

Provincial Regional Governance Review

Information Package

The Council of The Township of Wilmot is dedicated to ensuring that all residents have a chance to participate in providing comments to the Province regarding the Regional Governance Review.

Opportunities to have your say:

Provincial Level:

The appointed Special Advisors are holding an open house on **Wednesday April 24th from 9am to 4pm at the Waterloo Region Council Chambers**, to speak at this open house you need to preregister. You can also provide **feedback through the online portal survey at <https://www.ontario.ca/form/survey-regional-government-review>**. You can also provide written comments to:

Write to us by email at regionalgovreview@ontario.ca or by mail to:

Local Government Policy Branch
Ministry of Municipal Affairs and Housing
777 Bay Street, 13th floor
Toronto, Ontario M5G 2E5

Submission guidelines:

- consider the following themes in preparing your feedback:
 - improving representation and decision-making (for example, council size, selection process and municipal structure)
 - improving the quality of municipal services and reducing costs (for example, land-use planning, public infrastructure, economic development and social services)
 - where you see municipal governments in 10 years.
- limit your submission to 500 words or less
- if you must go over 500 words, provide an executive summary and highlight your recommendations

Regional Level:

The Region of Waterloo will hold a Special Council Meeting to hear from members of the public on the Regional Government review. Members of the public are encouraged to attend the meeting scheduled for:

Date: Wednesday, April 17, 2019

Time: 7:00 p.m.

Location: Regional Council Chambers, 2nd Floor, 150 Frederick Street, Kitchener

Anyone wishing to register to speak at the meeting as a delegation can contact the Regional Clerk's Office at 519-575-4400 before 4:30 p.m. on the Monday prior to the meeting or via email: regionalclerk@regionofwaterloo.ca. Delegations will have a 5 minute time limit and can submit their written notes and materials to the Regional Clerk.

Members of the public are welcome to submit their comments to the Regional Clerk, without attending the meeting, via email: regionalclerk@regionofwaterloo.ca or to the Province via the participation survey at <https://www.ontario.ca/form/survey-regional-government-review>

Local Level:

The Mayor and Council of the Township of Wilmot will be hosting an Open House for all residents of Wilmot to attend on **Tuesday April 30, 2019 from 6:00 pm to 9:00 pm**. Details are still being finalized, and will be posted on the Township website once complete. There will also be a survey for Wilmot residents to participate in, for feedback to Council at their regular meeting on **Monday May 13, 2019 at 7:00 pm**, who in turn will forward to Minister Clark and the Province of Ontario. **The survey will run from Monday April 22nd to Tuesday April 30th**, it will be available on our website as well as printed copies at the Township office.

If you have any further questions, please do not hesitate to contact us:

Grant Whittington, CAO – 519-634-8444 ext. 237

Dawn Mittelholtz, Director of Clerk's Services – 519-634-8444 ext. 230

Tracey Murray, Deputy Clerk – 519-634-8444 ext. 228

Appendix:

1. Provincial Survey

2. General Statements - Township of Wilmot

3. Joint General Statements – Townships of Wilmot, Wellesley, Woolwich and North Dumfries

Provincial Survey

To help in preparing a written submission, you may want to consider the questions being asked on the Provincial survey. (Prepared by the Province as outlined below)

General

2. How would you describe the performance of the upper-tier municipality in terms of making decisions and delivering services in your community?
3. How would you describe the performance of the lower-tier municipality in terms of making decisions and delivering services in your community?
4. In general, how might upper- or lower-tier municipalities be improved?

Governance

Municipal councils vary in size and governance structures. For example, in some municipalities, council members can serve on both local and regional council. In others, council members can sit on only the lower-tier or the upper-tier council. All lower-tier municipal mayors sit on the upper-tier council.

5. Overall, how well do you feel represented by the current upper-tier council in the municipality? How might better representation be promoted?
6. Does the upper-tier council in the municipality achieve the right balance between upper-tier issues and lower-tier issues? Please explain.

Decision-making

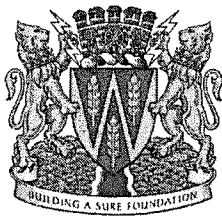
7. Are decisions in the upper-tier municipality made in a timely and efficient manner? Please explain.
8. Are decisions in the upper-tier municipality focused on the right priorities? Please explain.
9. Are decisions in the lower-tier municipality made in a timely and efficient manner? Please explain.
10. Are decisions in the lower-tier municipality focused on the right priorities? Please explain.
11. How might municipal decision-making be improved?

Service delivery

Your municipal services could be delivered by your upper- or lower-tier municipality. The services vary for each municipality. For example, your upper-tier municipality may be responsible for arterial roads, area-wide land use planning, and health and social services. Your lower-tier may provide services for local roads, garbage collection, recreation, and local land use planning.

12. Are the services provided by the upper-tier municipality delivered effectively and efficiently? Please explain.
13. Are the services provided by the lower-tier municipality delivered effectively and efficiently? Please explain.
14. How might the quality of municipal services be improved or be made more cost effective?

April 4, 2019



TOWNSHIP OF WILMOT

Township of Wilmot – General Statements

A. BACKGROUND / CONTEXT / OVERVIEW

1. The Township strongly believes in maintaining the two-tier structural governance model as presently established in Waterloo Region. This structure is comprised of seven area Municipalities and the Region of Waterloo. This position is a shared perspective expressed by the seven Mayors across Waterloo Region.
2. Waterloo Region is a diverse community of interests. It is comprised of seven area municipalities with five different urban cores in the three cities and more than 15 suburban neighbourhoods and small towns. Each urban core, neighbourhood and small town has their own character, history, challenges and priorities. These elements are entwined with expansive rural and agricultural lands that form the countryside. The current two tier-model has provided the necessary flexibility for individual municipalities to respond to their communities of interest and make service level decisions based on the wants and needs of local residents.
3. The current two tier-model promotes and ensures accessibility of the residents / businesses to their elected representatives. This in turn ensures accountability, transparency and effective representation in the decision-making process.
4. We concur with the Province's objectives related to governance and decision-making, specifically that:
 - a. Upper and lower-tier priorities should be efficient and aligned;
 - b. There should be capacity for efficient decision making; and,
 - c. Political representation must be effective (ie: distribution of councillors, access of politicians to the public, method of selection of upper-tier chair and councillors)

B. LOOKING FORWARD

5. Refinements and adjustments may be identified in the existing two-tier governance structure, which could allow for improvements and streamlined services. Continuous improvement and innovation are principles embraced by the Township. We believe that we will continue to increase efficiency in services and in parallel we also believe that our delivery models are tailored to our local needs – a model developed in Queen's Park is not the answer. The seven area municipalities in Waterloo region are a mature and responsible level of government. We have consistently demonstrated that we can assess situations and make improvements to our services and delivery of programs based upon what is most appropriate in the local context to ensure continued cost effective and responsive service delivery.
6. Because of the collaborative nature of Waterloo Region and the true understanding of the principles of efficiency and cost effective delivery of services to our respective communities, the Region and the 7 area municipalities have embraced and supported several joint initiatives as follows:
 - Waterloo Region Tourism & Marketing Corporation (WRTMC)
 - Waterloo Economic Development Corporation (Waterloo EDC)
 - Insurance Cooperative
 - Alert Waterloo
 - Regional Emergency Planning Advisory Committee (REPAC) (also includes the local hydro utilities, Conservation Authority, Police Service and public health)
 - Engage Waterloo On-line Platform
 - WREPNET (also involves two local School Boards – enhanced broadband connectivity to public institutional buildings)
 - GIS / Aerial Photography / Shared Database of Layers (ie: roads, utilities, archeology resources, etc)
 - Purchasing Cooperative (also includes the two local School Boards)
 - Sustainable Waterloo Region (a Not-for-Profit Organization that includes private sector partners)

7. The four Townships in Waterloo Region have already initiated opportunities for a broadened portfolio of joint initiatives. It is important to note that these opportunities were initiated before the Province's release of the Regional Government Review. They were undertaken because as communities serving the public interest it was identified that opportunities existed to either streamline the delivery of programs, and/or, provide a better "value for investment" with finite tax dollars. Items being rolled out on a joint basis amongst the four Townships:
- Bulk purchase for calcium chloride (dust suppressant for gravel roads)
 - Emergency Management (training, resources, EOC personnel, back-up EOC space)
 - Bulk purchase of Self-Contained Breathing Apparatus
 - Purchase of Breathing Air Refill Stations
 - Joint RFP Award for Development Charges Background Study & By-law



The TOWNSHIP of
NORTH DUMFRIES



TOWNSHIP
OF WILMOT



April 12th, 2019

A. BACKGROUND / CONTEXT / GENERAL STATEMENTS

1. The four Townships strongly believe in maintaining the two-tier structural governance model as presently established in Waterloo Region. This structure is comprised of seven area Municipalities and the Region of Waterloo. This position is a shared perspective expressed by the seven Mayors across Waterloo region.
2. Waterloo Region is a diverse community of interests. It is comprised of seven area municipalities with five different urban cores in the three cities and more than 15 suburban neighbourhoods and small towns. Each urban core, neighbourhood and small town has their own character, history, challenges and priorities. These elements are entwined with expansive rural and agricultural lands that form the countryside. The current two tier-model has provided the necessary flexibility for individual municipalities to respond to their communities of interest and make service level decisions based on the wants and needs of local residents.
3. The current two tier-model promotes and ensures accessibility of the residents / businesses to their elected representatives. This in turn ensures accountability, transparency and effective representation in the decision-making process.
4. The Mayors of the seven area Municipalities concur with the Province's objectives related to governance and decision-making, specifically that:
 - a. Upper and lower-tier priorities should be efficient and aligned;
 - b. There should be capacity for efficient decision making; and,
 - c. Political representation must be effective (ie: distribution of councillors, access of politicians to the public, method of selection of upper-tier chair and councillors)

B. THE BUSINESS CASE ... WHY TWO-TIER GOVERNANCE WORKS IN WATERLOO REGION

5. Included as Attachment #1 is a Tax Rate Comparison Table which utilizes data from 2018 for a cross section of local governments in and adjacent to Waterloo Region. The Table highlights municipalities operating within both a two-tier and single-tier governance model. The four Townships in Waterloo Region have the lowest tax rate factor of all of the referenced municipalities. It is interesting to note that the single-tier municipalities are slotted into the middle of the pack or at the higher end of the tax rate spectrum. This Table reinforces the framework articulated in Paragraphs #2 and #3 above and underpins the core belief of the four Townships in Waterloo Region, that we are a cost effective and responsive form of local government.
6. Refinements and adjustments may be identified in the existing two-tier governance structure, which could allow for improvements and streamlined services. Continuous improvement and innovation are principles embraced by the four Townships. We believe that we will continue to increase efficiency in services and in parallel we also believe that our delivery models are tailored to our local needs – a model developed in Queen's Park is not the answer. The seven area municipalities in Waterloo region are a mature and responsible level of government. We have consistently demonstrated that we can assess situations and make improvements to our services and delivery of programs based upon what is most appropriate in the local context to ensure continued cost effective and responsive service delivery.
7. Because of the collaborative nature of Waterloo Region and the true understanding of the principles of efficiency and cost effective delivery of services to our respective communities, the Region and the 7 area municipalities have embraced and supported several joint initiatives as follows:
 - Waterloo Region Tourism & Marketing Corporation (WRTMC)
 - Waterloo Economic Development Corporation (Waterloo EDC)
 - Insurance Cooperative
 - Alert Waterloo

B. THE BUSINESS CASE ... WHY TWO-TIER GOVERNANCE WORKS IN WATERLOO REGION (CONT'D)

- Regional Emergency Planning Advisory Committee (REPAC) (also includes the local hydro utilities, Conservation Authority, Police Service and public health)
 - Engage Waterloo On-line Platform
 - WREPNET (also involves two local School Boards – enhanced broadband connectivity to public institutional buildings)
 - GIS / Aerial Photography / Shared Database of Layers (ie: roads, utilities, archeology resources, natural heritage features, etc)
 - Purchasing Cooperative (also includes the two local School Boards)
 - Sustainable Waterloo Region (Not-for-Profit Organization that includes private sector partners)
8. The development of the partnerships and/or service delivery models noted in Paragraph #7 were developed organically through a consultative process that established a framework tailored to serve broad perspectives and diverse interests, while simultaneously ensuring that the needs or requirements at an individual municipal level were respected and served. These collaborative alternative delivery models have yielded economic benefits, the attraction of business investment and jobs, and, lowering the costs for services.
9. The Township Mayors, extending over the previous two terms of Council and continuing into the 2018 – 2022 term of Office, have been meeting to recognize and assess opportunities for additional joint initiatives and/or shared delivery models. These collaborative efforts have elevated rural values and priorities, while promoting the principles of collaboration and overcoming differences.
10. The four Townships in Waterloo Region have already initiated opportunities for a broadened portfolio of joint initiatives. It is important to note that these opportunities were initiated before the Province's release of the Regional Government Review. They were undertaken because, as communities serving the public interest, it was identified that opportunities exist to either streamline the delivery of programs, and/or, provide better "value for investment" with finite tax dollars. The lens upon

B. THE BUSINESS CASE ... WHY TWO-TIER GOVERNANCE WORKS IN WATERLOO REGION (CONT'D)

which joint initiatives and/or alternative delivery models are assessed is included as Attachment #2. Items being rolled out on a joint basis amongst the four Townships include:

- Bulk purchase for calcium chloride (dust suppressant for gravel roads)
- Emergency Management (training, resources, EOC personnel, back-up EOC space)
- Bulk purchase of Self-Contained Breathing Apparatus
- Purchase of Breathing Air Refill Stations
- Joint RFP Award for Development Charges Background Study & By-law

11. Building upon the principles of transformation, alternative delivery models and collaboration, items in the discussion / assessment stage for joint initiatives or shared services amongst the four Townships include:

- Centralize Distribution / Processing of taxation & water billing statements
- Core IT Delivery (ie: Site security, site architecture, enterprise networks)
- Five Year Capital Purchase of Fire Apparatus Fleet
- Five Year Capital Purchase of Public Works / Recreation Fleet & Equipment
- Three Year Purchase of Boulevard Trees & Planting
- Assessing areas of "specialization" in terms of Fleet, Equipment and/or Personnel that can then be "shared" with the other Townships on a fee for service recovery basis

