992 in the Treaty of the European Union in the context of the division of powers and responsibilities between European governmental bodies and their member countries, has been applied to the role and structure of government at all levels (Barnett 1997).

2. Such competition is perhaps especially important with respect to the adaptability that is increasingly a critical aspect of effective local governance in a global economy. As noted by Berry (2009), however, fragmenting governance among special-purpose districts is unlikely to have any beneficial competitive effects.

3. On the other hand, some evidence suggests that costs are higher for larger government units because of “bureaucratic congestion” (Boyne 1992, 336) and other factors. Economies of scale are discussed further below.



administrative and fiscal base may also help all communities in a given area—both those with high needs and a small tax base and those with low needs and a small tax base—to provide adequate levels of service. In economic (and fiscal) terms, the choice of an appropriate governance structure for a metropolitan area depends upon how one weighs these conflicting considerations—efficiency, responsiveness, and accountability versus economies of scale, externalities, and the capacity to deliver and coordinate services.

### **3. To Merge or Not to Merge**

In a one-tier structure, one political body makes taxing and spending decisions for the metropolitan area.<sup>4</sup> Even within a unified metropolitan government, however, services need not be provided uniformly throughout the metropolitan area. When a one-tier municipality is created by amalgamating municipalities, sometimes differential services and service levels existing prior to the creation of the unified government persist. For example, rural residents do not necessarily receive all the services available to urban residents. Presumably, if one reason for amalgamation is to create a jurisdiction that encompasses the entire city-region, such differences in service delivery and tax rates should not be maintained beyond a short transition period.

Consolidated one-tier governments were strongly favoured in the seminal study by Bahl and Linn (1992), who claimed that they offered greater fiscal capacity, better service coordination, clearer accountability, more streamlined decision-making, and greater efficiency. The larger taxation capacity of a consolidated one-tier government increases its ability to borrow and to recover capital and operating costs from user fees. Services may be funded more fairly because there is a wider tax base to share the costs of services that benefit taxpayers across the region. Large one-tier governments can take advantage of economies of scale in service provision. Municipal amalgamations may also internalize externalities: for example, rural residents outside the original municipal boundary now have to pay for the urban services they use.<sup>5</sup>

How successful consolidated one-tier governments have been at achieving accountability in practice, however, is a matter of debate. A large-scale, one-tier government may reduce access and accountability, because the jurisdiction becomes too large and bureaucratic. To overcome this problem, community

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4. Large, consolidated single-tier governments are generally formed by either *amalgamation* (the merger of two or more geographically contiguous lower-tier municipalities) or *annexation* (the appropriation of a portion of a municipality by an adjacent municipality).

5. Redrawing boundaries is only a first step in linking taxes to service benefits by ensuring that the beneficiaries are located within the jurisdiction providing the services. The critical second step is to identify the benefits received by residents and to tax (or charge) them accordingly. For example, while it is fair and efficient to charge rural residents for their use of urban services such as recreation facilities and libraries, it is neither fair nor efficient to charge them for garbage collection they do not receive (Vojnovic 1998).

committees have been established in some cases to address local issues, or satellite offices have been set up across the municipality where people can pay tax bills, apply for building permits, etc. Such devices may—or may not—increase accessibility, but they will also to some extent reduce the potential cost savings that might otherwise result from a larger government unit.

Also debatable is the extent to which consolidated local governments take advantage of economies of scale.<sup>6</sup> The empirical evidence is, at best, mixed.<sup>7</sup> Byrnes and Dollery (2002), for example, reviewed research on economies of scale in the United Kingdom and the United States and concluded that only 8 percent of the studies found evidence of economies of scale in local government, 29 percent found evidence of U-shaped cost curves, 39 percent found no statistical relationship between per-capita expenditure and population size, and 24 percent found evidence of diseconomies of scale. Studies that analyzed specific services (e.g., fire, housing) also showed mixed results. On the whole, as noted below, there appear to be few economies of scale with respect to most services once municipalities reach populations of about 20,000 to 40,000.

Economies of scale depend on the service in question and the units of measurement—such as the jurisdiction size or the size of the facility. Hirsch (1959), for example, estimated cost functions for police services, fire services, refuse collection, water, sewage and education and found that expenditures per capita declined with the quantity provided for water and sewage (perhaps unsurprisingly, given the very heavy infrastructure component of such services)—but that there was no similar decline for other urban services generally provided by local governments in the United States. For some services, expenditures per capita actually rose as output expanded, indicating that there were diseconomies of scale.

Other studies that have estimated cost functions have similarly found economies of scale for hard services such as water, sewers, and transportation, but generally not for such soft services as police, refuse collection, recreation, or

6. For a good discussion of economies of scale in the provision of local services, see Fox and Gurley (2006).

7. There are also problems with the methodology used to measure cost and output (Byrnes and Dollery 2002). In most studies, expenditures are used as the measure of cost and population is used as the measure of output. Population may not be the best measure of output, however. A larger population may mean a greater need for expenditures, but the characteristics of the population will also influence need. For example, a municipality with a large proportion of elderly will have different expenditure needs compared with one with a younger population of the same size; an urban population will have different expenditure needs compared with a rural population. The density and geographic distribution of population may also be an important factor affecting both needs and costs. Furthermore, population does not reflect the non-resident population that visits a local government area and uses services. With respect to the measurement of cost, expenditures are not always the best proxy, because they not only include costs, but also reflect quality of services and possibly wasteful expenditures. Few studies of economies of scale include service levels.

planning (Bird and Slack 1993). Hard services are capital-intensive, so large government units can more readily make the substantial capital investments needed to extend the water distribution system or build a least-unit-cost-sized sewage treatment plant, for example (Bahl and Linn 1992). Other services, such as policing, are highly labour-intensive and hence unlikely to show significant economies of scale. Presumably much the same can be said with respect to other labour-intensive services such as social services, education, and to some extent even health.<sup>8</sup>

In terms of the importance of the relative size of the municipalities in an amalgamation, Kushner and Siegel (2005) analyzed whether amalgamations of 29 municipalities in Ontario, Canada (in Central Elgin, Chatham, and Kingston) resulted in more efficient service delivery. They found lower expenditures following amalgamation in Central Elgin, a relatively large township which amalgamated with two small adjacent villages, but not in the other two amalgamations, which involved municipalities of roughly equal size.

