



MONTREAL AS A MEGACITY: THE NEED FOR RECENT REFORMS



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*Is Bigger Better? : Municipal Mergers in
Montreal and Toronto*

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February 26th 2013

BACKGROUND

- The City of Montreal requested CIRANO to assess the existing arrangements and put forwards proposals with respect to the financing of boroughs (norms and standards)
- The work evolved into a review of who does what and the importance of own revenues
- This work was carried out between January and June 2012; We are currently advising on implementation
- <http://www.cirano.qc.ca/pdf/publication/2012RP-11.pdf>

BACKGROUND

- This request was driven in part by the internal politics of the then governing party
- The three-tier governance in Montreal was not under review
- The number and thus borders of boroughs were not under review
- The question was :
 - How can we make this structure work more efficiently ?

Presentation

1- Recent history of Montréal

2- The 2012 financing system: key issues

3- The proposed reform

- **The reform and counter-reform**
 - Recent history of Montreal's reforms
 - January 2002: The creation of the megacity of Montreal by the amalgamation of 28 municipalities of the island of Montreal ***Une île, une ville***
 - Population : 1,8 millions (51 % CMA)
 - Creation of 27 new boroughs
 - 2003-2004 : De-amalgamation debate and Bill 33 that gives more autonomy and responsibilities to boroughs

- **The reform and counter-reform**
 - Recent history of Montreal's reforms
 - January 2006: De-amalgamation of 15 suburban municipalities following votes according to pre merger boundaries
 - City of Montreal now has 1,6 million population (lost 13 % population)
 - Number of Boroughs reduced to 19
 - Creation of the agglomeration a new tier, with authority over some spending replacing the MUC

MONTREAL'S BUDGET 2012

- Boroughs and the City's budget

	2012		Variation 2005-2012	
	M\$	% of total	M\$	%
Pension plans contributions (top up to correct actuarial deficits)	378	8,0	312	472,7
Transfers to Public Transit Bodies (STM,AMT)	446	9,4	140	45,8
Public security (police + fire services)	991	20,9	267	36,9
Water	170	3,6	43	33,9
Transfers to Boroughs	850	17,9	135	18,9
Other central services	992	20,9	88	9,7
Other (debt service...)	917	19,3	45	5,2
Total	4 744	100,0	1 030	27,7

MONTREAL'S BUDGET 2006 AND 2012

- **The boroughs**

- Boroughs spending (950 M in 2012)

Spending fields	2006	2012
General administration	13,3 %	13,3 %
Road maintenance	11,6 %	11,2 %
Snow removal	14,4 %	15,8 %
Other transportation	4,20 %	4,90 %
Water and sewers	4,90 %	5,10 %
Garbage and recycling collection	13,3 %	10,6 %
Urban planning	4,7 %	4,5 %
Community centers	7,4 %	7,7 %
Skating rinks	4,0 %	3,6 %
Pools	3,5 %	3,8 %
Parks and playgrounds	10,5 %	10,6 %
Libraries	4,5 %	5,5 %
Total 12 fields	96,3 %	96,6 %

MONTREAL'S BUDGET 2012

- **The boroughs**

- Boroughs revenues (% of budget)

Sources of revenues	2006	2012
Fees for services and fines	5,4 %	7,5 %
Central city transfers (equilibrium amount)	94,0 %	90,2 %
Borough property taxes	0,6 %	2,3 %

MONTREAL'S REFORMS

- **The boroughs**

- Population, property tax and share of transfers

Situation in 2012	Share of population (%)	Share of property tax base (%)	Total budget (000 \$)	Share of borough spending (%)	Transfers in total financing (%)
Well financed boroughs					
Outremont	1,4%	2,4%	18 895	2,0	79,7
Saint-Laurent	5,7%	7,1%	72 441	7,6	87,4
Sud-Ouest	4,3%	3,7%	52 969	5,6	94,8
Ville-Marie (CBD)	5,1%	16,7%	83 414	8,8	83,1
Poorly financed boroughs					
Ahuntsic-Cartierville	7,7%	7,3%	62 204	6,5	95,4
Anjou	2,5%	2,6%	29 032	3,0	86,2
Montréal-Nord	5,1%	2,9%	43 224	4,5	84,6
Pierrefonds-Roxboro	4,1%	3,3%	33 196	3,5	87,4
Total	100%	100%	953 043	100	89,2