WATER - \$ per m3 (A)										
	2017		2018		2019		% Change	Annual \$ Cost based on 17m3 per month		
	Rate	Effective	Rate	Effective	Rate	Effective		2018	2019	% Change
Waterloo	1.7400	Jan. 1	1.7900	Jan. 1	1.9000	Feb. 1	6.1%	365.16	385.73	5.6%
Kitchener	2.2395	Mar. 1	2.3291	Mar. 1	2.4339	Mar. 1	4.5%	472.09	492.95	4.4%
Cambridge	2.1575	Jan. 1	2.2145	Jan. 1	2.2872	Jan. 1	3.3%	451.76	466.59	3.3%
Woolwich	1.7100	Mar. 1	1.7200	Mar. 1	1.7300	Mar. 1	0.6%	350.54	352.58	0.6%
Wilmot	1.9005	Apr. 1	1.9936	Mar. 1	2.0514	Jan. 1	2.9%	403.53	418.49	3.7%
Wellesley	2.5800	Mar. 1	2.7800	Mar. 1	2.9900	Mar. 1	7.6%	560.32	602.82	7.6%
North Dumfries	2.5800	Mar. 1	2.7800	Mar. 1	2.9900	Mar. 1	7.6%	560.32	602.82	7.6%
REGION Wholesale	1.0251	Mar. 1	1.0446	Mar. 1	1.0749	Jan. 1	2.9%	212.44	219.28	3.2%

WASTEWATER - \$ per m3 (8)										
	2017		2018		2019		% Change	Annual \$ Cost based on 17m3 per month		
	Rate	Effective	Rate	Effective	Rate	Effective		2018	2019	% Change
Waterloo	2.2400	Jan. 1	2.3700	Jan. 1	2.4500	Feb. 1	3.4%	483.48	498.44	3.1%
Kitchener	2.6451	Mar. 1	2.8276	Mar. 1	3.0538	Mar. 1	8.0%	570.63	615.28	7.8%
Cambridge	2.1247	Jan. 1	2.2151	Jan. 1	2.3661	Jan. 1	6.8%	451.88	482.68	6.8%
Woolwich	2.5000	Mar. 1	2.6900	Mar. 1	2.8500	Mar. 1	5.9%	542.30	575.96	6.2%
Wilmot	2.1728	Apr. 1	2.3445	Mar. 1	2.5297	Jan. 1	7.9%	472.44	516.06	9.2%
Wellesley	2.0100	Mar. 1	2.1300	Mar. 1	2.2300	Mar. 1	4.7%	430.44	451.52	4.9%
North Dumfries	2.0100	Mar. 1	2.1300	Mar. 1	2.2300	Mar. 1	4.7%	430.44	451.52	4.9%
REGION Wholesale	1.0890	Mar. 1	1.1750	Mar. 1	1.2561	Jan. 1	6.9%	236.78	256.24	8.2%

TOTAL VOLUMETRIC - \$ per m3 (C)=(A)+(B)										
	2017		2018		2019		% Change	Annual \$ Cost based on 17m3 per month		
	Rate	Effective	Rate	Effective	Rate	Effective		2018	2019	% Change
Waterloo	3.9800	Jan. 1	4.1600	Jan. 1	4.3500	Feb. 1	4.6%	848.64	884.17	4.2%
Kitchener	4.8846	Mar. 1	5.1567	Mar. 1	5.4877	Mar. 1	6.4%	1,042.72	1,108.24	6.3%
Cambridge	4.2822	Jan. 1	4.4296	Jan. 1	4.6533	Jan. 1	5.1%	903.64	949.27	5.1%
Woolwich	4.2100	Mar. 1	4.4100	Mar. 1	4.5800	Mar. 1	3.9%	892.84	928.54	4.0%
Wilmot	4.0733	Apr. 1	4.3381	Mar. 1	4.5811	Jan. 1	5.6%	875.97	934.54	6.7%
Wellesley	4.5900	Mar. 1	4.9100	Mar. 1	5.2200	Mar. 1	6.3%	990.76	1,054.34	6.4%
North Dumfries	4.5900	Mar. 1	4.9100	Mar. 1	5.2200	Mar. 1	6.3%	990.76	1,054.34	6.4%
REGION Wholesale	2.1141	Mar. 1	2.2196	Mar. 1	2.3310	Jan. 1	5.0%	449.21	475.52	5.9%

OTHER FIXED FEES - \$ per month (D)										
	2017		2018		2019		% Change	Annual \$ Cost		
	<u>Rate</u>	<u>Effective</u>	<u>Rate</u>	<u>Effective</u>	<u>Rate</u>	<u>Effective</u>		<u>2018</u>	<u>2019</u>	<u>% Change</u>
Waterloo	3.05	Jan. 1	3.13	Jan. 1	3.21	Feb. 1	2.6%	37.56	38.44	2.3%
Kitchener	-	n/a	-	n/a	-	n/a	n/a	-	-	n/a
Cambridge	16.19	Jan. 1	16.65	Jan. 1	16.81	Jan. 1	1.0%	199.80	201.72	1.0%
Woolwich	26.00	Mar. 1	26.00	Mar. 1	26.00	Mar. 1	0.0%	312.00	312.00	0.0%
Wilmot	16.00	Apr. 1	16.00	Mar. 1	17.00	Jan. 1	6.3%	192.00	204.00	6.3%
Wellesley	16.00	Mar. 1	16.00	Mar. 1	18.00	Mar. 1	12.5%	192.00	212.00	10.4%
North Dumfries	16.00	Mar. 1	16.00	Mar. 1	18.00	Mar. 1	12.5%	192.00	212.00	10.4%

TOTAL ANNUAL HOUSEHOLD IMPACT - \$ Excl Stormwater (E)=(C)+(D)			
Based on Average Consumption of 17m3 / Month			
	2018	2019	% Change
Waterloo	886.20	922.61	4.1%
Kitchener	1,042.72	1,108.24	6.3%
Cambridge	1,103.44	1,150.99	4.3%
Woolwich	1,204.84	1,240.54	3.0%
Wilmot	1,067.97	1,138.54	6.6%
Wellesley	1,182.76	1,266.34	7.1%
North Dumfries	1,182.76	1,266.34	7.1%

Provincial Regional Governance Review

Provide your written comments. All comments will be included in a report to Council and forwarded to the Special Advisors and Minister Clark for their information.

Dear Minister Clark & Special Advisors,
As a voter, a mom, and resident of Waterloo Region I wanted to take this opportunity to share my comments with you. Me, and my family have lived in Waterloo and Wilmet for the last 13 years. While we are happy for many organizations to work jointly within the region (as many do already), we DO NOT support any amalgamation of the cities and townships in Waterloo Region. Personally, we have seen and experienced the differences between various areas in the Region and ~~the~~ know that each have different concerns and priorities. We love that in Wilmet we know our Mayor and Councillors. We know the how they feel on the issues facing our area and can see them present in our area. They are our neighbours -

and this would be lost if our governance was demoted to being a very small part of a large regional-wide council. Instead of having our voices heard they would be ~~noted~~ muted in the sea of 500,000 other voices. Our priorities would fall to the wayside as our smaller, rural area would be pushed aside by the priorities of more populous areas. There is more of concern than the provincial budget. Cities and Townships exist to service small parts of the larger whole - so all the parts can be heard and have their needs met! Our Region is strong, growing and thriving because its parts are strong and unique in their concerns and contributions.

I know that many other younger voters won't share their opinions - due to busy lives or a fear that they don't know the issues. But I can tell you that speaking with other parents of young families we crave the stability afforded by the great job that our current councils are doing - especially in the face of so many other changes at the provincial level. I know the PCs want to leave the mark on Ontario, but this change is NOT the way. Thank you,

Toni Peter
189 Livingston Blvd
Baden ON N3A 4K9
226-747-7784

Toni Peter



April 18, 2019

To whom it may concern,

The New Hamburg Board of Trade has been made aware of discussions around amalgamation of the seven municipalities of The Region of Waterloo.

As a business organization we fully support efforts to improve efficiency in our municipal structure. It seems logical that there is opportunity to improve efficiency relating to some services delivered.

This movement however does raise some concerns.

Finances

Wilmot Township is currently debt free. It is our understanding that no other municipal structure in The Region of Waterloo is debt free. How would Wilmot Township Residents and Businesses be compensated? In an amalgamation, would Wilmot Township residents/businesses be expected to contribute to paying the accumulated debt of the other six municipal entities?

Firefighting

The rural townships operate with part-time volunteer firefighters. The 3 cities operate with full-time firefighters. How would these 2 fundamentally different approaches to fire service be amalgamated? It is unlikely that current township fire-fighting facilities could be renovated to accommodate a full time staff. Would an amalgamation require brand new fire-fighting facilities be built to service The Townships?

Police Service

New Hamburg did have a downtown Waterloo Regional Police Office that was staffed at specified hours. Under the banner of improving efficiency that office is now not staffed on a regular basis. Would Wilmot Township experience similar erosion of connection with other services under an amalgamated structure?

Lack of Local Connection

Recently a proposal for a new crosswalk in downtown New Hamburg was submitted by Region of Waterloo staff. This crosswalk proposed to eliminate 9 parking spots in downtown New Hamburg. This proposal apparently may seem logical to Region of Waterloo staff stationed in downtown Waterloo, without knowledge of the needs of our community. If there would have been local Township of Wilmot representation at the inception, this proposal would most likely never seen the light of day. Examples like this are reason for concern when it comes to amalgamation. It is this lack of local connection that presents concerns for township residents.

Development

Currently there is hard development line between Kitchener-Waterloo and the Wilmot Township line. Would amalgamation blur this line and open the east side of Wilmot Township to urban development at the expense of rural township farmland?

It seems perfectly reasonable that a review of services rendered could result in efficiencies in the delivery of services. The New Hamburg Board of Trade would support these changes while ensuring that the identity of Wilmot Township is preserved.

Thank you for your time and consideration,



Gina Ruttan
President

121 Huron Street

New Hamburg, ON, N3A 1K1

Phone: 519-662-6628

Web: www.nhbot.ca

Email: info@nhbot.ca

From: [Grant Whittington](#)
To: [Dawn Mittelholtz](#); [Tracey Murray](#)
Subject: Fw: Provincial Regional Governance Review
Date: Friday, May 03, 2019 1:05:45 PM

Same. Please add to the report attachment.

Thanks

Sent via [BlackBerry Hub+ Inbox for Android](#)

From: aloeffler@netflash.net
Sent: May 2, 2019 8:58 PM
To: regionalgovreview@ontario.ca; mike.harris@pc.ola.org; grant.whittington@Wilmot.ca
Subject: Provincial Regional Governance Review

To:

regionalgovreview@ontario.ca

Mike Harris MPP

Grant Whittington, Township of Wilmot

Re: Provincial Regional Governance Review

I am strongly opposed to moving to a one-tier structural governance model in the Region of Waterloo. As a resident of Wilmot Township, I am pleased with the status quo with respect to the quality of municipal services and the level of representation I receive in local council. The proposal to move to a one-tier governance model is unlikely to result in significant cost savings, since the four townships currently participate in joint initiatives such as bulk purchases and emergency management. The rural townships stand to lose their voice in a one-tier system, since urban councillors have no interest and experience with rural issues. The continued effective protection of farmland is at risk in a one-tier system.

I haven't heard any convincing arguments that support one-tier government in Waterloo Region. We don't need it, and as a rural resident I don't want it.

Respectfully,

Anne Loeffler

3302 Bridge St

New Hamburg ON N3A 2V9

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From: [Dawn Mittelholtz](#)
To: [Tracey Murray](#)
Subject: FW: Wilmot Regional Review Open House Follow-up
Date: Friday, May 03, 2019 10:03:57 AM
Attachments: [April 24 2019 Regional Review Pres v1.pdf](#)
[Regional Review Pres to Province K Thomason v1.pdf](#)
[Mayors Open Letter Oct 2010.pdf](#)
[Regional Review JDA April 17 2019 rev3.pptx](#)
[C. D. Howe Institute Discredited Ideas and Utopian ideals.pdf](#)
[Quote on Merger.doc](#)
[de-amalgamation-in-canada Fraser Institute.pdf](#)
[fusions_en Montreal Economic Institute.pdf](#)
[Is Bigger Better, Monk School.pdf](#)
[MunicipalGovernment Atlantic Institute of.pdf](#)

Dawn Mittelholtz | Director of Clerk's Services | Clerk's Services | **Township of Wilmot**
60 Snyder's Road West, Baden, ON N3A 1A1 | P. 519.634.8444 x 230 | F. 519.634.5522 | Toll Free.
800.469.5576 | TTY. 519.634.5037
www.wilmot.ca | Follow us on Twitter @WilmotTownship

From: Kevin Thomason [mailto:kevinthomason@mac.com]
Sent: Friday, May 3, 2019 12:56 AM
To: Les Armstrong <les.armstrong@Wilmot.ca>; Cheryl Gordijk <cheryl.gordijk@wilmot.ca>; Jeff Gerber <Jeff.Gerber@Wilmot.ca>; Ms. Angela Hallman <angela.hallman@wilmot.ca>; Jennifer Pfenning <jennifer.pfenning@wilmot.ca>; Angie Hallman <angie.hallman@wilmot.ca>; Barry Fisher <Barry.Fisher@Wilmot.ca>; Grant Whittington <grant.whittington@Wilmot.ca>; Dawn Mittelholtz <dawn.mittelholtz@wilmot.ca>
Subject: Wilmot Regional Review Open House Follow-up

Wilmot Staff, Mayor and Councillors,

Thank you again for hosting an Open House for the community this past week regarding the provincial Regional Government Review. As you know there is considerable concern in the community about the review, the process, the timelines, and the possible long-term negative impacts of what could be implemented from the review including the complete dissolution of Wilmot Township. This could have a devastating impact on our rural areas.

As I mentioned at the meeting:

amalgamations Don't Work

ite simply, most amalgamations don't work and have been shown, time and time again to result in significantly higher costs, less representation and bloated, less responsive bureaucracies. They don't achieve the expected efficiencies or cost savings, and many amalgamated municipalities are now up investigating ways to de-amalgamate after learning that bigger isn't always better.