A recent study in Canada found little evidence of economies of scale in large municipalities. Found (2012) analyzed economies of scale for fire and police services in 445 municipalities in Ontario from 2005 to 2008. He found that fire services exhibited U-shaped costs with a cost-minimizing population of approximately 20,000 residents. Police services also exhibited U-shaped costs, with a cost-minimizing population of about 45,000 residents. Studies in Finland, where there is currently some interest in municipal mergers, found mixed results on the effects of municipal mergers on per-capita expenditures (Moisio, Loikkanen, and Oulasvirta 2010), with the biggest cities showing relatively low cost efficiency with respect to basic welfare services. Other studies in Finland that have focused on specific municipal services (health centres and schooling) have found the optimal size of the municipality to be somewhere between 20,000 and 40,000 people (Moisio, Loikkanen, and Oulasvirta 2010).

The ability to achieve economies of scale depends in part on the density of development in the new municipality. A recent study of annexation analyzed 952 U.S. cities (with populations of at least 10,000) that had annexed other municipalities between 1992 and 2002; this study found efficiencies from increasing land area, but only if the annexation was accompanied by higher densities (Edwards and Xiao 2009). If densities are lower following annexation, per-capita expenditures may increase or decrease, depending on the relationship of the change in land area to changes in density. The authors found that service delivery and administrative efficiencies are achieved with high-density developments, but are compromised with spread-out, low-density developments that are more costly to serve.

On the whole, the empirical evidence on fragmented versus consolidated local governments in the United States suggests that consolidated structures are

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8. As Baumol (1967) emphasizes, it is precisely the high labour intensity of many public-sector services that tends to make such services more expensive as incomes (and wages) rise.

generally associated with higher spending (Boyne 1992). Similarly, the promised cost savings from municipal amalgamations in Canada have proven to be elusive (Sancton 1996; Slack 2005). When municipalities amalgamate, some duplication is obviously eliminated.<sup>9</sup> In particular, the number of politicians and bureaucrats may be reduced. On the other hand, when municipalities with different service levels and different wage scales merge, expenditures may increase. For example, when the fire departments of several municipalities are amalgamated, 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.<sup>10</sup>

Competition between municipalities will likely be reduced by amalgamation, thus weakening incentives to be efficient, to be responsive to local needs, and to adapt to changing economic conditions. Reduced competition may also lead to higher tax rates. Charlot, Paty, and Piguët (2012), for example, estimated a model of tax-setting for the local business tax in French urban municipalities from 1993 to 2003 and concluded that a reduction in the number of municipalities limits tax competition and increases local business tax rates.<sup>11</sup> On the other hand, if some localities could not previously afford to provide an adequate level of service at a reasonable tax rate because they did not have adequate resources, amalgamation may allow them to provide a level of service comparable to richer localities in the region.

Since mergers seldom result in a political boundary that encompasses the entire economic region (Bahl 2010), externalities may still exist in transportation, land use planning, and other services. Even if the newly consolidated municipality is coterminous with the economic region at the time of amalgamation, economic boundaries change over time. Political boundaries, on the other hand, are difficult to change and do so only occasionally “in big leaps, and often after complex procedures” (OECD 2006, 157). As a result, many cities need to coordinate

9. Service delivery costs could be reduced without changing government boundaries by, for example, providing services from one municipality to other municipalities or through well-designed and monitored contracting with private-sector agents.

10. Another reason costs may increase is that local governments may exploit the larger tax base of the newly amalgamated municipality by engaging in last-minute spending that results in budget overruns (Blom-Hansen 2010). Evidence of last-minute spending was found in Denmark (Blom-Hansen 2010); evidence of increases in per-capita debt prior to amalgamation was found for Sweden (Dahlberg 2010).

11. In addition, if intergovernmental transfers to some extent equalize “revenue capacity,” the cartelization of taxation in the region is strengthened and, as Smart (1998) shows, local tax rates tend to be even higher than they would be otherwise.

services such as transportation and planning with neighbouring municipalities (Slack and Chattopadhyay 2009). One way this is done is through the creation of special districts to provide specific services. However, as Berry (2009) shows, any efficiencies achieved through such specialization are often outweighed by the greater ease with which special interests may capture special-purpose (one-issue) governance institutions. The result is often cost increases that benefit certain parties, rather than cost savings or service delivery efficiencies.

Horizontal consolidation of municipalities through amalgamation, merger, or annexation to one tier is not very common around the world. In the United States and Switzerland, the importance attached to local autonomy means that there is little or no interest in consolidation. In Brazil, larger and richer municipalities fear being exploited by poorer municipalities. Even when municipalities participate in metropolitan arrangements, such fears generally act as an obstacle to their successful operation (Slack and Chattopadhyay 2013).

Nevertheless, there have been some noteworthy examples of amalgamation. In Cape Town, for example, the main rationale for amalgamation in 2000 was explicitly to redistribute from rich (former “white”) local authorities to poor (former “black”) local authorities. The boundaries of Cape Town were deliberately drawn by the Municipal Demarcation Board to merge the former black and white authorities. The result is a one-tier municipality with geographic boundaries that cover the economic region. Louisville, Kentucky, provides an example of a fairly recent city-county consolidation in the United States. However, that merger focused only on the city and one county government; cooperation within the larger metropolitan region remains minimal. A more interesting case is the amalgamation of Toronto in 1998, discussed in Section 4.

#### **4. Alternatives to Municipal Mergers<sup>12</sup>**

A major problem with amalgamation as a way to address regional issues in a metropolitan area is the likely loss of local access to government and reduced government accountability to local residents. This section describes briefly three ways in which countries around the world have tried to provide a better balance between regional considerations and local responsiveness and accountability—a two-tier model, voluntary cooperation, and special districts.

##### *4.1 Two-tier model*

The two-tier model consists of an upper-tier governing body (usually a region, district, or metropolitan area) encompassing a fairly large geographic area and two or more lower-tier or area municipalities (such as cities, towns, or villages). In principle, the upper tier should be responsible for services that provide region-wide benefits, generate externalities, entail some redistribution, and display economies of scale. Services that provide local benefits should be the responsibility of the lower tier.

