
Is Bigger Better? Recent Experiences in Municipal Restructuring

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The symposium concluded with a description and assessment of recent restructuring experiences in five urban centres across Canada: Toronto, Hamilton, Ottawa, Vancouver, and Halifax. This paper summarizes the presentations of the five participating commentators.

TORONTO: MICHAEL GARRETT¹

In 1998, seven municipal governments amalgamated to create the new City of Toronto. Mr. Garrett discussed Toronto's experience in the context of the three main objectives of the restructuring—less government, financial savings, and redistribution of wealth—and alternative governance structures.

Less Government

The objective of less government has been achieved most obviously by a reduction in the number of elected councillors (initially, from 106 to 58, and most recently, to 45). As well, local boards, previously numbering 280, have been reduced to 84 (with further reductions forthcoming). Nevertheless, the City of Toronto's governing body is two and half times larger than that of most other municipalities in the country.

The decrease in the number of councillors has been accompanied by a dramatic increase in workload for those continuing in office. The cost savings usually associated with such reductions are not readily apparent. Preliminary benchmark data indicate that Toronto's "cost of government" is approximately \$8 per capita, as compared with the provincial average of \$3 per capita. This result appears to indicate that there are other hidden expenditures generated by the amalgamation process.

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Savings

Expenditure savings have been realized; however, the quantum is disputed since a large portion of the savings was the result of provincial government constraints imposed in the early 1990s. During this period, the city's expenditures were cut by \$450 million. Further complicating the quantification of savings from amalgamation was the fact that 73 percent of Toronto's budget programs (for example, police, welfare, and social services) had previously been consolidated, leaving only 27 percent of services to be merged at a later date.

Other pressures affected the expected savings, including the provincial local services realignment initiative, the social contract (in the early 1990s), the exorbitant costs associated with Y2K, and the political commitment to a zero property tax increase. These factors reduced the projected \$400 million savings (over and above the earlier amounts) expected as a result of amalgamation. In reality, savings of 10 percent of budget for the merging programs were achieved.

Wealth Redistribution

Amalgamation was quite successful in realigning the quality of services and redistribution of the assessment base between "have" and "have-not" boroughs. However, it penalized boroughs with considerable financial reserves. Mr. Garrett observed that one must be mindful of the different financial cultures of boroughs when planning for amalgamation.

Governance

Whether the size of a city affects the quality of administrative services provided is a difficult question. In Mr. Garrett's opinion, the administration and operation of essential infrastructure development can be achieved in larger cities. The real issue is the delicate balance between democracy (politicians' interaction with their constituents) and the involvement of elected representatives in day-to-day service delivery.

Mr. Garrett concluded that different governance structures should be considered for Toronto. Alternatives include reducing council by half; having a strong ruling executive committee; introducing a party system (unlikely for Toronto); having a strong mayor with mayor-appointed councillors (similar to New York City); and introducing a two-tier system led by the mayor, with community councils in charge of local service delivery. The most appropriate model depends on the long-term needs of a particular municipality.

Conclusions

The amalgamation of numerous boroughs to form the City of Toronto was a daunting task requiring extensive preparation and planning. In Mr. Garrett's opinion, the transition process could have been facilitated by undertaking more thorough planning and by putting staff in place long before the actual amalgamation process. Other Ontario municipalities learned from Toronto's experience and avoided considerable

frustration. A key factor in ensuring a smooth transition process is the organized integration of information systems, as well as financial, human resources, and other daily services required to maintain a city's operations.

Another aspect of the transition process was the issue of Toronto's size relative to its assessment base. The amalgamation excluded the fast-growing Greater Toronto Area with its rich assessment revenue pool. In contrast, the new City of Toronto had to rely on an assessment pool that was flat and even decreasing. This fiscal inflexibility is underscored by the fact that municipalities' ability to generate revenue is dictated by provincial statute, which, in its current form, places older municipalities (such as Toronto) in a long-term fiscally unsustainable position. The process of amalgamation requires long-term capital infrastructure planning and the fiscal tools necessary to accomplish this goal. The property tax base is insufficient to meet these growing needs.

Toronto (like other Canadian cities) does not have access to tax revenues other than the property levy. This represents 42 percent of the revenue stream, as compared with approximately 18 percent for US cities. Other sources of revenues in the United States include electricity and gas surcharges, hotel taxes, and even income taxes in some limited circumstances. While Ontario's local services realignment initiative was successful, it did not include the progressive financial system necessary to ensure its longevity. This weakness leaves the province vulnerable to municipal requests for funding rather than long-term self-sustainability.

In Mr. Garrett's opinion, amalgamation actually resulted in expenditure savings. Furthermore, the increase in Toronto's size permits it to enjoy a greater presence on the world stage. However, he concluded that the governing structure needs to reflect this new reality, including access to a long-term sustainable financing relationship between the provincial and municipal governments.