Unique Communities

One reason why amalgamation has been consistently rejected is that we are unique communities – separate cities with different neighbourhoods, ambitions, priorities and approaches. Each Official Plan demonstrates the differences in our goals, challenges, budgeting and decision-making approaches. Sit through a Wellesley Township Council Meeting and contrast it to a City of Waterloo or Cambridge Council Meeting. In one community rural Mennonite issues are important, others it is rapid transit, or high-tech issues. We already have successful custom governance structures tailored to the needs of each community.

Consistently Rejected

The City of Waterloo and Kitchener have consistently rejected amalgamation discussions. It was recently rejected resoundingly by a two to one ratio by the citizens of Waterloo in 2010, and has been rejected by every other municipality in Waterloo Region at various times. Don't even talk to anyone in Cambridge about amalgamation - they are still reeling from 1973....

Most Corporate Mergers Fail

Harvard Business Review estimates that 70 to 90 percent of all corporate mergers and acquisitions fail. Any CEO knows that alignment is essential and the companies need to share common strategies, goals, and ambitions for a merger to be successful. Our communities have different goals and ambitions – some want to grow others want to stay the way they are. The City of Waterloo has an official “Environment First” motto and has taken extraordinary steps to protect its tracts of natural areas - even repealing their urban boundary, while other municipalities have prioritized development. If leading companies run by highly compensated experts, can't be successful 70 to 90 percent of the time, how can a rushed review with far fewer resources have any chance of making our communities better.

Loss of Representation and Control

We currently have an incredible array of dozens of Councillors from all walks of life representing communities and neighbourhoods. We only have four full-time municipal politicians in the entire region, while many Councillors put in almost full-time hours, for low compensation. We are going to be hard-pressed to find a more effective, economical solution. If hard working community representatives are replaced with staff, this lessens democracy and makes government more expensive.

Lower Involvement and Engagement

Amalgamated cities have discovered that people tend to participate less in larger cities – volunteerism declines, there are fewer neighbourhood initiatives such as local arts and cultural events, fewer sporting activities and teams, as well as often the loss of local newspapers when there is no longer a local municipal government to report on. A large bureaucratic government could undermine civic participation.

Amalgamation Isn't Necessary

Amalgamation isn't necessary. Many of the most successful cities in the world are actually

sters of communities. Silicon Valley is comprised of 40 different municipalities, London
land is made up of 33 different boroughs, and Boston is a staggering 282 municipalities.

we need amalgamation to make a bigger impact globally? In fact, many highly successful cities
like Waterloo Region, diverse clusters of communities working together.

Conclusion

Conclusion, why would anyone want to pay more for fewer services, less representation,
inished democracy, and reduced control, while facing a significant loss of community and
ntity, along with staggering odds that things aren't going to work out nearly as well expected?

are already the envy of the world. Our current community structure isn't a problem to be
ved, our diverse community of communities working together are a large part of the reason for
success.

Please find attached below materials and research that I have forwarded to the Special
Advisors Ken Seiling and Michael Fenn showing the decreasing community engagement and
increasing costs as community size increases.

I have also attached my Presentation to the Region of Waterloo, an Open Letter from Waterloo
Mayors that I helped draft back in 2010 and a presentation from Jan D'Ailly exploring the
optimal size for municipal service delivery.

Hopefully this is helpful.

Please let me know any questions, interest in further information or follow-up.

Thanks again!
Kevin.

Kevin Thomason Presentation:

Speakers Slides:

Open Letter from Waterloo Mayors October 2010:

Slide presentation from Jan D'Ailly on the optimal size of government for service delivery:

Supporting Documents - regarding the optimal size of governments for service delivery (ideally between 50,000 and 200,000 people) and the declining economies of scale in larger urban formats - CD Howe Institute, Monk School of Global Affairs, Institute on Municipal Finance & Governance, Fraser Institute, and Atlantic Institute research:

Supporting documents - regarding the level of activity and engagement of citizens in small communities vs. large cities

City Size and Civic Involvement - American Political Science Review

<https://www.cambridge.org/core/journals/american-political-science-review/article/city-size-and-civic-involvement-in-metropolitan-america/79BF05C93152B6B7179ACBB5CB8D4A82>

"people in larger cities are much less likely to contact officials, attend community or organizational meetings, or vote in local elections. Lower civic participation is attributable partly to differences in social relations and psychological orientation between residents of larger and smaller places. People in big cities are less likely to be recruited for political activity by neighbors and are less interested in local affairs. These differences occur irrespective of the size of the surrounding metropolitan area and demonstrate the importance of municipal institutions for fostering civil society. "

The Effects of City Size, Density and Growth on Local Civic Participation - Journal of Urban Affairs

<https://www.tandfonline.com/doi/abs/10.1111/j.1467-9906.2012.00638.x>

"a relationship between size and participation also emerges when we consider not having that strong sentiment of being a unique community and the externalities of being a small community"

The Democratic Costs of Size: How Increasing Size Affects Citizen Satisfaction with Local Government - Political Studies Journal

<https://journals.sagepub.com/doi/abs/10.1111/1467-9248.12096>

"increases in population size have a negative, small to moderately sized effect on citizen satisfaction and engagement. Although local government consolidations are motivated on economic grounds they have consequences for citizen satisfaction."

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Presentation to the Province of Ontario Regional Review

Special Advisors

April 24, 2019

Provincial Regional Review

0) Slide #0 – Title Slide

Honourable Advisors and Guests,

1) Slide #1 – Open Letter Ad

My name is Kevin Thomason and I am the owner of 1115 Cedar Grove Road, Waterloo. For years I have volunteered with a wide variety of community groups concerned about the many potential negative impacts of amalgamation, including the Grand River Environmental Network which is extremely worried about the potential ecological impacts of governance changes, and upsetting the urban/rural balance that has been so important to the success of our Region.

Be it the Countryside Line, the Protected Countryside, our visionary Environmentally Sensitive Landscapes, or our ESPA's that were some of the first in the world, the Region of Waterloo has lead on so many

initiatives, that have recognized the environmental features and functions that ties our communities together. The Region of Waterloo has put in these leading protections to ensure a high quality of life for everyone, be it on our thriving farms, or in our increasingly successful urban areas that are still defined by our rural heritage, barn-raising spirit, farmers markets, and traditional ways.

We truly have the best of both worlds with seven local governments uniquely meeting the diverse needs of their communities, and a regional government tying it all together with common services and oversight. Our local Municipal Staff and Councillors can regularly be found at our local libraries, parks, and community centres focused on the best local experiences, while I frequently encounter Regional Staff and Councillors at places such as Queen's Park ensuring a strong voice for our community provincially and nationally. We need both layers – one focused internally and the other externally if we are to be world-class, as a single Mayor could not be in both places at one time.

Keeping our urban/rural balance is essential. I don't know anyone who wants to drive our Mennonites off their farms with urban sprawl, however, it is a clear and present danger being witnessed across this province as so many communities continue to grow in unsustainable ways.

In 2010, I helped three past Mayors of Waterloo draft this Open Letter to the community that is before you, clearly rejecting amalgamation.

1) Slide #2 – Amalgamations Don't Work

Quite simply, most amalgamations don't work and have been shown, time and time again to result in significantly higher costs, less representation and bloated, less responsive bureaucracies. They seldom achieve the expected efficiencies or cost savings, and many amalgamated municipalities end up investigating ways to de-amalgamate after learning that bigger isn't always better.

2) Slide #3 – Consistently Rejected

The City of Waterloo and Kitchener have consistently rejected amalgamation since 1857 when it was first proposed. Amalgamation was most recently rejected resoundingly in a two to one ratio by the citizens of Waterloo in 2010, and has been rejected by every other municipality in Waterloo Region at various points in time. Don't even talk to anyone in Cambridge about amalgamation - they are still reeling from 1973....

3) Slide #4 – Unique Communities

The reason why amalgamation has been so consistently rejected for centuries is that we are unique communities – separate cities with very different neighbourhoods, ambitions, priorities and approaches. Each Official Plan demonstrates how much our goals, challenges, budgeting and decision-making processes differ.

I urge you to sit through a Wellesley Township Council Meeting and contrast it to a City of Waterloo or Cambridge Council Meeting. The rural Mennonite issues they give so much time to, differ greatly from the rapid transit, university, or high-tech issues grappled with at these urban Councils. We already have very successful custom governance solutions tailored to the needs of each neighbourhood and community.

4) Slide #5 – Most Corporate Mergers Fail

According to the Harvard Business Review, between 70 to 90 percent of all corporate mergers and acquisitions fail. Any CEO knows that alignment is essential and the companies need to share common strategies, goals, and ambitions if a merger is to succeed.

However, our communities have very different goals and ambitions – some want to grow, some stay just the way they are. The City of Waterloo has an official “Environment First” motto and has taken extraordinary steps to protect vast tracts of natural areas - even repealing their urban boundary, while other area municipalities have prioritized development instead.

Our elected officials know firsthand just how much our approaches and priorities can differ.

If leading companies run by the highest compensated experts, can’t even be successful 70 to 90 percent of the time with far more resources, what makes us think we can be even more successful than we already are, under this rushed review by Doug Ford, who is determined to cut staff, budgets, and resources at every possible opportunity.

While we are glad to have this opportunity to present to you today, given the potential scope and long-term impact of changes that could ensue from this Review, it is absurd that our citizens, businesses, and elected officials have had so little time and opportunity for dialog with the provincial government, MPP’s, and the team leading the provincial review. Given the decades it has taken to create our successful

municipal systems it seems crazy to completely reform them in a span that can be measured in just weeks or a few months. Why the rush? It sure doesn't sound like a recipe for success or good outcomes.

5) Slide #6 – Loss of Representation and Control

We currently have an incredible array of dozens of Councillors from all walks of life representing our communities and neighbourhoods. Yet, with only four full-time municipal politicians in the entire Region, and so many Councillors putting in almost full-time hours, for staggeringly low compensation, we are going to be hard-pressed to find a more effective, economical solution.

Why would we want to get rid of so many hard working people, for just a few, likely much more expensive, Councillors who will struggle to have the same broad impact?

6) Slide #7 – Lower Involvement and Engagement

As other amalgamated cities have discovered, people tend to participate less in larger cities – volunteer rates decline, there are fewer neighbourhood initiatives such as local arts and cultural events, fewer sporting activities and teams, as well as often the loss of local

newspapers when there is no longer a local municipal government to report on.

Being left with only one single, big regional newspaper isn't likely going to be as good as the diversity of community papers we currently enjoy.

7) Slide #8 – Amalgamation Isn't Necessary

Finally, amalgamation isn't necessary. Many of the most successful cities in the world are actually clusters of communities. Silicon Valley is comprised of 40 different municipalities, London England is made up of 33 different boroughs, and Boston is a staggering 282 municipalities.

While some may say that we need amalgamation to “make a bigger impact globally”, it actually appears that almost all of the cities consistently rated as the best in the world are actually diverse clusters of communities working together.

8) Slide #9 – Conclusion

In conclusion, why would anyone want to pay more for fewer services, less representation, diminished democracy, and reduced control, while facing a significant loss of community and identity, increased threats to our environment and farmland, along with staggering odds that things aren't going to work out nearly as well expected?

We are already the envy of the world. Our current community structure isn't a problem to be solved, our diverse community of communities working together are a large part of the reason for our success.

Thank you,

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COMMUNIQUÉ

For release *Tuesday*, March 20, 2001, at 10:00 a.m.

Discredited ideas and Utopian ideals driving municipal amalgamations, says C.D. Howe Institute study

Toronto, March 20, 2001 — Amalgamations forced on municipalities by provincial governments are the product of flawed nineteenth-century thinking and a bureaucratic urge for centralized control, says a *C.D. Howe Institute Commentary* published today. What's more, says the study, smaller and more flexible jurisdictions can often deliver services to residents at lower cost, throwing in doubt the financial assumptions typically used to defend amalgamations.

The new study, "Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First," argues that some provincial governments have been guided by an intellectual fashion of the nineteenth century: an apparently unshakable faith in monolithic organizations and central control. The study's author, Robert L. Bish, Professor Emeritus at the University of Victoria, explains that this flawed thinking is unlikely to suit the rapid change and the need for institutional adaptability that will characterize the twenty-first century. Meanwhile, large and centralized governments will be further removed from their voters, and less able to respond effectively to local needs and choices.

Aside from the intellectual dubiousness of amalgamation projects, says Bish, an extensive review of scholarly research since the 1960s demonstrates that the background assumption that smaller and more numerous jurisdictions provide services at high cost is typically wrong. Small municipalities contract for services with their neighbors, private suppliers, or other providers when it is cost effective to do so, and provide services themselves when that is less costly. In each case, the decision is based on what is technically efficient in specific lines of activity and depends on close familiarity with local conditions. Because distant mega-councils have less information on which to base decisions than do councils closer to their voters, the cost savings that provinces hope to deliver through amalgamation often prove illusory, and services are thus less likely to match voters' wants and willingness to pay.

The key, argues Bish, is local flexibility. Metropolitan areas with numerous local governments and a variety of production arrangements can respond to local needs at less cost than monolithic amalgamations. The superior performance of such "polycentric" structures stems from competition among governments — and from their service

arrangements with outside organizations of various scales, including cooperation in specific tasks with neighboring governments. Decentralization among local governments is no hindrance to economic growth, says Bish: some of the fastest-growing metropolitan areas are also among the most governmentally fragmented. Amalgamation, on the other hand, tends to eliminate the very characteristics of local government that are critical to successful low cost operations.

This *Commentary* is the second in a C.D. Howe Institute series called “The Urban Papers,” which is intended to shed light on a range of issues relevant to local governance.

Robert L. Bish is Professor Emeritus, School of Public Administration and Department of Economics, and formerly Co-Director of the Local Government Institute at the University of Victoria. He has researched, consulted, and published on local government since 1967, and is the author or co-author of numerous books and essays in the field. In 1999, he was commissioned by the British Columbia Ministry of Municipal Affairs to review that province’s regional district system. Dr. Bish is currently working in Guyana, where he is responsible for designing a new system of fiscal relationships between towns and the national government, and for developing a training program for municipal officials.

* * * * *

The C.D. Howe Institute is Canada’s leading independent, nonpartisan, nonprofit economic policy research institution. Its individual and corporate members are drawn from business, labor, agriculture, universities, and the professions.