12. This section draws heavily on Bird and Slack (2008).

Redistribution is achieved at the upper-tier level through a combination of tax and spending policies. Taxes are generally levied at uniform rates across the region, with the contribution of each lower-tier municipality to the upper-tier municipality depending upon the size of its tax base. The upper-tier government makes expenditures on services that benefit the entire city-region and are not necessarily distributed among the lower-tier municipalities in the same way as revenues are collected. A uniform tax at the upper-tier level combined with region-wide expenditures serves to redistribute resources from municipalities with larger tax bases to those with smaller tax bases. Nevertheless, there may still be differentiation in service levels and tax rates with respect to services provided by lower-tier municipalities.

Two-tier governance structures can permit any desired degree of redistribution. They have potentially important advantages over the one-tier model in terms of accountability, efficiency, and local responsiveness. Critics of the two-tier model commonly argue that costs will be higher because of waste and duplication in the provision of services by two levels of government. There is, however, little evidence to support this argument. The provision of many public services can easily be divided among the tiers. In health and education, for example, more specialized (and costly) services can be provided regionally, with primary services being provided locally. With respect to infrastructure (roads, water, etc.), major capital projects can be planned, financed, and managed at the regional level, while local connections are dealt with at the local level. Dividing responsibility in such ways can also make service provision more accountable and responsive to local preferences. However, two-tier structures are definitely less transparent and more confusing to taxpayers, who can seldom determine precisely who is responsible for which services. Moreover, the existence of two levels of municipal council has been said to lead to considerable “wrangling, inefficient decision-making, and delays in implementing policies” (Kitchen 2002, 312), although the extent to which this is a problem depends largely upon the precise governance structure.

Metro Vancouver, Canada, is an example of a two-tier system in which the regional district is responsible for delivering a limited range of services (mainly water, sewerage and drainage, and solid waste management) to 24 local authorities.<sup>13</sup> Metro Vancouver also provides regional parks and affordable housing directly to the public. Metro Vancouver is governed by three boards: the Greater Vancouver Regional District Board, the Greater Vancouver Sewerage and Drainage Board, and the Greater Vancouver Water District Board. There is also a Metro Vancouver Housing Corporation.<sup>14</sup> Directors are appointed annually by local councils (on the basis of representation by population) from the politicians who

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13. The local authorities include 22 municipalities, one electoral area, and one treaty First Nation.

14. There is also a separate and independent governing body for Translink, Metro Vancouver's regional transportation authority.

are elected to local councils in the Metro region and, not surprisingly, tend to represent their local constituencies rather than taking a regional perspective.

Barcelona is a more recent example of a two-tier structure. This new body, which came into being in 2011, replaced three metropolitan bodies: the Metropolitan Entity of Hydraulic Services and Waste Management (EMSHTR), which covered 33 municipalities, the Metropolitan Transport Entity (EMT), which covered 18 municipalities, and the Association of Municipalities of the Metropolitan Area of Barcelona (MMAMB), which was a voluntary body made up of 31 municipalities. Not only was the metropolitan area greater than that covered by these metropolitan bodies, but the existence of three different entities in the same metropolitan area, each made up of a different number of municipalities, resulted in substantial (and unproductive) complexity. Legislation passed by the regional Parliament in 2010 significantly modified the governance of Barcelona through the creation of an upper-tier metropolitan government with 36 lower-tier jurisdictions.<sup>15</sup> The Metropolitan Council comprises all of the mayors of the municipalities plus 90 councillors, the Governing Committee, and the President. The President is elected by the Council from among the mayors. This new structure may function better than the one in Vancouver, because there really is a general metropolitan government, but it is too soon to tell.

#### 4.2 Voluntary cooperation

Voluntary cooperation has been described as minimal government restructuring in which there is an “area-wide body based on voluntary cooperation between existing units of local government in the agglomeration with no permanent, independent institutional status” (Sharpe 1995, 12). Such structures, which are common in the United States, are popular in part because they are easy to create politically and can be disbanded equally easily.<sup>16</sup> Although the voluntary model does not include an elected, area-wide government, it is an alternative method of recognizing the interrelationship of localities within a region through some form of area-wide arrangement. In contrast to the two-tier system, which is usually imposed from above (by the national or provincial level), the voluntary cooperation model comes from below, because municipalities choose to cooperate.

Cooperation takes different forms in different countries, but generally implies some degree of administrative integration as well as some political linkage, in that member local governments have some form of representation on the boards. Moreover, as a rule, such cooperative organizations can levy taxes or collect contributions from the municipalities or levy user fees to pay for services.

15. For more information on Barcelona, see Bosch, Espasa, and Solé-Vilanova (2013).

16. Although voluntary cooperation has been common in France in the past, recent territorial reform has led many municipalities to join two-tier structures (*Communautés urbaines*), whereby the lower-tier municipalities transfer some service responsibilities and the setting of the tax rate for the local business tax to the upper tier (Gilbert 2011). In 2010, 80 percent of the French population lived in this type of two-tier structure.

Voluntary cooperation is thus a way to provide services across a region without resorting to amalgamation. Municipalities retain their autonomy with respect to expenditure and tax decisions, but at the same time can achieve economies of scale in service delivery and address externalities associated with service provision (Sharpe 1995).<sup>17</sup> Bel (2011), for example, found that intermunicipal cooperation in 186 municipalities in Spain for solid waste services resulted in lower costs in 2000. For municipalities with fewer than 20,000 residents, the average cost was 20 percent lower where there was cooperation. For municipalities with fewer than 10,000 residents, the costs were 22 percent lower.<sup>18</sup> He attributed these cost savings to the involvement of small municipalities and the formation of a separate government body (the *comarca*) to oversee the local cooperation.

Problems of accountability may arise, however, when services are provided by another jurisdiction. The voluntary model can work well when policy-makers in the various local governments have the same objectives. It does not work so well when different governments have divergent objectives. Some degree of redistribution may or may not be accepted by the municipalities involved. Cooperation usually involves bargaining, and some municipalities in a region may not have much with which to bargain. The problems faced by many metropolitan areas—global competition, fiscal disparities, and sprawl—are so great that any real solution likely requires a governance structure that has a permanent institutional status.

The dominant governance model in the metropolitan areas of Zurich and Geneva, as in most of Switzerland, is voluntary intergovernmental cooperation (including cooperation among the three levels of government, as well as among local governments within the metropolitan area). In Geneva, intergovernmental cooperation extends to local governments in neighbouring France. Intergovernmental cooperation tends to be purpose-oriented, directed at services such as electricity, waste disposal, and energy supply. Political representation is indirect, because decision-making bodies for these cooperative schemes are composed of delegates of the member communes (Kübler and Rochat 2013). Given the high degree of institutional fragmentation, this approach to dealing with intermunicipal externalities is seen in Switzerland as the most pragmatic way of addressing the metropolitan challenges (Kübler and Rochat 2013).