- **The 2012 financing system: key issues**
 - What was wrong with boroughs' financing?
 - Financing in 2012 still driven by historical budgets set in 2002
 - \$ for responsibilities now at the central city level subtracted from the budgets of pre-merger cities: **remainder** is theirs
 - Break-out method was used to allocate a similar remainder to the new boroughs from the ex-city of Montreal

- **The 2012 financing system: key issues**
 - Attempt to correct disparities based on objective criteria began in 2005 with the *Dynamic Evolving Budget*, but stopped after two years uncompleted
 - A fund to cover property development (unit cost based) costs incurred by boroughs was introduced in 2005 with an envelope and formula that changed almost every year.

- **The 2012 financing system: key issues?**
 - The compensation for delegated responsibilities from central city(CC) is said to be embedded in transfer but is unknown as are the standards to be met
 - Uneven responsibilities or use of CC services
 - Various formulas have been used over the years for various one-off transfers with no objective criteria

- **The proposed reform**
- Delegated activities
 - Need to Identify delegated services from central city and their costs
 - Need to Finance these services through dedicated amounts and segregated funds
 - Productivity gains should be shared according to the origin of these gains
- Unpriced transactions
 - Cost sharing mechanisms should be put in place with market pricing
 - Ex : Street marking

- **The proposed reform**
- Facilities pricing
 - Central city owns all properties
 - Boroughs don't pay a market rent when using them, but pay some maintenance costs
 - They do pay a rent though when using private properties (for the same use)
 - Incentive for a more efficient use of property space should be implemented
 - Either by fixing a rental price for all the space used by boroughs
 - Or by transferring to them all the costs and benefits from owning these properties

- **The proposed reform**
- Externalities and responsibilities
 - Libraries
 - Integrated into a network with inter-library loan and growing use of e-material
 - Partial centralization is needed with a financing based on use
 - Road maintenance and snow removal
 - Arterial roads are an agglomeration responsibility while local roads are responsibility of boroughs.
 - In practice, boroughs carry out the work for all, so there is a problem of delegated responsibility

- **The proposed reform**
- Reassignment of responsibilities
 - Waste collection and treatment
 - Collection is the responsibility of boroughs, while treatment is responsibility of central city
 - Cost of treatment vary from waste (high cost) to recycling (benefits)
 - The current arrangements are such that boroughs have no incentive to encourage recycling since they gain nothing from a reduction of final waste disposal
 - Costs from collection to final disposal need to be integrated with one entity or at least to use financial incentives

- **The proposed reform**
- Lack of own revenues
 - Lack of fiscal autonomy put boroughs elected officials in a position of budget dependency
 - In 2012, only 9 out of 19 boroughs were using their taxing power reserved for special purposes
 - As of 2013 5% of the property tax base (10% in 2014) transferred to boroughs who must set rate

- **The proposed reform**
 - Replaces the development fund and makes borough incur part of the costs of own policies (poor snow removal=> reduces attractiveness for business=> drop in property value)
 - Equalization mechanism to be introduced
 - Protect boroughs with below average growth in property tax base: vertical equalization

- **The proposed reform**
- Predictability of transfers and formula distribution
 - Predictability Inflation and parameter (population, kms) indexed transfers :
 - City of Montréal indexed transfers to inflation (2,2%) from 2012 to 2013: this indexation is now the policy for the future
 - Objective criteria :
 - A transparent formula for financing boroughs should be used once the rebalancing of responsibilities has been implemented.

IS BIGGER BETTER?

- No evidence to support a yes
- Better designed bigger may make it less worse
- Better design most likely requires
 - 1)proper allocation of responsibilities between CC and boroughs
 - 2)proper financing with some autonomous revenues at borough level+ stable and clear formula

MERCI



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