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“Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First,”
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COMMUNIQUÉ

À diffuser le *mardi* 20 mars 2001 à 10 h

Selon une étude de l'Institut C.D. Howe, les fusionnements des municipalités reposent sur des idées discréditées et des idéaux utopiques

Toronto, le 20 mars 2001 — Les regroupements qui ont été imposés aux municipalités par les administrations provinciales sont le résultat d'un raisonnement défectueux qui remonte au XIX^e siècle et d'un penchant bureaucratique pour un contrôle centralisé, indique un *Commentaire de l'Institut C.D. Howe* publié aujourd'hui. De plus, révèle l'étude, les compétences de taille moindre et donc plus souples peuvent souvent offrir des services à moindre coût aux résidents, mettant en doute les hypothèses financières généralement utilisées pour défendre les fusionnements.

Cette nouvelle étude, intitulée « Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First » (« Les regroupements des administrations locales : des idéaux discrédités du XIX^e siècle sont encore défendus au XXI^e siècle »), soutient que certaines administrations provinciales ont été guidées par une tendance intellectuelle chère au XIX^e siècle, soit une foi apparemment inébranlable dans les organismes monolithiques et un contrôle centralisé. L'auteur de l'étude, M. Robert L. Bish, professeur émérite à l'Université de Victoria, explique qu'il est improbable que ce raisonnement défectueux soit valable, compte tenu des changements rapides et des besoins d'adaptabilité des institutions qui caractériseront le XXI^e siècle. Dans l'interim, les administrations centralisées et de taille importante sont encore plus éloignées de leurs électeurs et moins en mesure de réagir avec efficacité aux besoins et aux choix locaux.

Exclusion faite du caractère douteux des projets de regroupement, explique M. Bish, un examen approfondi des recherches universitaires faites depuis les années 60 indique que l'hypothèse de base selon laquelle les compétences de moindre taille et plus nombreuses fournissent des services à un coût plus élevé est généralement erronée. Les petites municipalités passent des contrats de services avec leurs voisins, des fournisseurs du secteur privé et d'autres prestataires de services lorsqu'il est rentable de le faire, et fournissent les services elles-mêmes lorsque ça leur coûte moins cher. Dans tous les cas, la décision se fonde sur ce qui est techniquement efficient dans certaines lignes d'activité et dépend d'une familiarité étroite des conditions locales. Étant donné que les méga-conseils municipaux éloignés disposent de moins de renseignements sur lesquels fonder leurs décisions que n'en ont les conseils qui sont plus près de leur électorat, les réductions de coût que les provinces espèrent réaliser grâce aux fusionnements sont souvent illusoire, et les services seront moins en mesure de jumeler les désirs des électeurs et leur disposition à payer.

La clé repose sur la souplesse à l'échelle locale, soutient l'auteur. Les régions métropolitaines assorties de nombreuses administrations locales et d'une diversité de choix de production peuvent subvenir aux besoins locaux à moindre coût que les regroupements de municipalités monolithiques. Le rendement supérieur de telles structures « polycentriques » provient de la concurrence entre les administrations — et des dispositions de services qu'elles ont prises avec des organismes externes de taille diverse, dont la coopération à l'égard de tâches particulières avec des administrations voisines. La décentralisation des administrations locales ne nuit aucunement à la croissance économique, affirme M. Bish : certaines des régions métropolitaines qui connaissent un essor rapide figurent également parmi celles qui sont les plus fragmentées. Le regroupement, par contre, tend à éliminer les caractéristiques mêmes des administrations locales qui sont essentielles aux opérations réussies à moindre coût.

Ce *Commentaire* est le deuxième d'une série de l'Institut C.D. Howe appelée « Les cahiers urbains » et qui vise à jeter de la lumière sur toute une gamme de sujets relevant de l'administration locale. Robert L. Bish est professeur émérite à l'École d'administration publique et au Département d'économie, et ancien codirecteur du Local Government Institute à l'Université de Victoria. Depuis 1967, il a mené des recherches, fourni des conseils et publié de nombreux articles sur les administrations locales. Il est auteur et coauteur de nombreux ouvrages et dissertations sur le sujet. En 1999, il a été chargé par le ministère des Affaires municipales de la Colombie-Britannique de passer en revue le système de districts régionaux de la province. Professeur Bish travaille actuellement en Guyane, où il est chargé de concevoir un nouveau régime de relations financières entre les villes et le gouvernement national, et de mettre au point un programme de formation des représentants municipaux.

* * * * *

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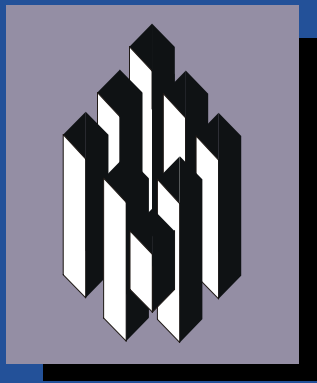
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The Urban Papers

Local Government Amalgamations

*Discredited Nineteenth-Century
Ideals Alive in the Twenty-First*

Robert L. Bish

In this issue...

In the rapidly changing world of the twenty-first century, flexible local governments are better able to provide services at less cost than monolithic amalgamations.

The Study in Brief

The twenty-first century will be one of rapid change and great need for institutional adaptability. Yet, in the critical area of the relationships among citizens, the civil community, and local governance, some provincial governments are imposing an intellectual fashion of the nineteenth century in the form of an almost religious faith in monolithic organizations and central control.

This *Commentary* undertakes a comprehensive review of 50 years of evidence on the relationship between the structure and performance of local governments in metropolitan areas. That body of evidence strongly suggests that, given the diversity of communities and local services, no single organization can perform all the tasks demanded of local government.

Metropolitan areas composed of a multiplicity of local governments and production arrangements are more responsive to residents' needs and generally provide local government services at less cost than monolithic amalgamations. The superior performance of such a polycentric structure for local government stems from rivalry among governments and from their use of a variety of production relationships with organizations of various scales, including cooperation with one another. In addition, multiple local governments are no hindrance to economic growth — indeed, some of the fastest-growing metropolitan areas are also among the most governmentally fragmented. Amalgamation, on the other hand, tends to eliminate the very characteristics of local government that are critical to the most successful and least costly systems.

Most important, however, is that policymakers need to change their way of thinking about urban governance, from the obsolete and discredited idealization of large hierarchical organizations to a research-based understanding of the conditions under which cities can function successfully and meet the needs of Canadians in urban areas into the future.

The Author of This Issue

Robert L. Bish is Professor Emeritus, School of Public Administration and Department of Economics, and formerly Co-Director of the Local Government Institute at the University of Victoria. He has researched, consulted, and published on local government since 1967, and is the author or co-author of numerous books and essays in this area. In 1999, he was commissioned by the British Columbia Ministry of Municipal Affairs to undertake a review of that province's regional district system. Dr. Bish is currently working in Guyana, where he is responsible for designing a new system of fiscal relationships between towns and the national government, and for developing a training program for municipal officials.

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The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

— John Maynard Keynes

There is every reason to believe that the twenty-first century will see even more rapid changes and a greater need for adaptability of ideas and institutions than the twentieth. Yet, in a critical area of policy — the relationship between citizens, the civil community, and governance — some provincial governments are pursuing and imposing the intellectual fashions of the nineteenth century as if those fashions were the embodiment of “common sense.” Single governing councils and large organizations are simply incapable of dealing with the diverse range of issues that governments must deal with in urban areas. The diversity of metropolitan areas requires close links to citizens and the ability to handle a wide variety of activities on a small scale. For some activities, on the other hand, the commonality of an entire metropolitan area requires mechanisms capable of integrating local diversity. The current weight of the evidence is that *no single organization can accomplish these tasks*. Furthermore, when there is a multiplicity of small municipalities in metropolitan areas, the costs of governance are lower, not higher, and, moreover, the political system is more representative. The issue at

I have studied and written about the structure of local government and amalgamation issues since 1971, and I owe a tremendous debt to Professor Vincent Ostrom as both a teacher and colleague. Vincent, along with Charles Tiebout (1956) and Robert Warren (Ostrom, Tiebout, and Warren 1961), raised many serious concerns about large urban governments far before such concerns were widely recognized. I had the privilege of writing early work on this topic in collaboration with both Vincent (Bish and Ostrom 1973) and Robert Warren (Bish and Warren 1972), and later again with Vincent and Elinor Ostrom (Ostrom, Bish, and Ostrom 1988). It has been rewarding to see the tremendous increase in empirical research since those early days, and even more rewarding to see that the ideas proposed by a small group of scholars nearly half a century ago provide questions and conceptual approaches suitable for the even more rapidly changing twenty-first century. Because not all the related work could be cited in this *Commentary*, other relevant work is included in the bibliography and reference list for those who wish to pursue these issues further. More recently, I have been privileged to work with Jim McDavie, Dale Poel, and Andrew Sancton in monitoring the creation of the Halifax Regional Municipality. As a market-oriented economist, I have always considered governance (or demand) to be of equal importance to production (supply), but I thank Ron Oakerson (1999) and Andrew Sancton for reminding me of the importance of a sense of community that was also important in the early work of Ostrom and Warren, but that, as an economist, I had neglected over the years.

I wish to thank Jim McDavie, Dale Poel, Andrew Sancton, Mark Sproule-Jones, anonymous reviewers, and C.D. Howe Institute staff for comments on earlier drafts of this paper. All observations, conclusions, and opinions presented, however, are my responsibility.

hand is how the necessary multiplicity of organizations can be created and how they can relate to one another so that the system as a whole is efficient, responsive to citizens, and adaptable to changing conditions. This organizational challenge also poses an intellectual challenge, but similar intellectual challenges have been encountered before.

In the late eighteenth century, Adam Smith, among others, asked how it was that individual consumers and businessmen, each acting in his or her own self-interest, could create higher living standards for all. Understanding this was crucial because only with decentralized decisionmaking could the growth that comes from specialization and trade be realized. Smith was not an advocate of simple *laissez-faire*; he recognized the importance of government for certain tasks and the problem that businessmen would collude to create monopolies (often in cooperation with government) to take advantage of consumers. The subsequent century was characterized by tremendous market success, abuses of monopoly power by industrialists, and, in many places, corruption in governments. One response to those excesses was the idealization by intellectuals of bureaucracy, partly because of the successes of the Prussian bureaucracy. By the end of the nineteenth century, the intellectual ideal was the planned economy based on socialist principles and unitary political systems and with a professional bureaucracy. It was expected that such economies would replace the chaos of markets, the rivalries of federalism, and corrupt politicians. Since then, we have seen the economic results of socialist planning in the Soviet Union, North Korea, and Albania, among others, while the most successful societies have learned to use government and changes in law to moderate abuses in markets. Likewise, we have learned to make governments more honest, not by simplifying them and giving more power to bureaucracies, but by making them more accessible to citizens, increasing checks and balances, and creating human rights codes and international institutions based on federalist principles on a multinational scale, especially in Europe. The evolution of institutions based on markets, checks and balances, and human rights codes has coincided with ever-higher living standards in the countries that have adapted to these changes. As a result, centralized socialist planning and unitary political systems run by professionals have lost all relevance to policy. They live on, however, in the debates over the organization of local government.

Centralized socialist planning and unitary political systems run by professionals have lost all relevance to policy. They live on, however, in the debates over the organization of local government.

While less visible, both the debates and the changes in the organization of local government follow patterns of markets and federal systems. This *Commentary* describes what is known about the relationship between structure and performance of local governments, especially in metropolitan areas. This examination also provides an indication as to what principles are most helpful for local government organization in the twenty-first century.

What is known about the relationship between the structure and performance of local governments is presented in five sections. The first section is a very brief history of ways of thinking about local government organization. The second is a brief summary of observations on governance. How governance is organized is just as important as the organization of production, because governance is the process through which citizens' wishes are expressed, and for any evaluation of efficiency the demand side of an economic analysis is just as important as the supply side. The third section reviews evidence about the production of local

government services and the arrangements under which those services are likely to be produced most efficiently. The fourth section summarizes evidence about the relationship between government organization and costs; the fifth section indicates how organization for responsive governance and efficient production fit together and makes some observations about Canadian systems. The final two sections summarize the conclusions and describe what the evidence shows to be the most important policy recommendations for local government for the twenty-first century, rather than the nineteenth.

Thinking about Local Government

The religious-like idealization of professional bureaucracies by intellectuals was also applied to local governments.

The religious-like idealization of professional bureaucracies by intellectuals at the end of the nineteenth century was also applied to local governments (Ostrom 1973). The evolution of a multiplicity of local governments in metropolitan areas was viewed as chaotic, and the ideal structure was codified in university texts and other scholarly writing early in the twentieth century. The consensus of the age is expressed well in a 1925 book (Anderson 1925, 641–642):

- Each major urban area should have only one unit of local government. This would allow for area-wide planning, economies of scale in service production, and the extension of infrastructure to the entire area. Today, we would call this a “single-tier” model in which the tier encompasses the entire metropolitan area.
- The voters should elect only the most important policymaking officials, and these should be few in number. At-large elections were recommended so that the council would represent the city as a whole, not its different parts.
- Administration should be separated from politics; there should be a single chief administrative officer, and specially trained public servants staffing the bureaucracy. Implied in the desire for specially trained public servants is both a rejection of patronage appointments and the assumption that the public servants would use modern management techniques.

Small governments were considered unprofessional and inefficient, and fragmentation of authority, either within a government or among multiple local governments, was viewed as a source of weakness that would prevent coordination. Only with a single, professionally organized government, it was believed, could an urban area be governed properly and public services produced efficiently. These ideas dominated the first half of the twentieth century and reappeared from time to time in the second half.

By the 1960s, serious questions were being raised about metropolitan-wide single-tier governments. One reason was that people in different areas had different problems and appeared to prefer different local services. Another was that local governments needed to be small enough to be part of the civil community and not remote from local issues (Kotler 1969). Still another reason was the simple practical observation that most services did not possess economies of scale — that is, that the costs of production did not fall as production was undertaken on a larger and larger scale but rose instead (Hirsch 1970). One solution that emerged was a “two-tier” system, in which some services would be provided by a lower tier and others

by a second, or higher, tier. These two-tier systems were of two types. One superimposed a metropolitan government on top of independent municipalities — as was done in Toronto in 1953 and in Winnipeg in the early 1960s. The other abolished the existing municipalities and imposed a metropolitan government with some kind of provision for community representation within the larger structure, as was done in Winnipeg in 1972, more recently in Halifax in 1996, in Toronto in 1998, and is currently proposed for five areas in Quebec. The older two-tier systems have not endured; most notably, attempts at decentralization appear to fail when they come into conflict with the quest for uniformity by a large professional bureaucracy.