Brazil also provides some successful instances of intermunicipal cooperation. In 2005, the national government passed legislation to promote the creation of

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17. In Finland, for example, the smallest municipalities in particular have formed partnerships and cooperative arrangements with other municipalities and the private sector to achieve economies of scale (Moisio 2011). The most common form of cooperation is the joint authority in which membership is voluntary, except for hospital services and regional councils, to which each municipality is required by law to belong. Authorities are run by boards that are indirectly elected by member municipalities.

18. The average cost differences were not significant in cities with a population over 20,000 residents, however, since they already operate at an optimal scale (Bel 2011).



municipal consortia. The legislation grants legal status to consortia, which enables them to secure loans and offer guarantees on their own. Municipal consortia are also entitled to exercise supervisory, regulatory, and planning roles. When the state capital is included in an intermunicipal consortium, the state government may also (like the federal and cantonal governments in Switzerland) take part. In Belo Horizonte, state-level incentives, in the form of transfers, were behind a successful intermunicipal health initiative (Arretche 2013).

An even less structured form of voluntary cooperation is through intermunicipal agreements—formal or informal agreements between municipalities to provide specific services, usually with no official area-wide body to oversee such arrangements. An example of such an intermunicipal agreement is the contract services plan in Los Angeles, under which Los Angeles County provides some services on a contract basis on behalf of municipalities in the Los Angeles metropolitan area. Similar city-county links occur in other U.S. jurisdictions (Sharpe 1995).

Municipalities usually enter into such agreements to reduce costs. The agreements can work well for services that can be contracted out or for sharing clearly identifiable costs. Such agreements have proved effective for services such as bulk purchasing, issuing debentures, fire fighting and emergency dispatch, and the maintenance of boundary roads. This approach does not, however, foster region-wide coordination. Furthermore, intermunicipal agreements generally provide no clear public accountability, except through the contract or agreement. If a problem occurs, citizens may not know whether to complain to their local government or to the local government that has been contracted to provide the service.

Experience suggests that intermunicipal agreements may increase the likelihood of intermunicipal litigation and conflicts (GTA Task Force 1996). Such agreements may be successful in achieving coordination and efficiencies for specific services, but they do not lead to region-wide coordination. Indeed, they have been described as second-best solutions to reorganization that can lead to “an impenetrable jungle of *ad hoc* commissions and complex arrangements that even the most conscientious municipal voter will never understand” (Sancton 1993, 33–34).

#### **4.3 Special-purpose districts**

Special-purpose districts are sometimes used to deliver services that spill over municipal boundaries. Single-purpose special districts may provide certain municipal services for several municipalities or manage regional services with significant externalities. This form of cooperation among municipalities for region-wide services is used most widely in countries in which there is a history of strong and autonomous local governments. In the United States, for example, one-third of all local governments are special districts or school districts. Although school boards responsible for education are often directly elected, the boards of other special districts are usually indirectly controlled by the constituent municipal councils and are responsible for the management of such services as transportation, water and waste management, and economic development, well as taxing, price setting, and other policy-making.

One advantage of special-purpose districts is that each service spillover can be addressed on an individual basis. Since the spillover boundaries are seldom the same for each service, differently sized special districts could be established, such as a region-wide transit district or a hospital district.<sup>19</sup> Other advantages may include the delivery of services by professionals whose decision-making is somewhat removed from political influence; the provision of services using more professional expertise than might otherwise be available to the municipal government; and the use of dedicated revenues from user fees to finance capital expenditures (Bahl and Linn 1992). Moreover, the salary schedule may be outside of the normal civil service and thus higher salaries can be offered to attract greater talent (Bahl 2010).

But special-purpose bodies also create problems. First, since each body has responsibility for a single service, it is not required to make tradeoffs between, for example, expenditures on transit and expenditures on water and sewers. When there are many independent special-purpose bodies, it is difficult to coordinate interrelated activities.<sup>20</sup> Second, the proliferation of decision-making bodies has “created a diffuseness of government organizations that is difficult for citizens to understand” (Kitchen 1993, 14). Such bodies weaken general-purpose local governments both through competition for resources and by reducing political accountability (Bird 1995). Third, when not funded entirely by user charges, there is no direct link between the expenditure decisions made by the special-purpose agencies and the local councils responsible for collecting taxes to fund them. The absence of what Breton (1996) calls the “Wicksellian connection” between expenditures and revenues reduces accountability.<sup>21</sup> Without accountability, there is no incentive to be efficient: a higher level of technical efficiency through more

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19. Special districts to some extent illustrate the concept of *functional, overlapping, competing jurisdictions* (FOCJ), which posits that “welfare could be improved substantially by promoting competition between newly emerging jurisdictions that are organized along functions instead of territories” (Frey and Eichenberger 1996, 315). In this approach, FOCJ are real governments in that they would have enforcement power, they could levy taxes, and they would extend over areas defined by the functions for which they are responsible. But they would overlap geographically and individuals and communities could choose the governmental unit to which they wanted to belong.

20. Three ways have been suggested to address coordination problems (Bahl and Linn 1992). One is to have overlapping membership so that some of the same people are on a number of district boards. This might help coordination, but would do nothing for accountability. Another is to encourage districts with multi-functions instead of single-purpose districts: at the limit of course, this leads back to general-purpose government. Finally, even if special districts remain separate authorities, they can be made subject to political considerations in the decision-making process (as with elected U.S. school boards).