HAMILTON: DOUG LYCHAK²

The City of Hamilton was created from the merger of a regional government and six area municipalities on January 1, 2001.

Service Delivery

Amalgamation, in Mr. Lychak's view, provided the opportunity for reviewing service delivery, implementing structural change, and reinventing the manner in which municipal business is conducted. Three years earlier, the City of Hamilton had merged its administration with that of the surrounding region of Hamilton-Wentworth, further facilitating the subsequent merger.

Hamilton's amalgamation differed from Toronto's in that the Hamilton transition board was established one year before the actual merger. This transition board adopted a high-level strategic approach, empowering the city manager to establish an organizational structure and operational methods of service delivery. The long-term vision for the City of Hamilton was left for council to consider. Twenty-three task forces made up of professionals from a broad range of disciplines reviewed and

made recommendations toward improving service delivery in the newly amalgamated city.

The challenge for Hamilton—as for all municipalities—was planning for long-term service delivery and fiscal sustainability. In preparing for amalgamation, the city’s planning team placed heavy emphasis on strategic corporate planning, budgeting, customer service, and efficient high-quality service delivery, requiring cooperation between council (the political side), municipal staff (the civil service), and stakeholder interests (the public).

Savings

In the first year following amalgamation, savings totalled \$20 million. Further savings of \$9 million are projected for 2002 and \$6 million for in 2003, provided that council approves the expenditure reductions.

Wealth Redistribution

The city of Hamilton benefited from a lower tax rate owing to the pooling of assessment bases. Historically, the city had suffered from declining property values, compared with those in the faster-growing suburban municipalities. Over two years, industrial tax rates decreased by an average of 9 percent (11 percent in 2001 alone), while the more affluent suburban municipalities experienced tax increases. However, a five-year phase-in plan cushioned the tax increase for these areas.

Governance

The transition board recommended that a “committee of the whole” governance model be instituted. Council (elected politicians) would be responsible for long-term strategic planning, and city staff would deal with daily operational issues. The governance structure and the long-term planning process, in Mr. Lychak’s view, present two of the most important challenges facing municipalities.

OTTAWA: C.M. BECKSTEAD³

Ottawa became a single-tier municipality on January 1, 2001. Ottawa-Carleton was formed as a regional government in 1969 and included the City of Ottawa, Carleton, and parts of Prescott and Russell (primarily rural in nature). This area comprised 16 municipalities, five hydro commissions, and numerous community boards, conservation authorities, and special-purpose bodies and agencies. The region was restructured in the early 1990s in response to provincially mandated expenditure reductions: the 16 municipalities were reduced to 11, and voters elected a regional chair, who represented a constituency in excess of 600,000. Police boards were merged in an effort to improve service delivery and reduce expenditures. Mr. Beckstead stated that this reorganization was successful in that it was undertaken voluntarily. However, a major drawback to this governance system was that regional councillors did not sit on local councils and vice versa; consequently, unnecessary competition arose between wards.

The impetus for the Ottawa amalgamation, in Mr. Beckstead's view, stemmed from a concerted effort and formal review process geared toward improving municipal governance and service delivery.

A transition board was struck to oversee the amalgamation process. It was responsible for budgets and expenditures, organizational restructuring, staffing, and developing savings targets. There were several benefits to the merger as well as lessons to be learned from the process. The primary benefits were savings and less government.

Savings

It was estimated that savings targets of \$75 million over three years would be achievable under these new conditions. Other savings were generated as the result of the sale of municipal property.

Less Government

The newly merged city required fewer elected councillors. The introduction of a ward system is being considered, which would further decrease the number of councillors.

Conclusions

Mr. Beckstead noted that the role of the transition board is crucial to the success or failure of an amalgamation. In the case of Ottawa, the transition board should have acted as a financial watchdog/overseer, leaving the minutiae of service delivery and organizational restructuring to staff.

GREATER VANCOUVER REGIONAL DISTRICT: JOHNNY CARLINE⁴

Vancouver, with a population of 2 million, is governed under a two-tier system of government, which is unique for a larger city. There are 22 local authorities representing varying populations, each of which appoints a director to the Greater Vancouver Regional District (GVRD) Board. The director exercises one vote for every 20,000 people up to a maximum of five votes capped at 100,000. Currently, the City of Vancouver has six directors exercising 26 votes between them. The board is responsible for a variety of functions, including water and sewer services, regional planning, air quality, and labour relations. Vancouver's governance structure differs from that of other municipalities in that it operates through "upward subsidiarity." By contrast, other municipal organizational structures are premised on hierarchical decision making flowing downward from the top to service delivery at the base. The Vancouver model focuses on cooperation between municipalities, which are driven by the mutual desire to achieve uniform service delivery. Legislation then legitimizes this process. In this manner, the GVRD has emerged as a non-hierarchical working partnership, where the lowest tier provides the service delivery to the taxpayer and the regional district provides services to the

municipality. Non-controversial issues are dealt with directly by staff communicating through standing committees to the board; complex issues are referred to advisory committees made up of experienced municipal professionals.