Local governance is providing the great majority of citizens with local services at a reasonable cost.

A fundamentally different challenge to the single-tier system arose primarily among scholars who built on the emerging economic theory of public goods and on theories of the operation of polycentric systems (such as the theory of markets and the theory of federal systems). What emerged was a fundamentally different way of understanding how a public economy works in a metropolitan area.¹ This approach began with a very simple idea: Local governance, especially in metropolitan areas, is increasingly complex, and it is providing the great majority of citizens with local services at a reasonable cost. Should we not try to understand how such systems actually work before recommending a replacement? This question is analogous to the one Adam Smith faced 200 years earlier when, in the face of the emergence of increasing complexity in the economy, he tried to explain how it worked rather than continue to advocate the central planning of mercantilism.

Called “public choice,” this approach criticizes the tier system from two points of view:

- If we want governments to respond to citizens’ wishes, the nature of public goods and services may require more than one or two governments, some varying by scale (from community to regional) and others by function (such as municipal services, education, health, social services, and so on). There is no magic number.
- If we want the production of local services to be efficient, the organization of production by one large monopolistic bureaucracy is unlikely to achieve that objective, for two reasons. First, different activities possess different scale

1 The classic article in economics is Charles Tiebout’s “A Pure Theory of Local Expenditures” (1956) and in political science, Ostrom, Tiebout, and Warren’s “The Organization of Government in Metropolitan Regions: A Theoretical Inquiry” (1961). The first summary and application of rational choice theory to the structure of local government is in my *The Public Economy of Metropolitan Areas* (Bish 1971), and one of the early critiques of amalgamation and advocacy of the use of public choice theory is in Bish and Vincent Ostrom’s *Understanding Urban Government: Metropolitan Reform Reconsidered* (1973). A recent contribution is Ronald Oakerson’s *Governing Local Public Economies: Creating the Civic Metropolis* (1999). An edited collection that includes many of the classic articles on local government is *Polycentricity and Local Public Economies*, edited by Michael D. McGinnis (1999). An exposition of the importance of public choice theory in influencing the way the organization of local government is thought of by non-public-choice scholars is provided in G. Ross Stephens and Nelson Wikstrom, *Metropolitan Government and Governance: Theoretical Perspectives, Empirical Analysis, and the Future* (2000). Although the same theoretical debates over the structure of local government have not taken place in Canada, the work of many Canadian scholars is consistent with public choice theory, and two major Canadian economists, Albert Breton and Anthony Scott, were early contributors to the general literature on how federal systems work (Breton and Scott 1978).

characteristics, and no single organization is the right size to produce all of them efficiently. Second, it is unlikely that any large monopolistic producer (be it public or private) will operate efficiently.

These two starting points, the first commonly the domain of political scientists and the second the domain of economists, have stimulated critiques of the proposals for one- and two-tier systems and major research efforts to understand how polycentric systems actually function. This research has been done primarily by economists and political scientists, often together and with considerable integration between the disciplines. Most important, this research is based on the idea that one must take into account simultaneously (1) the preferences of citizens and other actors in the system; (2) the nature of the good or service desired; and (3) the structure of the institutions through which demands are expressed and production decisions made (Bish 1971).

Institutional arrangements are intended to serve citizens and consumers first, and any benefits to others should not be extorted through the coercive power of government.

This research involves both value judgments and attempts to predict the consequences of a change in the organization of local government or the production of local services. The primary value judgment is that institutional arrangements are intended to serve citizens and consumers first, and that any benefits to politicians, administrators, and bureaucrats in the case of government, and to business owners, executives, and employees in the case of firms *are earned by producing benefits for citizens and consumers* and not extorted through the coercive power of a government or a monopoly position in a market. These values are also those found in the writings of classical liberals including Adam Smith's *The Wealth of Nations* and James Madison and Alexander Hamilton's *The Federalist*, on which this approach builds (Bish 1987). The normative values, however, are also held by many scholars who use different frameworks in their research, especially those who describe themselves as classical liberals.

Governance

Governance includes processes through which local governments are created or changed and responsibility for different functions is determined; processes by which citizens select officials, perhaps vote directly on specific initiatives, and communicate with officials either individually or through groups; processes by which officials decide what to regulate or produce, how to implement regulation or organize production, and how to finance government and its activities. In Canada, provincial governments set the rules of procedure for local governments and the limits on their jurisdiction. Different provinces, however, undertake the creation of and changes to local governments very differently and make very different rules for their operation.

Organization

Local governments are organized to provide services that are either mandated by provincial governments or determined to be desirable by groups of residents. The organization of local governments and the functions they undertake must be responsive to the spatial patterns of development in an urban area.

The spatial patterns most important for the organization and operation of local government include the historical evolution of a central city dominated by a downtown business core and a nearby manufacturing or warehousing area adjacent to the principal means of transportation (originally train or ship), both of which were surrounded by sectorally divided rings of residences. The three main kinds of neighborhoods were those where the number of employees during the day outnumbered the number of residents, those where there were about the same number of residents and employees, and those that were almost exclusively residential. As urban areas grew, the most common pattern was that different areas outside the central city incorporated themselves into different local governments, often with increased specialization internally and greater differentiation from their neighbors (Weber 1967; Mumford 1961; Bish and Nourse 1975; Logan 1976; Fisher and Wassmer 1998). Historically, the different areas in the central city preferred and needed different kinds of local public services, as do the different local government areas today. Once a neighborhood or local government has an image, the businesses and residents attracted to the area are those that prefer what it has to offer, and they reinforce adherence to the image (Speight 1968; Mansbridge 1980; Briffault 1996). Furthermore, local government boundaries often help create a civil community for nongovernmental activities (Briffault 1996, 1125–1126).

The evolution of local governments that have different images and offer different kinds and levels of local services has occurred in every large North American metropolitan area.

The evolution of local governments that have different images and offer different kinds and levels of local services has occurred in every large North American metropolitan area. Charles Tiebout (1956) recognized that when local governments offer different levels and kinds of services, businesses and residents are better able to satisfy their preferences for different levels of services and taxation by having several local governments among which to choose. Several political scientists have questioned whether citizens know enough about taxes and services to make such choices (see, for example, Lowery et al. 1995), but surveys of citizens who are actually moving (in contrast to surveys of all residents) reveal that their knowledge of local taxes and services is equal to that possessed by consumers in private markets (John et al. 1995; Percy et al. 1995; Teske et al. 1973). The surveys also show that local government taxes and services are taken into account, although they are not the most important factors in the choice of a business or residential location.

Further research clarifies that different governments or arrangements that encompass the different geographic scales of various activities are also needed in order to supplement smaller local units (Ostrom, Tiebout, and Warren 1961; Bish 1971). This is consistent with the observation that all metropolitan areas have governments or joint governmental arrangements for responsibilities such as schools or health and for regional activities such as transit, sewage treatment, and economic development, as well as other regional organizations, such as arts councils and the United Way, that contribute to a regional sense of a civil community. The result is a multiplicity of organizations and organizational arrangements on both a small and a large scale (Atkins, Dewitt, and Thangavelu 1999).

Although the evolution of patterns of local government in growing urban areas has been similar across North America, different areas have emerged with central cities of different sizes, and some state or provincial governments have reorganized their local governments, usually trying to make the system simpler, as in the recent amalgamations in Ontario, New Brunswick, and Nova Scotia. Other jurisdictions,

including Alberta and British Columbia, have left municipal organization up to local initiative. The differences that have emerged also provide the opportunity for systematic research on the consequences of differently organized local governments.

Citizen Representation

For governments to be responsive and efficient, citizens must be able to make their wishes known. The means by which this is done include public meetings, hearings, elections, and direct contact with officials. The traditional view is that such processes are more effective in smaller governments, a view that is supported by systematic research (see, for example, Dahl and Tufte 1973; Smith and Stewart 1998; Shepard 1975). Researchers draw the following conclusions:

- The larger the government, the more likely that well-organized groups with special interests will dominate public hearings and meetings and that unorganized citizens will participate less.
- Voter turnout in local government elections tends to be higher in smaller local governments. In a detailed analysis of different sizes of local government in British Columbia, Smith and Stewart (1998) find that the larger the government (if elections are at large) or constituency, the lower the voter turnout. Sproule-Jones and Klaveren (1970–71) find the same result for referendums: the smaller the government, the higher the turnout. These comparative data are consistent with before-and-after studies. For example, after the amalgamation of the City of Jacksonville and Duval County, Florida, voter turnout fell by an average of 18 percent (Seamon 1995).
- The smaller the government, the more similar are citizens' and councillors' attitudes toward policy questions.
- The larger the government and constituency, the more expensive it is to campaign for office; in larger governments, campaign donations from special interest groups become critical.²

The smaller the government, the more similar are citizens' and councillors' attitudes toward policy questions.

Large municipalities that keep their constituencies small to overcome representation problems encounter a different problem — namely, that councils are too large for effective decisionmaking and it is hard to create committees that truly represent the entire council (Bish 1971, chap. 3). Some political scientists feel that the only way these large systems can function adequately is with a strong municipal party system (Smith and Stewart 1998), but evidence from the eastern United States, where local government elections are party based, shows that a single party usually comes to dominate the government. State governments have recognized this and have sometimes reorganized local governments specifically to change the winning party, as in the case of the Indianapolis-Marion County merger, where, by combining the suburbs and the central city, the dominant party changed from Democratic to Republican (Bloomquist and Parks 1995b).

² Bish (1999e) provides detailed statistics on the costs of campaigning in the 12 municipalities of the capital region of British Columbia and some comparisons with larger municipalities in that province.

On balance, citizens are represented better in smaller local governments. Elected officials are more likely to be representative of their constituents, and policymaking is easier because smaller local governments possess an image that all tend to understand and want to reinforce (Nelson 1992; Martins 1995; Schwartz 1988; Speight 1968). Systems that include small governments can also deal with regional issues, and all metropolitan areas have developed institutional arrangements for dealing with both large- and small-scale problems.

Several issues arise, however. First, a multiplicity of governments in an urban area does not in itself mean that the system will function well — just as a multiplicity of organizations in markets does not guarantee success. Successful market systems depend on a framework of laws and property rights; likewise, in Canada, local government systems depend on the legal framework the provincial government provides. If one has a religious-like faith in large bureaucracies, any system of many governments will appear chaotic — just as markets appeared chaotic to Adam Smith's precursors (and are still difficult for many of us to comprehend). When one looks more closely at metropolitan areas composed of a multiplicity of governments, however, systematic patterns can be seen and features of successful systems can be identified. Among the most important characteristics, for governments of all sizes, is "fiscal equivalence."

Fiscal Equivalence

Councillors faced with a decision about service provision in a small municipality are strongly influenced by financing considerations because even low-cost items can make a difference in tax rates or user charges for their constituents. But as governments get bigger, councillors tend to spend less time on the financing of individual programs or projects that represent a diminishing proportion of their growing budget; large governments are also more responsive to special interest programs and projects than are small governments.

Fiscal equivalence exists when citizens who benefit from the expenditure are those who make or influence the decision and pay its costs.

The incentive system for encouraging councils to make efficient expenditure decisions has come to be called "fiscal equivalence" (Olson 1969). Fiscal equivalence exists when citizens who benefit from the expenditure are those who make or influence the decision and pay its costs.

When the beneficiaries also pay the costs, they have an incentive to choose an efficient level of service. Such internalization is not as "perfect" as it can be with individual purchases in a market, but it is as good as we can achieve for government activities. Fiscal equivalence can apply to individuals who benefit from a service such as a swimming pool or parking space, or to small groups such as hockey teams that use the local arena, the user charges being analogous to prices paid in markets.³ Although user fees are charged for some specific services, local governments also provide a variety of general services for their residents and levy taxes to pay for them. In the latter case, the demand for services will be less clear than that for a single service for which a fee is charged, but it is still important that local citizens are able to influence directly the choice, and pay the cost, of the services to be provided. Such citizens are analogous to members of a consumer cooperative. By

³ For an exposition of the user fee argument, see Kitchen (2000). The concept of fiscal equivalence extends that argument to the groups of people that make up the local municipality itself.

grouping together, they obtain greater benefits than they could individually, but they are still responsible for what is provided and how to pay for it (Bish 1999a).

Fiscal equivalence also has a temporal dimension in that current beneficiaries should pay for their current benefits and not pass those costs on to future residents. Only where a high degree of fiscal equivalence exists do councils have the incentive to compare the effect of both costs and benefits on their citizens, and without such an incentive there is little reason to expect that efficient expenditure decisions will be made. Individual units in complex systems of any kind, including local governments in metropolitan areas, need incentives to balance costs and benefits in their decisionmaking if the system as a whole is to be stable and well functioning. Fiscal equivalence for local governments is unlikely to be achieved perfectly, just as all market transactions cannot internalize all externalities, but some systems are much better than others in meeting this criterion.

Local governments in Canada vary in the degree to which they exhibit fiscal equivalence. Systems of small local governments, such as British Columbia's regional district system, have very high levels of fiscal equivalence. Larger municipalities often attempt to achieve fiscal equivalence by creating special benefiting areas in which properties are taxed specifically for a specific service (Vojnovic 2001). Halifax Regional Municipality has over 60 such areas (1997), while, in the United States, Indianapolis–Marion County has over 100 separate taxing areas within its boundaries (Bloomquist and Parks 1995a). If large governments do not use special taxing areas, there is an incentive for each small area to request a greater expenditure than it will have to pay for because the costs will be spread over the larger jurisdiction. And with the bargaining that goes on in ward-based councils, there is an incentive to vote for other people's projects so they will vote for yours. The net result is not only larger expenditures but expenditures for services that cost more to provide than the value that recipients place on them.

If large governments do not use special taxing areas, there is an incentive for each small area to request greater expenditure because the costs will be spread over the larger jurisdiction.

When one examines the match between beneficiaries and those who bear the costs, it is important to realize that different activities may need to be undertaken at different scales. For example, some activities, such as social services, should not be assigned to small governments because of the unfairness of asking the residents of a local government jurisdiction to pay for services whose recipients are unevenly distributed over a metropolitan area or province (Bish 1971, chap. 7).