21. As noted by Locke and Tassonyi (1993), in Ontario, Canada, local municipalities, which are responsible for collecting all property taxes, must take into account taxes levied by the upper tier and (at the time of their study) by school boards when they set their own levy, but they have no control over school board levies and only limited influence on the upper tier.

professional management is not the same thing as economic efficiency. Services may be better delivered, but they are not necessarily delivered to the right people in the right quantities and qualities (Bird 1980). Moreover, such special-purpose jurisdictions are more likely to be captured by special-interest groups—including public employees—whose decisions tend to increase costs and alter service provision in ways that do not necessarily reflect the interests of those the jurisdiction is supposed to serve. Berry (2009) finds that “concurrent taxation” with territorially overlapping local special-purpose fiscal jurisdictions taxing the same base almost invariably raises both tax and spending levels with no noticeable increase in service levels or quality.<sup>22</sup>

#### *4.4 Final observations on governance structure*

Neither theory nor practice tells us clearly which model of governance is best for large metropolitan areas.<sup>23</sup> Nonetheless, a strong regional structure encompassing the entire city-region is clearly important. Metropolitan areas are characterized both by strong interdependencies (social, economic, environmental, and political-administrative) and by externalities among local jurisdictions (Klink 2008). Some form of regional structure is needed to address regional problems such as fiscal disparities among municipalities and externalities in service provision. A regional structure is also needed to resolve transportation and environmental coordination issues and to ensure the economic competitiveness, social cohesion, and fiscal viability of city-regions in a global economic setting. Few problems and processes stop at municipal boundaries and many solutions require access to a larger pool of resources, both human and financial, than is likely to be at the disposal of small local governments. Some form of regional structure seems necessary if cities are to take full advantage of new and emerging opportunities for economic cooperation and for enhancing productivity and competitiveness in an increasingly knowledge-based economy.

But what kind of regional structure is needed? Lefèvre (2008) emphasizes five characteristics of an effective regional structure: political legitimacy through direct election; geographic boundaries that match the functional territory of the metropolitan region; independent financial resources; relevant powers and responsibilities; and adequate staffing. Yet voluntary cooperation and special-purpose districts that have few of these characteristics are popular around the world, while amalgamation is unpopular. As Dafflon (2012, 7) notes, amalgamation is usually justified for economic reasons—administrative

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22. “Special-district libraries spent more but provided fewer books. Their employees were less likely to be actual librarians. Despite spending more, district libraries did not attract more patrons, and therefore their efficiency was significantly lower than that of municipally operated libraries. In other words, district libraries spent more per patron visit and more per circulation transaction” (Berry 2009, 183).

23. Other reviews of this issue have also concluded that no model fits all cases or stands out clearly above the rest (Divay and Wolfe 2002; Klink 2008; Stren and Cameron 2005).

economies, economies of scale, improved efficiency, internalization of spillovers, and more robust tax bases—but opponents justify their position on the basis of democratic arguments—voice and free democratic choice at the grassroots level.

Voluntary cooperation may be effective in providing some services, but it tilts the balance towards local autonomy and responsiveness and away from economies of scale, service coordination, and a regional vision. This approach is unlikely to provide an adequate regional foundation for metropolitan areas. Where special districts are created to deliver specific services, not only is the regional vision further diluted, but also, since the boards of special districts are generally appointed or indirectly elected from members of the local councils, accountability to local citizens is compromised. A shift from intermunicipal cooperative governance structures to a regional government structure with direct election would improve political legitimacy, but almost inevitably at the expense of local responsiveness. At the very least, some form of community or neighbourhood councils is needed to balance regional and local interests.

The real choice for effective governance in a metropolitan region comes down to the choice between one tier or two tiers. Because a one-tier (horizontal) structure is simpler to understand and more transparent than a two-tier structure, it may enhance political and fiscal accountability. Two-tier (vertical) structures are inherently more complex and may result in undesirable duplication, overlap, and general confusion among citizens as to who is responsible for what and who pays for what. On the other hand, a two-tier structure may achieve greater efficiency than can be attained in a more centralized one-tier structure. Desirable economies of scale and scope can be realized at the upper-tier level, while the continued existence and vitality of the lower tier permits more responsiveness to local variations in preferences and maintains the linkage between local financing and spending decisions.

Any desired degree of regional redistribution can be achieved within either a one-tier or a two-tier structure, although obviously most easily—perhaps because less politically transparently—in a one-tier structure in which tax rates are uniform across the city-region and all taxes are available for redistribution. This seems to have been the principal reason for the choice of the one-tier model in South Africa (Steytler 2013).

## **5. The Case of Toronto: Back to the Future?**

Toronto was a single-tier city until 1954, when a two-tier metropolitan government consisting of a metropolitan tier, the then–City of Toronto, and six lower-tier municipalities was created. Since 1998, it has been a single-tier (consolidated) city. The creation of the two-tier structure in 1954 was applauded around the world for its ability to address growth issues and build needed infrastructure on a region-wide basis while meeting local needs. The most recent amalgamation in 1998, which saw the merger of the metropolitan and lower tiers to create a single-tier City of Toronto, was less well received, because residents felt that it did not address the regional issues facing Toronto and it was less locally responsive than the system it replaced.

### 5.1 Two-tier government

Before 1953, the City of Toronto was surrounded by 12 municipalities that had been growing rapidly in the postwar period.<sup>24</sup> Since the City of Toronto had no vacant land for the single-family housing developments that accommodated most of the growing regional population, most growth was taking place in the suburban municipalities. This growth placed huge demands on the capacity of these relatively small municipalities to provide services and infrastructure such as educational facilities, roads, sidewalks, lighting, sewage disposal, and so on. An additional problem was that since these municipalities were largely residential, they did not have an adequate tax base to finance the needed infrastructure. The City of Toronto, on the other hand, which had significant commercial and industrial property, had a solid financial base.<sup>25</sup>

In addition to high service demands and inadequate resources in the suburbs, the political boundaries of the City of Toronto no longer reflected the social and economic realities of the metropolitan area (Kulisek and Price 1988). Despite cooperation with surrounding municipalities, planning was restricted to the boundaries of the City of Toronto. 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>26</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>27</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>28</sup>

24. The 12 municipalities were 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.

25. 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).

26. In Canada, all aspects of municipal government—boundaries, responsibilities, taxing powers—are completely controlled by the provincial governments.

27. The costs of general welfare assistance are shared with the provincial government.

28. See the Report of the Royal Commission on Metropolitan Toronto, cited in Sancton (1994).

Over time, many 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 the recommendations of a provincial commission, the number of municipalities in Metro was reduced from 13 to 6.<sup>29</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” (Frisken 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 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.

The challenges began to change in the 1970s, however, as expansion in the region migrated outside the boundaries of Metropolitan Toronto. No longer was the problem to accommodate growth within Metro; instead, growth was increasingly occurring in what became known as the Greater Toronto Area (GTA). Recognizing this reality, 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. It was not until 1988, however, 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.

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 Task Force 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

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29. 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.

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 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, too, 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.