The Ontario process known as “disentanglement,” in Mr. Carline’s view, was more fractious than beneficial in that the initiative was premised upon the notion that government services are bundled in discrete parcels, assigned to specific levels of government to avoid trespassing on each other’s jurisdictions. The fallacy in this premise is that in fact regional decisions are not made in a vacuum but do have an impact on municipalities. As a result, the disentanglement exercise in Ontario and the direct election model in Ottawa were unsuccessful in that they created a schism between government systems. In Mr. Carline’s view, the argument that amalgamation is an effective means to achieving economies of scale is overstated, because it ignores several issues: the fiscal challenges facing municipalities, the sharing of services between smaller municipalities, and the practice of contracting out for service delivery. Mr. Carline stated that merging several municipalities into one large entity does not necessarily result in the cost savings expected from these latent economies of scale. He also disagreed with the view that amalgamation leads to greater administrative simplicity. That perspective, he suggested, unjustly oversimplifies the challenges presented by municipalities’ varying needs for particular service levels.

Conclusions

Vancouver’s present two-tier system is not without its faults. In some instances, responsibilities for service delivery should be shared. In addition, there is the inevitable political conflict between different levels of government, which undermines credibility and diverts valuable resources. Finally, the consensus model adopted by Vancouver requires time; the temptation to take shortcuts may result in costly errors.

Mr. Carline referred specifically to the experience of the Greater Vancouver Transportation Authority (GVTA), which aimed to promote greater integration between regional areas and land-use planning. The GVTA was governed by a smaller board elected by the GVRD; key strategic and financial decisions were to be ratified by both boards. Once operational, the GVTA would have had access to provincial gas tax revenues and a new vehicle levy to alleviate pressure on the property tax base. Finally, existing transit operations were to be spun off into separate legal entities, introducing the element of privatization and greater market competition. Stakeholder municipalities were excluded from the negotiations; the double approval process was unwieldy; and the consensus method was not rigidly adhered to. In light of these difficulties, the provincial government reneged on the vehicle levy; there was labour unrest and transit workers went on strike; and there was a populist uprising against the program—all of which inevitably led to its demise. Mr. Carline took the view that informed stakeholder consensus building, although a slower route, yielded far better results. In his opinion, Vancouver’s two-tier system and Toronto’s megacity are both workable; however, there is no persuasive evidence indicating that one model is inherently more cost-effective than the other.

HALIFAX: KEN MEECH⁵

Halifax was amalgamated on April 1, 1996, merging four separate municipalities and one regional authority. Its population is approximately 360,000 and is a mix of rural, urban, and suburban. Amalgamation was a provincially imposed exercise, similar to that instituted in other jurisdictions in Canada. In the case of Halifax, the expectation was that the merger would result in less government, cost reductions, lower taxes, greater cooperation between municipalities in stimulating economic development, and the opportunity for greater regional decision making and planning on broader issues.

Less Government

Originally, the four municipalities elected 60 councillors, now reduced to 24. However, the costs associated with the reduced numbers remain unchanged even after amalgamation. The current governance structure is typical of most cities and is composed of council and a city manager.

Savings

Transition costs were \$25 million to \$30 million and were borne by the municipality; there was no cost sharing with the province. However, despite the increase in costs, there were savings in the areas of police and fire services. These savings were difficult to quantify in that they occurred in the context of the “service exchange” exercise, similar to the disentanglement process in Ontario.

Coordinated Economic Development

Another boon as a result of amalgamation was the creation of the greater Halifax partnership which is Halifax’s primary economic development agency. This type of public-private partnership was not possible previously. It has fostered a more efficient use of resources, greater municipal stakeholder accountability, and responsibility for longer-range planning.

Lower Taxes

Reduced provincial funding was another benefit resulting from amalgamation, despite the province’s current equalization program (primarily funded by property tax revenues). In retrospect, a more successful amalgamation would have resulted in greater cost sharing and a more efficient governance structure to respond to larger regional issues.

Conclusions

Mr. Meech identified several lessons to be gleaned from the Halifax experience: a political structure that follows through on the transitional elements; a strong chief administrative officer; advance work on not only service delivery but also labour negotiations (the consolidation of collective agreements); the merging of different corporate cultures; financial systems; and revenue-raising flexibility. Structural

planning should also account for differences between those services that can be delivered on a broader scale (and are capital intensive) and others, such as policing, that can benefit from greater economies of scale if they are delivered on a regional basis.

NOTES

- 1 Former chief administrative officer, City of Toronto.
- 2 Former city manager, City of Hamilton.
- 3 Of BMO Nesbitt Burns, Ottawa.
- 4 Chief administrative officer, Greater Vancouver Regional District.
- 5 Former chief administrative officer, Halifax Regional Municipality.