Assigning the funding of social services to small local governments also creates incentives for the municipal council to adopt policies that discourage potential recipients of services from living in their municipality. These policies can include zoning restrictions on low-cost housing, rigorous enforcement of housing codes that results in housing costs that social services recipients cannot afford, and residential neighborhoods that are poorly served by public transit (Bish and Nourse 1975, chap. 9). When local government is responsible for the financing of social services, there is often pressure to increase the geographic scope of the government. But with larger local government comes diminished governance, so that, in most provinces, social services are funded by the provincial government.⁴

The traditional observation that small local governments are more democratic and representative of their citizens has been supported by extensive research in

⁴ In Ontario, funding of social services takes up 25.1 percent of municipal budgets, while in the rest of Canada it averages 1.2 percent (Kitchen 1999).

North America and Europe. Although these benefits are recognized, it has been argued that they should be sacrificed for other benefits: lower costs and better regional coordination. One cost of government is that of elected officials themselves.

Only a few studies have been made of the cost of elected officials. Bish (2001) compares the costs of 88 elected officials and their support staff in 13 governments with the costs of 23 elected officials in an amalgamated government serving the same population. The study concludes that the per capita costs of both were low (less than one-half of 1 percent of expenditures) and, moreover, that because of the higher salaries and larger support staff for the fewer officials in the amalgamated government, the per capita costs in the two systems were virtually identical: \$4.55 in the amalgamated system and \$4.59 in the 13 small governments. Lightbody (1998) finds similar per capita costs in comparing the Calgary and Edmonton areas.⁵ In neither of these cases was there a second set of elected officials, but in general governance costs are a trivial part of the overall cost of local government (Price Waterhouse 1996). The real costs are in the delivery of services, and the critical question is what incentives there are for councillors to make decisions that will lead to those services being delivered efficiently.

Governance costs are a trivial part of the overall cost of local government. The real costs are in the delivery of services.

The Production of Local Government Services

Even when it is recognized that smaller local governments provide better opportunities for citizens to express their wishes and are more responsive to those wishes, and that the cost of elected officials is extremely small, a traditional argument against small governments has been that the benefits of cost savings from a large metropolitan-wide government would offset the sacrifices of giving up smaller local governments.

This section describes the nature of local government services and analyzes economies and diseconomies of scale, the effects of competition on service production, the relationships among government size, structure, and costs, and the relationships between the organization of production and efficiency.

The Nature of Local Government Services

The various services local governments provide have very different production characteristics. A few, such as water supply and solid waste disposal, require large capital investments and have outputs that are relatively easy to measure; others, such as police patrols, are labor intensive and difficult to measure. This diversity

⁵ Lightbody agrees that the total cost of elected officials is very small. He also concludes, however, that the smaller number of local governments in the Calgary area leads to costs of governance that are lower than those in the Edmonton. This conclusion is biased by Lightbody's use of 1981 metropolitan area boundaries, which include eight very small villages and summer villages that are located up to 100km from Edmonton, while excluding municipalities — such as Okotoks, High River, Strathmore, and the Municipal District of Foothills — that are much closer to Calgary. Harrington (1999), who corrects for geography and uses the same year in each for expenditure data, finds that governance costs are higher in Edmonton than in Calgary. It should be noted that in neither British Columbia nor Alberta are two sets of general local government officials elected from the same area, as they are in Ontario's two-tier systems.

The diversity of local government services makes it impossible for any one organization to be an efficient producer of all of them.

makes it impossible for any one organization to be an efficient producer of all local government services. The production environment is even more complicated because within any one “function” (say, policing), different “activities” (such as police patrols, homicide investigation, crime laboratories, and so on) possess significantly different characteristics. In general, activities that require large capital investments are easy to measure, are needed only rarely, possess economies of scale in relation to the population served, and may be produced most efficiently for large populations. In contrast, activities that are labor intensive, difficult to measure, and performed frequently and regularly are likely to possess *diseconomies* of scale — that is, the average costs actually increase with the size of the organization producing the service. Adaptation to the diverse production characteristics of local government services has resulted in production systems consisting of organizations of many different sizes, especially in urban areas, and exhibiting much more complexity than the organization of local governments themselves. In so adapting, local governments have learned to contract out or enter into joint agreements for the production of many activities, but they report expenditures only for complete functions, and provide no information as to how production itself was actually organized or undertaken.⁶

The difficulty of comparing local government expenditures with production arrangements is also complicated by the observation that few production organizations in either the public or private sector operate as efficiently as they could. There are several explanations of the differences between economists’ simple models of perfectly functioning firms and the actual performance of firms, the most thorough of which are those of Liebenstein (1966; 1987) and subsequent scholars (such as Frantz 1997), who examine what they label “micro-micro economics.” One of their most important observations is that organizations perform more efficiently when there is some, but not too much, rivalry or competition. Apparently, the existence of some competition provides a stimulus to managers to try continually to improve efficiency, but too much competition results in an environment where responses are less effective at improving the performance of the organization. Although Liebenstein’s initial research was undertaken to explain why private monopoly producers prefer to be inefficient rather than to reduce output and raise prices to increase profits (as predicted by microeconomic theory), his observations are also relevant to the study of local government production, where producing organizations may also be monopoly producers.

In addition to the observation that organizations do not function as efficiently as they might, other analysts (Landau 1969; Miranda 1995) have noted that it is

6 Data collected by Statistics Canada and provincial governments on expenditures for separate local government functions, in contrast to total expenditure, are unhelpful here. This is because the categories used do not resemble the internal departmental structures of local governments. For example, protective services include fire and police, which are usually organized in separate departments, but inspections may be part of a planning or engineering department. The smaller the government, the more serious is the problem. In a typical small government, an engineering group will look after roads, drainage, the water supply, sewers, inspections, and facilities in parks, but its budget will not be differentiated according to the amount of time spent on each of these functions and the group will have no incentive to report accurately the costs of dealing with them. Moreover, expenditures do not indicate whether those for different activities within the category were incurred as part of an in-house production organization or by purchasing a good or service from another organization.

*Local governments
also require excess
capacity and
redundancy.*

important for both an organization and an economy to possess some excess capacity and redundancy. Excess capacity in an organization provides a margin of safety for unanticipated problems, and firms in a market economy must possess excess capacity to enable consumers to switch purchases from one firm to another. Local governments also require excess capacity and redundancy, but this is usually reported as inefficiency. It is this kind of inefficiency that socialists and central planners hoped to eliminate. Unfortunately, however, eliminating redundancy in a government organization also appears to eliminate its capacity to adapt to changing conditions.

The diverse activities of local governments and their possible role as monopoly providers of services within a geographic area mean that, if local government service production is to respond efficiently to citizens' wishes, local councils must overcome two critical problems simultaneously. First, they must obtain services from organizations that are of an appropriate scale to be efficient producers. Second, they must try to avoid obtaining services from a monopoly producer; if that is not possible, they need to be able to offer incentives to encourage producing organizations to be efficient. Neither problem is new, and both have been well described in the urban government literature since the 1970s (see, for example, Bish and Warren 1971).

Economies and Diseconomies of Scale

Three methods of determining the scale at which a local government activity is produced most efficiently have been described in the literature, but none of them provides definitive answers (Hirsch 1970).

The earliest method is the engineering/accounting approach, in which unit costs are calculated for outputs, often with a distinction between average and incremental cost, and optimum sizes are determined in relation to different levels of capital investment. This method works reasonably well for engineering activities of similar scale where measurement and management are relatively easy. It does not work well for very large increases in size or complicated projects because the engineering/accounting approach implicitly assumes that management always functions efficiently and that no diseconomies are introduced by loss of management control as projects become larger. This method, by assumption, has eliminated the most significant reason for diseconomies of scale — the loss of management control in large organizations. Cost overruns on large projects in both the private and public sector also indicate that this is not a good assumption. Similar methods of estimating the consequences of major governmental reorganization such as the amalgamation of Halifax, Bedford, Dartmouth, and Halifax County into the Halifax Regional Municipality, have demonstrated similar problems, as this *Commentary* will show later. The engineering/accounting method is useful for small projects or reorganizations, but not large ones.

A second method is a statistical estimation of an average-cost-of-production curve to determine the lowest-cost size range. These studies assume that the organizations included in the sample are themselves producing efficiently or that any deviance is distributed randomly. There are, however, several problems with these statistical studies, three of which are especially important. First, they tend to

be of entire functions, not individual activities within functions. Second, outputs are often difficult to quantify in terms of quality and quantity and most studies resort to population-served output measures. And third, expenditures and population data are nearly always those of the providing government, *not those of the producing organization or organizations*. Thus, what is being measured is not the scale effects of a producing organization (analogous to the concept of economies of scale in economics) but the ability of the providing government to organize production efficiently. These problems mean that nearly all statistical studies of local government economies of scale are not studies of production but, at best, indications of how well the local government has organized production arrangements with different organizations engaged in different activities.⁷

The third way of determining efficient scales of local government service production is analogous to similar studies of industrial organization. In these studies, systems are examined to see what has evolved and survived. In private markets, for example, one would look for the size of a producing organization that was increasing its market share relative to other firms. In local government, one would look at what kind of arrangements exist in metropolitan areas to see if common patterns of production arrangements are emerging. For example, a detailed examination of production arrangements in policing in Standard Metropolitan Statistical Areas (SMSAs) in the United States (Parks and Oakerson 1999) reveals that it is common to have a large number of police patrol producers (where there are no identified economies of scale over very small detachments of four or five officers); many fewer dispatching systems, detention facilities, and low-level crime labs; even fewer high-level crime labs and information systems; and only one or two training facilities for police officers. The patterns that emerge are those that appear to accommodate the characteristics of the different activities, and they provide insight as to where economies of scale exist.

These studies also move beyond simple population measures and examine the structure of policing in a metropolitan areas in a variety of ways. One technique, for example, translates inputs (total number of sworn officers, total number of civilians employed, total number of vehicles available, and total number of crimes reported) into outputs (number of officers on the street at 10 p.m. and number of crimes cleared by arrest) to evaluate different ways of organizing policing in metropolitan areas (Parks 1985). With the aid of sophisticated statistical techniques, the study identifies 14 benchmark systems in 76 metropolitan areas and compares them with others. Inputs are translated into outputs with an efficiency that ranges from 40 percent of the benchmark up to the benchmark, with an average efficiency of 77 percent. Most important, the metropolitan areas with higher levels of efficiency are those where different activities are provided by organizations operating over different scales, including relatively small police patrol departments that make arrangements with larger organizations for services when economies of scale permit.

The metropolitan areas with higher levels of efficiency are those where different activities are provided by organizations operating over different scales.

⁷ In a survey of alternative service delivery in British Columbia, McDavid and Clemens (1995) found that private contractors were involved in 35 percent of regional district services and from 27 to 37 percent (depending on population) of services provided by municipalities. My analysis of service production in the municipalities of British Columbia's capital region (Bish 1999c) shows that it is precisely where one would expect economies of scale that smaller municipalities delegated responsibility to the regional district or engaged in alternative service delivery.

Less efficient are metropolitan areas whose small departments try to undertake many overhead services for themselves, as well as areas dominated by large departments that undertake activities, such as police patrols, to which economies of scale do not apply.

This research is consistent with other studies on policing, including a Canadian study that compares regional policing in the Niagara, Ontario, region with municipality-based policing in the Windsor, Ontario, region (Krushelnicki and Belevedere 1988), and a statistical study using multiple outputs that concludes that diseconomies of scale begin in police departments serving municipalities with a population over 50,000 (Gyimah-Brempong 1987). It appears that diseconomies of scale in producing police patrols outweigh the cost savings in overhead services for large police departments, whereas small departments devoted to patrol can cooperate to obtain overhead services at less expense. Again, overall savings can be realized if different organizations are used to produce different activities.

Similar results have been observed in other local services. For example trunk sewer lines and treatment plants are often built and operated on a regional basis, while sewage is collected from residences and businesses by a smaller producer. Similarly, water may be supplied from a large dam or reservoir but distributed by smaller organizations.⁸ In fact, when one looks closely at the production of local services, one finds that there are many accommodations to scale in the production of local government services and that no single size of organization is suitable for all of them, even within a single function.

Most researchers conclude that approximately 80 percent of local government activities do not possess economies of scale.

Attempts have been made to sort out activities that possess economies of scale and those that do not. Most researchers conclude that approximately 80 percent of local government activities do not possess economies of scale beyond relatively small municipalities with populations of 10,000 to 20,000. The other 20 percent, which do possess economies of scale, are mostly specialized services, such as homicide investigation or traffic light maintenance, that are needed only infrequently; only a very few are large capital facilities such as waterworks, landfills, recreation centers, or sewage treatment plants, where the economies of scale derive from spreading the benefits of a large capital investment over production for a large population. The rest occur because some specialized services are needed only infrequently by small municipalities.

In a few additional areas, including a variety of police overhead services (such as academy training and major crime laboratories), all three approaches indicate that economies of scale exist for a particular activity (Bish 1999c). For most activities, however, local conditions are much more important than the inherent characteristics of the particular activity. For example, although there are economies of scale in police dispatching, a small police department that wants to keep its police building open to the public 24 hours a day may choose to do its own dispatching and have the dispatcher on site. From the municipality's perspective, the marginal cost of the dispatching activity may be nil. A similar observation may be made with regard to detention facilities: a large department or region may find it efficient to construct a

⁸ My analysis (Bish 1999c) of how 283 different activities are produced by 12 different municipalities in the capital region of British Columbia indicates that, for every major function, different activities are carried out by different organizations.

The important conclusion to be drawn from detailed analyses of how local governments actually get services produced efficiently is that these kinds of decisions can be made only on the basis of local knowledge.

jail and employ full-time staff, but a small department may simply have several cells behind the dispatcher and contract out for food services and maintenance. The latter approach may be cheaper, but it is not a practical solution for a medium-sized or large department, and it is likely that a medium-sized department will find it less expensive to contract for jail services from a large department or regional facility. The important conclusion to be drawn from detailed analyses of how local governments actually get services produced efficiently is that these kinds of decisions can be made only on the basis of local knowledge. Such knowledge simply cannot be processed in large amalgamated systems.