### 5.2 One-tier government

Despite these repeated recommendations by 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. The major citizen opposition centred on the loss of local identity and reduced access to local government. 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>30</sup> However, the GTSB was given no legislative authority, except to

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30. The *Greater Toronto Services Board Act* (1998) sets out the structure and responsibilities of the Greater Toronto Services Board (GTSB).

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 (Deloitte Consulting 2001). Later that year, however, the provincial government disbanded the GTSB. To this day, there is still no effective regional governance structure in the Toronto metropolitan region.<sup>31</sup>

Within 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 the model is the supremacy of Council as the decision-making body, as the mayor has only one vote on council.<sup>32</sup> In addition to the strong community affiliation of most of 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.

Although amalgamation was unpopular when it came into force over a decade ago, there is little interest in dismantling it today. And although many observers continue to call for a regional authority for the GTA and beyond, there is little political interest in creating such a body at either the local or provincial levels. Provincial politicians may feel that creating a regional authority that would contain about half the provincial population and a much higher share of economic activity would constitute too direct a challenge to their interests and power base. Similarly,

31. 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 has led to the gradual (and ongoing) phasing out of pooling.

32. Under the new *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.



local politicians in the municipalities surrounding Toronto may fear that City politicians would play too dominant a role in any regional entity.

What regional governance there is 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. Provincial legislation on growth management (the *Places to Grow Act* and the *Greenbelt Act*, both passed in 2005) has 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 and develop a growth plan in consultation with local officials, stakeholders, public groups, and members of the public. 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.

### 5.3 What has amalgamation achieved?

Amalgamation in Toronto has resulted in the creation of a city that manages to be both too small and too big. 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 resulted in any significant cost savings.

Amalgamation had not been on anyone's agenda before it became reality. 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?

One of the main stated rationales for Toronto's amalgamation was the ability to save money.<sup>33</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

33. This section draws heavily on Slack (2000).

the number of politicians and administrators. However, the amalgamation of municipalities with different service levels and different wage scales tends to increase expenditures. As Tindal (1996, 50) notes: “experience tells us that there are strong upward pressures on costs after an amalgamation.”

In Toronto, potential cost savings were fairly small, since the three largest expenditures (welfare assistance, transit, and policing) were already Metro responsibilities before the 1998 amalgamation.<sup>34</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, since a wide variety of other provincial initiatives affecting local government spending were also introduced in 1998.<sup>35</sup>

In an attempt 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>36</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>37</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. This initiative resulted in the transfer of full responsibility for many

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34. The provincial government based much of its case for 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.

35. In particular, the Local Services Realignment described briefly below (and in more detail in Bird, Slack and Tassonyi 2012).

36. We are grateful to Adam Found for invaluable assistance in assembling and analyzing these data.

37. This estimate does not include the portion of libraries and parks that were already at the upper tier.

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 and a few other services from municipalities to the provincial level.<sup>38</sup> 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 1 shows, the linear trend line for all fire expenditures (even in Toronto) is downward-sloping prior to amalgamation.<sup>39</sup> After amalgamation, the trend is 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 2 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.

Amalgamation also appears to have increased expenditures for parks and recreation (Figure 3). For libraries, however, the previous downward trend in expenditures per household continued after amalgamation (Figure 4), even though service levels almost certainly increased, since access to the library system for the

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38. At the same time, the provincial government took over tax-rate setting for the education portion of the property tax and lowered the residential tax rate to give municipalities more tax room.

39. 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 preamalgamation structure would have ended up had the 1988 to 1997 trend persisted.