Industrial organization economists are not surprised that, even though economies of scale appear to exist in retailing food through supermarkets, a wide range of other food outlets, from corner stores to warehouses, exists to meet customers' specific needs. Virtually any private service is likely to be produced or delivered to customers through firms of various sizes and organized in a variety of ways. Given the diversity of municipal services, which is much greater than the product line of any private company, one should not be surprised at such diversity in the municipal sector as well.

Competition in Production

Scale adjustments are only half the problem of efficient production. The other half is to be sure that producing organizations have incentives to be efficient. Much of the research on this issue has compared in-house production with production that has been contracted out to another organization, usually a private firm. The important variable, however, is not public versus private but whether or not the producing organization produces in a competitive environment so that its management is stimulated to seek efficient production.

Several surveys of alternative service delivery (for example, Bish 1986; Kitchen 1993) provide a history and review of many studies. The most recent thorough analyses of alternative service delivery in Canada, and the only Canada-wide studies, are those directed by Jim McDavid of the University of Victoria (McDavid 1985; McDavid and Eder 1997; McDavid and Laliberte 1998; 1999).

The 1985 study found that solid waste, when collected by local government crews, cost \$42.29 per household, but when collected by private crews it cost only \$28.02 per household. In a mixed system, where public crews competed with private contractors, collection costs were \$31.31 per household. The study further revealed that public collection cost 50.9 percent more than contracted-out collection, the principal reason for the difference being the relatively large crews and small trucks used by the public collectors and the extra trips they thus had to make to the landfill. The study also found that when municipalities compete with private contractors, they tend to copy the practices of private firm practices.

In a follow-up study of solid waste collection, McDavid and Eder (1997) found that the performance of municipal crews had improved since 1985, but in-house municipal crews were still 22.3 percent more expensive than private collectors for the same reasons as before but also because private crews lost fewer days to labor disputes. This study, which was large enough to undertake regional breakdowns,

found that private collectors were less expensive than public crews in every province and region except Quebec.

A study of land-fill management (McDavid and Laliberte 1998) found similar results, with landfill sites managed primarily by private contractors costing only 67 percent as much per ton to operate as those operated primarily by public crews.

With respect to recycling programs, however, a national survey (McDavid and Laliberte 1999) found no significant difference between programs run with in-house crews and those run under contract to local government; on the other hand, recycling programs are relatively recent in origin. It appears that, although public and private managers are equally capable of starting new programs, over time public managers lack the same incentives to continually improve their efficiency as do private contractors who must bid competitively to remain in business or that the local government decisionmaking process itself does not permit constant upgrading to maintain efficiency. For example, if newer and larger garbage trucks raise productivity and permit lower bids, the private firms that buy new trucks will win the contracts. In contrast, a public manager may know that new trucks would improve productivity, but a city council may refuse to authorize their purchase in order to keep down short-run costs at the sacrifice of long-run savings. Public sector unions may also be unwilling to reduce crew sizes, whereas in a unionized private sector firm, both management and union may be more likely to recognize that it is better to win bids with smaller crews than to lose bids by insisting on costlier larger crews.

A final conclusion of these studies is that when public producers compete with or are regularly compared with private firms, they tend to become more competitive. In other words, the important variable does not appear to be public versus private; rather, what stimulates better performance is a competitive environment.

The important variable does not appear to be public versus private; rather, what stimulates better performance is a competitive environment.

The Organization and Cost of Local Government

Many studies have focused on how the structure and cost of local government are related in metropolitan areas. These studies use published information for functional and total expenditures but do not attempt to sort out which activities each government provides its citizens or to assess the quality of the services provided. None of the studies examines the actual structure of production of the different services. Instead, they focus on population size and the existence of competition — although the two characteristics are related since an urban region composed of a multiplicity of rival municipalities is more likely to include some that are small in size than an urban region composed of only a few municipalities.

Cost and Population Size

A good example of an early Canadian study is Bodkin and Conklin (1971), which looked at local service costs and municipality size in Ontario by examining eight functions and a variety of variables beside government characteristics, such as the income of a municipality's population, to determine both the determinants of

*Different functions
respond very
differently to scale.*

expenditures and scale effects. The study concluded that different functions respond very differently to scale, that there are economies of scale for municipalities with populations of up to 140,000 for water supply and 180,000 for public works, but that minimum costs are achieved in six other categories (fire, police, sanitation and waste removal, health, recreation, and general government) in municipalities with populations of 5,000 to 10,000.⁹ It is, however, virtually certain (although the study did not report this finding) that the small, lower-cost municipalities obtain some of their services from other organizations.

Another Canadian study, Krushelnicki and Beveledere (1988), compared costs and output measures for five services provided by municipalities in the Windsor area and by the Niagara regional government (at the time of the study, Windsor had a population of 312,000 and Niagara, 368,000). The study found that water and sewage treatment services were more expensive in the Windsor area on both a per capita and per volume basis. Day care and homes for the aged were less expensive per capita and per user in Niagara, but the service was provided to one-third as many children and fewer than one-half as many elderly, with the consequence that both Niagara programs were much smaller than the higher-cost Windsor programs. In policing, Windsor was less costly than Niagara on all measures. These results are consistent with other research: the capital-intensive activities of water and sewage treatment were provided more cheaply by the regional government, while the labor-intensive activities of day care and homes for the aged were provided more cheaply provided in the smaller program, even though the program was run by the regional government. And in policing, where the costs of the labor-intensive activity of patrolling appear to outweigh the benefits of consolidated specialized services in a larger organization, the costs by all measures (per capita, per officer, per offense, and per area patrolled) were lower in Windsor.¹⁰

In the United States, studies by the Advisory Commission on Intergovernmental Relations in the 1970s concluded that per capita costs generally fall for municipalities with populations of up to 25,000, remain fairly constant up for those up to 250,000, but then rise significantly. However, these studies did not take into account either the structure of production or the responsibilities of the local governments, which differ among classes of municipalities within and among states.

9 Although no one has researched the difference between small governments in metropolitan areas and small governments in rural areas, the former likely have greater opportunities to purchase services from or jointly with other local governments and thus keep costs down in a way that is not possible for small rural governments. This may be why some metropolitan areas in the United States have many local governments with populations of fewer than a thousand.

10 See Kushner (1992) for a summary of other Canadian studies. Like most authors, Kushner treats studies of the cost to municipalities as analogous to economists' economies-of-scale studies and ignores the fact that different activities within functions possess different scale economies and that municipalities are able to purchase services from elsewhere that they themselves are unable to provide. He concludes that the optimal size of a municipality is a population of 250,000, but this conclusion does not follow from his own summary of studies and is impossible to reconcile either with the conclusions of other scholars or with evidence that the municipalities with the lowest costs are much smaller. Furthermore, one cannot jump from evidence on the efficient-scale production of a local service, which is a supply-side characteristic, directly to a conclusion about the organization of local government, which is a demand-side or governance characteristic.

Even though small municipalities have the lowest per capita costs,¹¹ they are not necessarily more efficient *producers* of public services. Costs appear to rise with size for three reasons (although no statistical analysis appears to have been undertaken to distinguish them).

One reason is that central cities and employment nodes must provide services for day-time populations (including commuters and shoppers) that are much larger than the night-time (resident) population on the basis of which per capita costs are calculated. Second, larger municipalities often undertake more activities than smaller ones. And third, there are diseconomies of scale in producing some services.

For example, Bish (1999b) finds that, of 12 municipalities in the capital region of British Columbia, the one with the highest per capita costs is the central city of Victoria (population 76,000), which undertakes many functions for and incurs costs of commuters and shoppers. The municipality with the second-highest costs is Oak Bay (18,000), which provides a very high level of services to its residents. The largest municipality, Saanich (107,000) is essentially a residential suburb with good services; its per capita costs are the fifth highest in the region. The six municipalities with the lowest per capita costs range in size from 1,500 to 19,000 people.

Three important conclusions can be drawn from the relatively simple research relating costs to size. First, in a wide range of municipalities, size is not the primary determinant of costs. This finding is not unexpected, since no government is the right size to produce everything itself. To obtain services efficiently, governments can contract out to smaller or larger organizations, produce jointly with other governments, or receive the service from a regional organization. In addition, not all residents value lower costs over more, or better, services. Second, although larger municipalities — that is, those with about 250,000 or more people — cost more, it is not clear in what proportion the various cost-increasing influences contribute. Third and most important, there is no evidence that per capita costs are lower in large municipalities or that they are better able to meet their residents' demands for services than small municipalities (Derksen 1988 draws similar conclusions from a survey of local government in Europe). In summary, *there is no reason to sacrifice the benefits of greater citizen participation and representation that are a feature of small governments only to create a larger government that costs more and provides services that are less likely to meet local preferences.*

There is no reason to sacrifice the benefits of greater citizen participation and representation only to create a larger government that costs more and provides services that are less likely to meet local preferences.

Municipal Competition and Costs

Another key issue is the way in which municipalities compete with each other on costs. Eberts and Gronberg (1988) and Miller (1993) find that competition is related to lower expenditures by municipalities, while Sjoquist (1982) finds that expenditures per capita fall as the number of jurisdictions in the metropolitan area increases. Schneider (1989) indicates that, as the number of municipalities bordering a city

11 This is not the case for municipalities with fewer than a thousand people, which appear to reduce costs by amalgamating with a small neighbor (Brisson 1996). Municipalities with fewer than 5,000 also often have higher expenditures than those with 5,000 to 15,000 (Bish and Clemens 1999, 34).

increases, the city's tax bill falls and that expenditures are lower in regions with more variation in tax bills across communities.

Some US studies indicate that the cost of local government is lower in states that make it easy to create new municipalities compared with those where annexation of adjacent territory is the preferred policy (Martin and Wagner 1978; Mehay 1981). Moreover, when California introduced restrictions on the creation of new local governments, the annual rate of expenditure increases for existing municipalities went up (Martin and Wagner 1978).

Competition among municipalities is not, however, confined to costs. One study of students' academic achievement (Staley and Blair 1995) concludes that school district performance is positively associated with the performance of neighboring districts. Recent research finds that the larger the number of school districts in a metropolitan area, the lower the cost per student and the better students perform on standardized tests (Hoxby 2000).

After examining more than 60 statistical studies relating local government structure to cost, Boyne (1992a) concludes:

- [T]he horizontal fragmentation of multi-purpose governments (a multiplicity of municipalities) is associated with lower spending (this is consistent with urban areas comprised of smaller governments having lower costs)....
- [L]ocal government units compete in a market which is geographically limited and such competition is associated with lower spending....
- [V]ertical concentration of market share in large top-tier units (i.e. the regional government spends more than the municipalities) is associated with higher spending....
- [T]he establishment of barriers to entry (e.g. restrictions on the creation of new municipalities) is positively related to expenditures by the local government's units that are protected by the barriers.¹²

These results are completely consistent with the findings of Bodkin and Conklin (1971) for Ontario, of Parks (1985) on policing in US cities, and of Liebenstein (1966), who observes that managers perform better in the face of stimulative competition. The one large-scale amalgamation that has been studied over time — that of the City of Jacksonville and Duval County in Florida — also confirms these findings: not only did costs increase, but the annual rate of increase rose both post-amalgamation and compared with a nearby comparable unreformed metropolitan area (Benton and Darwin 1984).

In 1972, California's then-governor Ronald Reagan appointed an independent task force of academics and municipal managers to determine whether, as he assumed, many small governments cost more than a few large ones. The task force concluded:

12 These findings are consistent with economists' conclusions about the relationship between the way an industry is organized and the prices it charges consumers for its products. For example, Martin and Wagner's (1978) finding, referred to above, that local government costs in California rose when that state imposed restrictions on the incorporation of new governments should not surprise economists, since such restrictions merely give monopoly power to the existing units by preventing the entry of new competition.

The larger the number of school districts in a metropolitan area, the lower the cost per student and the better students perform on standardized tests.

[A] system of highly flexible and independent local government units is as capable or more capable of providing the quality of service that people expect [as] a centralized and consolidated government system. In fact, our evidence on functional costs, on economies of scale and on the impact of professional influence, indicates that a reduction in the number of governmental units, through consolidation of local units, would produce a system less likely to provide public services of a quality and at a cost that suit the diverse preferences of the citizens of California. (Task Force on Local Government Reform 1973.)

On the basis of this conclusion, California abandoned initiatives toward amalgamating local governments.¹³

In summary, there is overwhelming evidence that *the least expensive local governments* are found in polycentric systems of small and medium-sized municipalities that also cooperate in providing those services that offer true economies of scale. Large municipalities do not seem to be as capable of cooperating in this way, of decentralizing their services, or of using alternative delivery mechanisms for services that lack economies of scale.¹⁴

The cost argument having thus been demolished, advocates of municipal amalgamations then argue that they enhance economic growth and result in better planning. So far, however, no consistent relationship has been found between the structure of local government and various measures of economic growth, although good transportation, education, and public safety have been identified as important variables (Fisher 1997). In fact, some of the most rapidly growing urban regions in the United States — Silicon Valley, Boston, Dallas, Seattle-King County (home of Microsoft and Boeing) — are also among the most governmentally fragmented areas in the country. Furthermore, if officials really believe that consolidation facilitates growth, consolidating the growth-promotion process is compatible with retaining a polycentric local government system in order to maintain democratic accountability and more efficient service production (Hawkins, Ward, and Becker 1991). The amalgamationist position on economic growth and planning appears to result not from the evidence but from a nineteenth-century faith in large bureaucracies.

Some of the most rapidly growing urban regions in the United States are also among the most governmentally fragmented areas in the country.

No doubt, analysts are able to identify areas — including, perhaps, even economic development and planning — where governments of any size can improve their performance. But any existing government will appear to be inefficient compared to an engineering/accounting determination of perfection or to an abstract model.¹⁵ And any newly created organization inevitably will develop its own inefficiencies; moreover, evidence suggests that the larger the local government, the greater its inefficiencies are likely to be. It is thus safer to draw

13 See also Sancton (2000), who, 27 years later, comes to a similar conclusion.

14 In the United States, Indianapolis and Phoenix are among the very few large municipalities that have made efforts along these lines (see Goldsmith 1997). The reason others have not done so may be related either to unionization or to their large scale.