Figure 1: Fire Expenditures Per Household - 1988-2008

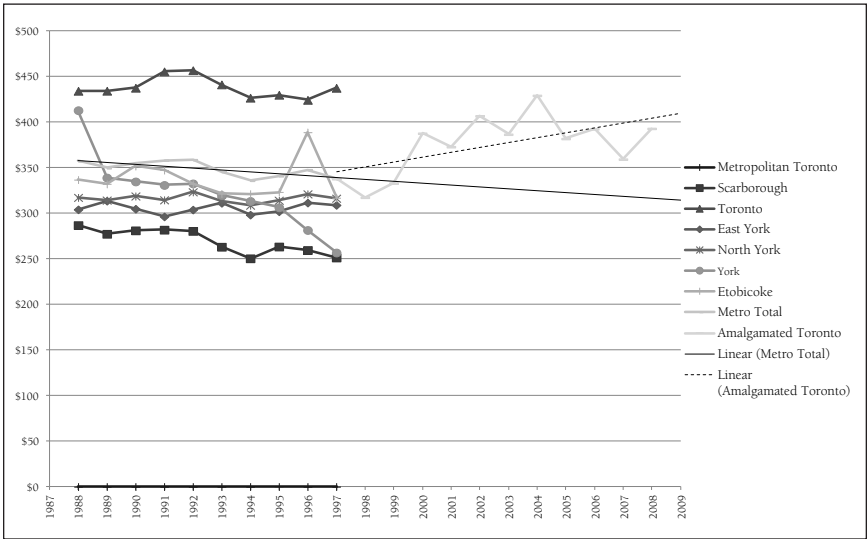


Figure 2: Garbage Collection Expenditures Per Household - 1988-2008

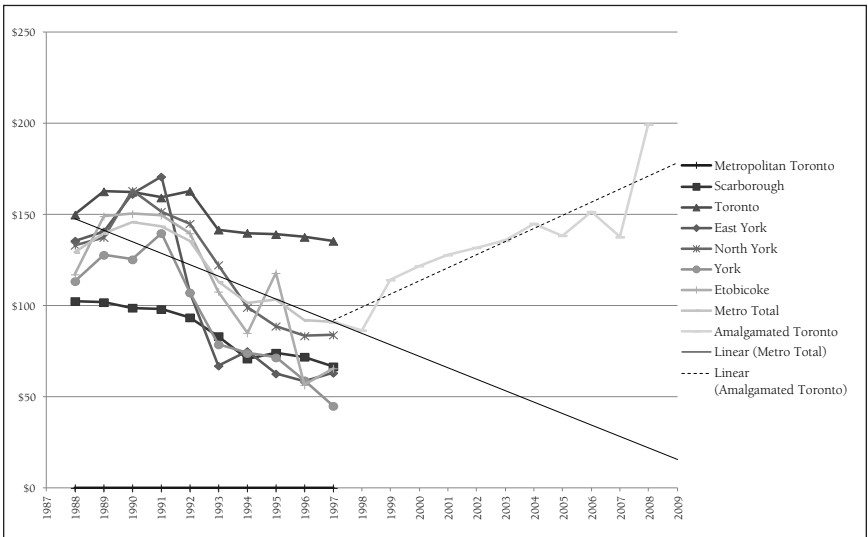


Figure 3: Parks & Recreation Expenditures Per Household - 1988-2008

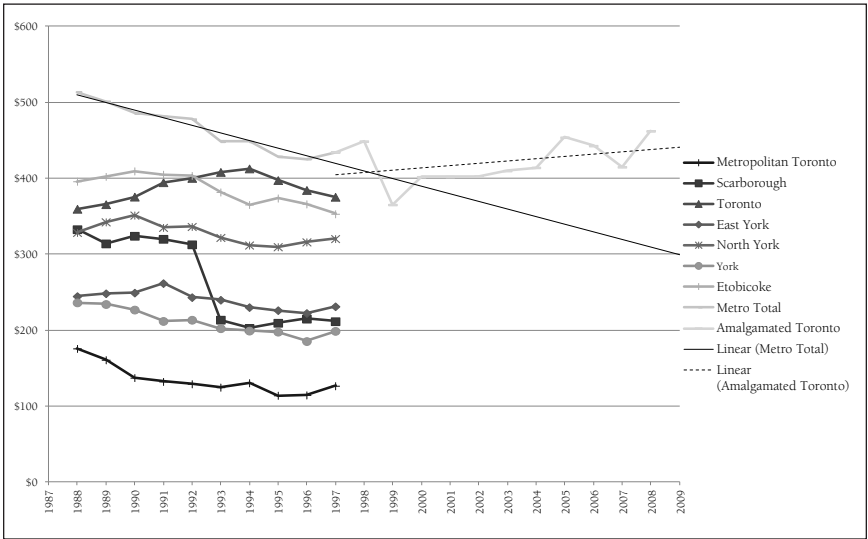
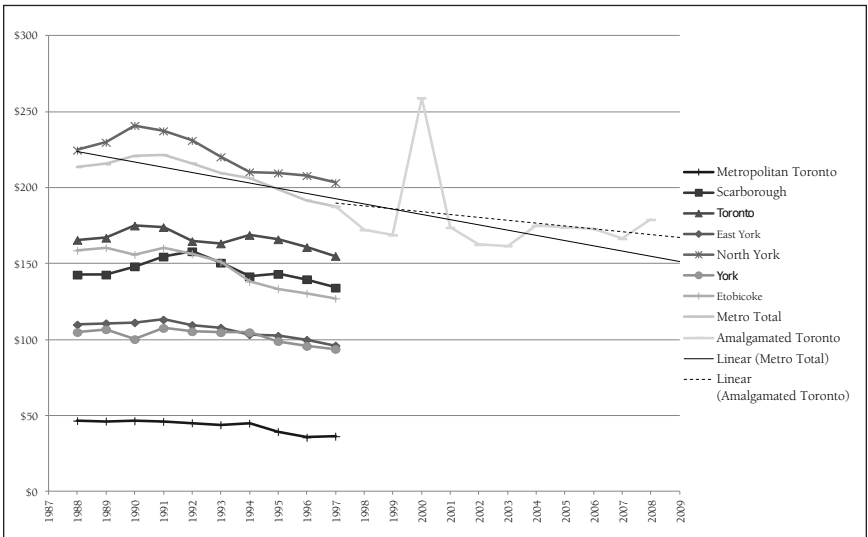


Figure 4: Libraries Expenditures Per Household - 1988-2008



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.

To the extent that higher costs are associated with the equalization of service levels, they are not necessarily a bad thing. 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. But this equalization 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 tax bases (assessments) and hence inadequate levels of service. Amalgamation likely increased the level of services for residents in these two municipalities and resulted in increased equity within the former metropolitan area.

In addition to the harmonization of service levels and wages and salaries, 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 1999). 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).

### **Tax increases or decreases?**

Three different questions may be asked about the effects of amalgamation on local taxes. First, did taxes increase or decrease as a result of the amalgamation? Second, what was the effect of the amalgamation on tax competition within the amalgamated area? And, third, what was the effect on tax competition within the region as a whole, the GTA? As with cost savings, the data do not permit definitive answers to any of these questions, but some conclusions can be reached.

The first question is the easiest to answer: on the whole, taxes declined, particularly those on business property. Figures 5 and 6 show residential and business property taxes per household in constant 2008 dollars before and after

amalgamation. Before amalgamation, residential property taxes per household were highest at the Metro level of government, 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 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 5 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 are roughly what they would 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. Business property taxes for the amalgamated city have fallen since 1998, reflecting both the amalgamated city's stated policy of reducing the tax burden on business and the way in which the complex and changing set of provincial rules governing property taxes have affected Toronto (Bird, Slack, and Tassonyi 2012).

The other two questions (the effect of amalgamation on tax competition in Toronto and the effect in the GTA region) are more difficult to answer. As mentioned earlier, Charlot, Paty, and Piguët (2012) found in a study of France that reducing the number of municipalities resulted in an increase in tax rates. As Figure 6 shows, however, since amalgamation resulted in lower rather than higher business property taxes in Toronto (in real terms per household), it appears that any effect from reduced competition for tax base within the metropolitan area has been more than offset by other factors. One such factor seems to be the increasingly strong competition between the (expanded) City of Toronto and other GTA regions and municipalities. As Bird, Slack, and Tassonyi (2012, 196) conclude: "changes in neighbouring jurisdictions emerge as one of the most significant drivers of business property tax rates in the GTA: yardstick competition, it seems, is alive and well in the GTA." The same study also notes that Toronto's amalgamation had significant negative effects on business property tax rates, not only in Toronto (as shown in Figure 6), but also its most immediate and most developed neighbouring regions, Peel and York.

### **Governance and citizen participation?**

Some authors have argued that one of the main failures of 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

Figure 5: Residential Taxes Per Household - 1988-2008

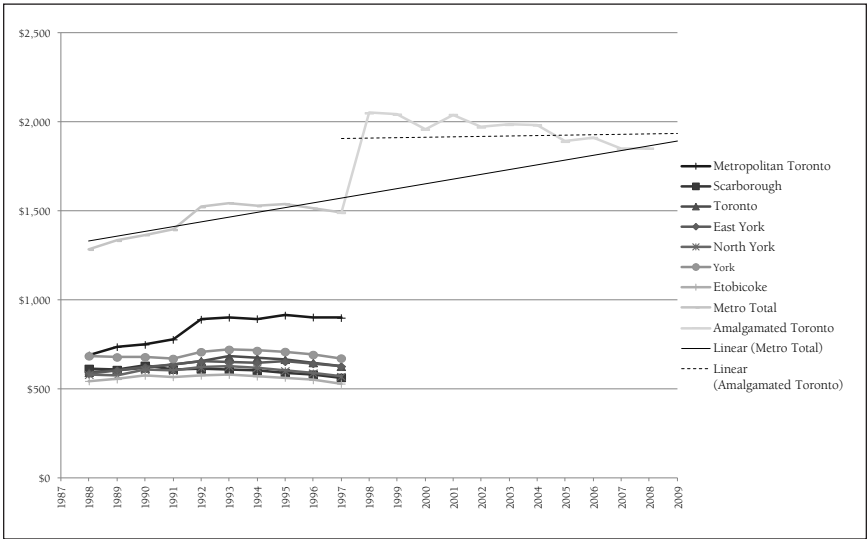
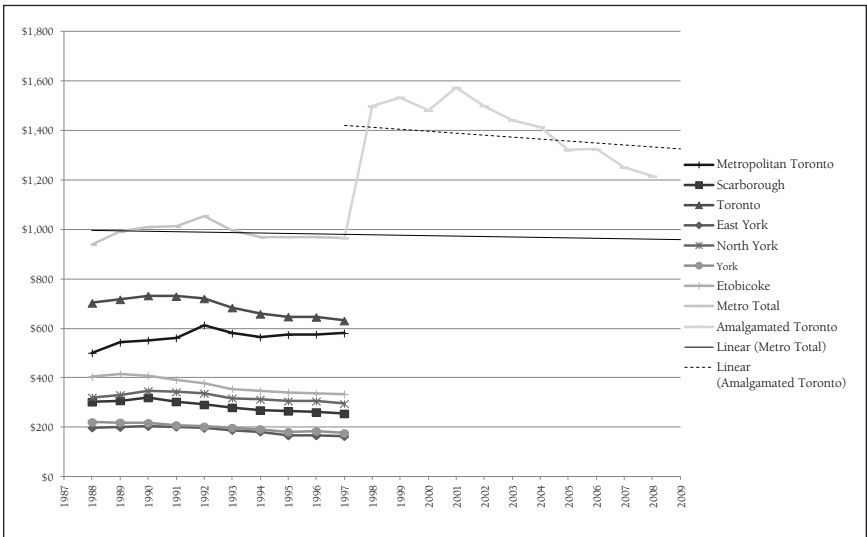


Figure 6: Business Taxes Per Household - 1988-2008





specific issues; opportunities for involvement in council subcommittees and task forces; membership on municipal agencies, boards, and commissions; and 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>40</sup> A larger government was thought to be more effective at promoting economic development by reducing bureaucracy and duplication and eliminating intermunicipal 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 intermunicipal competition between Toronto and its surrounding municipalities persists.

The amalgamation led to further reforms in governance, most notably the passage in 2006 of a new *City of Toronto Act*, which gave the city somewhat greater authority and autonomy than other municipalities in the province. In particular, the Act gave the City the power to impose “direct taxes,” although only a land transfer tax and billboard tax are currently levied in response to the granting of these new powers.<sup>41</sup> This legislation represented a fundamental shift in the traditional relationship between the City and the Province, replacing the

40. 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.

41. This provision has a long list of exclusions, however: taxes cannot be imposed on income; on capital income; on sales of goods and services; on accommodation (including hotels/motels, apartments, clubs, etc.); on wealth (including inheritance); on machinery and equipment used in research and development or manufacturing or processing; on the acquisition of any gas or liquid that may be used for generating power by means of internal combustion; on the consumption or use of energy (including electricity); on the generation, exploitation, extraction, harvesting, processing, renewal, or transportation of natural resources; on the supply of natural gas or artificial gas; and on the use of highways with respect to placing equipment under, on, or over the highway. The city is also excluded from levying a poll tax.

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).

#### *5.4 Final Observations on the Toronto Amalgamation*

Studies leading up to the creation of the new City of Toronto all identified problems of service coordination between Metropolitan Toronto and the other regions in the GTA. The creation of the new city was largely irrelevant to the problems faced both by Toronto and by the GTA as a whole. 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; they have not been ameliorated by the creation of the new city. At the same time, the amalgamated city has resulted in reduced access and participation by residents in local decision-making.

Amalgamation solved no problems. But it may, nonetheless, have had some benefits, for example, a stronger presence in economic development, a fairer sharing of the tax base among rich and poor municipalities, equalizing local services so that everyone can enjoy a similar level of services, and a stronger voice for Toronto with respect to municipal issues within the region and across the province and country.

### **6. Is Bigger Better?**

The answer to the question "Is bigger better?" is not a simple yes or no. It is possible that the creation of larger cities through mergers will enable some smaller municipalities (at least those in proximity) to reap some economies of scale. It is unlikely, however, that any such gains are to be achieved in large cities such as Toronto. There may, of course, be other reasons for considering mergers in metropolitan areas, such as addressing externalities, ensuring more equitable sharing of costs, and coordinating service delivery, land use planning and transportation for the region.

Intermunicipal cooperation would allow local governments to remain small and retain more autonomy while permitting them to be more responsive to the wishes of local residents. At the same time, intermunicipal cooperation may make it harder to develop and implement a regional vision and may make individual municipalities less accountable to citizens, since it is not always clear who is responsible for which services.

On the whole, although the two-tier approach has its own problems, it may be the best way to reconcile the economic and political problems inherent in devising

an appropriate governance structure for metropolitan areas. A strong regional structure that encompasses the entire economic region is clearly needed to address externalities in service provision, ensure the fair sharing of costs, and enable the coordination of service delivery across the city-region. At the same time, lower tiers can be responsive to variations in local preferences and provide greater citizen access to government decision-making. In this way, a two-tier model can help municipalities achieve the benefits of larger size without compromising the advantages of staying small.

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ISBN 978-0-7727-0904-2  
ISSN 1927-1921