15 If an existing organization is compared with an ideal model, the ideal always comes out on top. James Buchanan describes this as the “second-singer approach” to awarding the prize: the judges listen to the first singer and then immediately award the prize to the second singer without hearing him. This is the approach of most amalgamation studies.

conclusions about the relationship between local government structure and performance from what actually exists, not from a consultant's report on the utopian ideal. It is also necessary to recognize that the higher cost of large monopolistic producers is most likely to appear not all at once but gradually, since they lack incentives continually to improve their performance. At the same time, actual performance is virtually never as efficient as possible, so efficiency studies should discover opportunities for improvement. One must be careful, however, to distinguish between improvements that might come from changes in organizational structure and those that follow from incremental increases in efficiency over time in any organization. Sancton (1996) observes, for example, that virtually none of the benefits identified as flowing from the amalgamation of Toronto-area municipalities required reorganization but were merely improvements in practices that could have been made within the existing system.

Integrating Governance and the Production of Local Services

The structures that most successfully facilitate responsive governance can also be the least expensive.

Research on local government has found that the structures that most successfully facilitate responsive governance can also be the least expensive. This is probably why the US states that allow the greatest flexibility in the organization of local government continue to be characterized by a multiplicity of relatively small local governments and a small number of regional organizations (usually a county or counties) that help facilitate regional cooperation. The most serious problems occur *within* the largest units, usually central cities, where large bureaucracies are unable to accommodate diverse demands or keep costs low, which then contributes to the growth of suburbs whose local governments are a more appropriate scale.

Equally important, local governments, no matter how small, can draw on a great number of producing organizations to help them make a range of services available to their residents that would otherwise be impossible for them to provide within their own small bureaucracies (Advisory Commission on Intergovernmental Relations 1987; 1988; 1992; Oakerson 1999). Before the discovery of more systematic evidence on how small local governments actually provide services, there were many proposals for municipal amalgamations in the United States. After repeated defeats of such proposals at the polls, citizens and local officials found that they knew a lot more about how local government actually worked than did the academics and "good government" groups that idealized large bureaucracies (Bish and Ostrom 1973, 85). Ultimately, even those organizations with a long history of advocating reform through amalgamation came to recognize that small governments can provide an appropriate level of services (Advisory Commission on Intergovernmental Relations 1987). Given what we now know about the benefits of small governments for democratic representation and the need to have services providers of a variety of scales, preferably functioning in a competitive environment conducive to efficiency improvements, it is useful to examine a few local government issues in a Canadian context.¹⁶

¹⁶ The most complete text on Canadian local government is Tindal and Tindal (1995), which has a political science focus. The only local governance book that emphasizes production arrangements is Bish and Clemens (1999).

Single-Tier Systems

Seven Canadian provinces have single-tier systems of local government. Although there has been no systematic research on the extent to which these governments cooperate with one another to provide services (where there are benefits of operating on a larger scale), there are many examples of agreements between municipalities and of contracting out to nonprofit organizations or private firms that provide services to more than one local government (see Glover 1999; Sancton, James, and Ramsay 2000). Recognizing that benefits may be had from more systematic regionalization without eliminating smaller municipalities, reviews have been undertaken in Edmonton and Calgary (Alberta Capital Region Governance Review 2000), and Newfoundland has created new Regional County Services Districts (Task Force on Municipal Regionalization 1997). These examples resemble the regional district system that exists in British Columbia, which has Canada's most fiscally equivalent system of local government.

British Columbia's Regional Districts

British Columbia has a long history of allowing its residents to take the initiative on the structure of their local governments.

British Columbia has a long history of allowing its residents to take the initiative on the structure of their local governments. As early as 1919, for example, the province's legislature failed by just one vote to allow "home rule," under which a municipality could have organized itself in any way and undertaken any activity not specifically forbidden by the provincial government (Bish and Clemens 1999, 18). This approach led to the creation of new municipalities and improvement districts throughout the province, but no general form of local government outside municipal boundaries. A philosophy of local responsibility has continued to play a significant role in the province's municipal legislation to this day.

In 1965, legislation was passed setting out procedures for the creation of 30 regional districts.¹⁷ It was left to local governments in these areas to decide if they wanted to incorporate and, initially, no functions were required of them (Brown 1968; Collier 1972; Tenant and Zirnhelt 1973; Paget 1998; Bish and Clemens 1999, chap. 4). In effect, the districts were a shell with procedures for representation, financing, adoption of functions, and boundary changes, but it was up to the municipalities and citizens in unincorporated areas to determine how these procedures were to be used.

Over time, the provincial government decided that municipal borrowing should be processed within regional districts before being brought to the Municipal Finance Authority (not a provincial government organization but a cooperative run by municipalities). For a while, regional district boards also served as hospital district boards for planning purposes. The only local government function the districts are required to perform is planning for solid waste disposal, which can be done by an entire district or divided among municipalities and unincorporated areas as appropriate. Otherwise, a regional district can act as a rural government

¹⁷ Over the next four years, 29 districts incorporated themselves (27 remain today, as three have merged with other districts), covering all but the sparsely inhabited Stikine region in the northwest corner of the province.

Municipal councillors are responsible for municipal services, whether they are provided by the municipality or in conjunction with other municipalities or electoral areas through the regional district.

for an unincorporated area, as a forum for the administration of local government services for any combination of municipalities or unincorporated areas within it, or as a regional government for the entire region if the people in the region so choose.

An important aspect of regional districts is that, except for representatives from rural areas that lack any other general local government, there are no separately elected officials on their boards. Instead, the councils of member municipalities appoint board members on a population-weighted basis so that, in effect, *municipal councillors are responsible for municipal services*, whether they are provided by the municipality or in conjunction with other municipalities or electoral areas through the regional district. Only those board members who come from areas that would benefit from a particular function can make decisions about that function. This rule makes fiscal equivalence explicit: representatives of the beneficiaries make the decision, and the costs are paid by residents of the benefiting area, not by everyone in the entire district.

After more than 30 years of existence, British Columbia's small local governments continue to offer low costs to their residents while turning an increasing number of activities over to the regional districts. The usual practice, however, is *not* to transfer entire functions to the regional district, but only those that have a regional dimension or significant economies of scale in production.

For example, the Capital Regional District — composed of 13 municipalities, 3 electoral (rural) areas, and 6 First Nations — provides parks, a trail system, and three recreation centers; some individual municipalities within the district also provide recreation centers, and all municipalities provide local parks and recreation programs. The municipalities also use nonprofit organizations to assist with recreation programs, and the recreation centers contract out many programs. Activities delegated to the regional district level, however, include trunk sewers, sewage treatment and discharge (but not collection), water supply (but not distribution), landfill ownership and management (but not solid waste collection), regional growth management (but not local planning and zoning), 911 service (but not all local dispatching reached via 911), and, on a subregional basis, an art gallery and theater (but municipalities may also provide their own local support for the arts).¹⁸ Such arrangements are best determined by local councils representing local citizens.

Like most organizations, however, regional districts do not function perfectly, and a recent evaluation recommends some changes in detailed decision rules and dispute resolution mechanisms (Bish 1999d). Regional districts are also criticized regularly for not doing exactly what one observer or another thinks they should and for the sometimes highly visible disputes among their members. What is important in a democratic society, however, is that conflicts should be visible, not buried in the decisionmaking processes of large bureaucracies.¹⁹ The regional

18 In Bish (1999b; 1999c), I examine how 283 different local government activities are produced in the capital region, and trace the evolution of an important role for the region in providing major capital facilities and services where there are scale economies. My research also indicates that the municipalities use a wide variety of production arrangements to obtain services.

19 A good example of different interpretations of visible conflict is the critique by Alan Artibise, historian and planner and former University of British Columbia professor, of decisionmaking on transportation in the Greater Vancouver Regional District (GVRD). The provision of integrated...

district organizational scheme has also frustrated special interest groups such as environmentalists, arts councils, and developers, who find it much more difficult to influence councillors elected from small municipalities than if elections were held on a larger scale, where the number of issues could be narrowed and where financial contributions to campaigns are more important.

British Columbia's regional district system seems to be an appropriate model for those provinces, such as Alberta and Saskatchewan, that have single-tier systems. In such provinces, intermunicipal agreements currently exist that could be brought together in a forum to encourage further cooperation where it is beneficial. Most important, however, is that British Columbia's regional districts demonstrate that a system based on fiscal equivalence and small municipalities is quite capable of retaining good democratic representation while taking advantage of specialization and trade in local services. It is an adaptable model whose characteristics resemble those of municipal consumer co-ops in a "market" rather than those of an idealized unitary bureaucracy.

British Columbia's regional district system is an adaptable model whose characteristics resemble those of municipal consumer co-ops in a "market" rather than those of an idealized unitary bureaucracy.

Amalgamations in Nova Scotia and Quebec

Over the past several years, changes in local government structure have been legislated in Atlantic Canada, Quebec, and Ontario. In the short run, such reorganization may result in cost savings, but inefficiencies should be expected to creep in over time (Liebenstein 1966). Cost savings do appear to have been achieved in the case of Chatham-Kent, Ontario, an amalgamation of 11 municipalities (four of which had a population of less than 1,000) with a total population of 75,000. A recent survey of residents indicates, however, that they perceive the quality of services to have fallen (Kushner and Siegel 2000).

Nova Scotia

In Nova Scotia, the cities of Halifax, Bedford, and Dartmouth, Halifax County, and the metropolitan district were amalgamated in 1996 to form the Halifax Regional Municipality (HRM), with a combined population of 350,000. The Nova Scotia government forced this amalgamation over the objections of the municipalities involved and, while not as large as some in Ontario, it created a government that is far bigger than necessary to achieve economies of scale in production. Some

Note 19 - cont'd.

...transportation, including arterial highways, public transit, sea bus, and regulation of air pollution was assigned to the GVRD through TRANSLINK, along with decisionmaking responsibility on the size of capital expenditures and how they should be financed (whether from user charges, property taxes, or a vehicle levy). The dispute over the GVRD's decisions on these issues has several dimensions, with the locally elected council members on the boards of TRANSLINK and the GVRD naturally bringing the perspective of their constituents to the debates, which are widely reported in the media. Artibise and others suggest that the dispute be resolved through a separately elected board that would decide "for the good of the region." Others, including the designers of the TRANSLINK system, believe the high level of public debate over important issues is precisely how a democracy should function, and that reasonable policies will result. They do not claim to know what the "best" policy would be. (Simpson 2001.)

activities, however, such as solid waste disposal, are likely to be undertaken more efficiently with a single capital facility.

The HRM is the only large-scale amalgamation in North America to have been monitored by a team of academics. The team's evaluation ended in 2000, which now appears to have been too soon for the new agglomeration to have achieved standardized operating procedures. What is clear, however, is that the HRM implementation study (Hayward 1993), which was a quite comprehensive example of its type, underestimated the cost of the amalgamation by a factor of four: by 1997, the original estimate of \$9.8 million had ballooned to \$26 million (Vojnovic 1997), and when the costs of a new financial management system and new labor agreements are taken into account, the final tally is likely to exceed \$40 million. It is not yet apparent that any cost savings will result. From 1996 to 2000, user charges increased significantly and average residential property taxes rose by about 10 percent in urban areas and by as much as 30 percent in suburban and rural areas (Dann and Poel 2000). Debt has also increased, since, despite these tax increases, most of the implementation costs were financed through borrowing.

In Halifax, post-amalgamation, user charges increased significantly and average residential property taxes rose by about 10 percent in urban areas and by as much as 30 percent in suburban and rural areas.

Surveys of residents of the HRM reveal that they neither regard the entire region as a single community with much in common nor are they satisfied with the level of services the post-amalgamation government is providing (except in the case of solid waste management, where improvements were made before the amalgamation). It is important to remember, however, that it may take several years for the consequences of this amalgamation to be evaluated (Poel et al., forthcoming).

The HRM amalgamation included provisions for decentralized community councils, but their minimum size of three ridings with a population of 45,000 is very large in the Halifax context, and their boundaries do not correspond to the historic communities of Bedford and Dartmouth. How well these community councils will work remains to be seen — similar councils established in Winnipeg, for example, did not survive clashes with the city's professional bureaucracy. However, because the HRM councils can levy taxes to undertake specialized services, they have a degree of fiscal equivalence; when combined with their jurisdiction over local land use, the councils do possess some basis for sustainability within the larger system.

Yet, a number of problems are likely to move to the fore in the HRM in the near future. They include whether or not to continue to use the wealth of the central city of Halifax to subsidize rural areas, how to accommodate different preferences on matters not delegated to community councils, and how to provide incentives for the in-house producing bureaucracies, as area-wide monopolists, to become efficient. Taxation is another problem area. The HRM has adopted three basic tax rates (urban, suburban, and rural), and more than 60 pre-amalgamation special taxing areas (primarily in the former county) remain.

Clearly, the long-run success of such a large and diverse local government will depend greatly on how well the internal decentralized structure ensures that communities within the HRM pay for the services they want and do not attempt to get additional services just because they are paid for by the entire area, which would likely lead to high-cost local government.

Quebec

Quebec's Bill 170, which would amalgamate no fewer than 28 Montreal-area municipalities into one large city, is unprecedented in North America. The legislation proposes creating boroughs that, for the most part, would correspond to existing municipal boundaries, and appears to be a better way of decentralizing than was the case in Halifax, with one significant difference: there would be no fiscal equivalence in council decisionmaking at either the city or borough levels. Instead, the new Montreal city council alone will raise all revenue and provide grants to the boroughs. Inevitably, this will lead to competition between the city and the boroughs and among the boroughs for centrally raised funds, a fight in which the city is likely to prevail. Alternatively, competition for funds could lead to an accommodation whereby, as in the Halifax example, each borough demands, and receives, more services than its residents are willing to pay for because the costs are spread out over the entire city, which would lead to higher costs for everyone.

A second source of potential conflict likely to lead to higher costs is the proposal that all municipal workers should be employed by the city, rather than by the borough council for which they actually work. Not only would this create one huge personnel system and employee bargaining unit, it is also unlikely to contribute to the development of community feeling and responsiveness to local concerns on the part of employees.

In response to such cost pressures, the amalgamated city is likely to curtail borough expenditures and try to impose standardized services across diverse communities, which could have a negative impact on Montreal's economic development. And if Halifax's experience is any guide, implementation costs alone could exceed \$100 million dollars. Moreover, the Montreal amalgamation is expected to be complete in one year — surely an unrealistic timetable.

Despite extensive, critical coverage of the proposed amalgamation in Quebec, the provincial government is pressing ahead with a religious-like faith in the efficacy of nineteenth-century solutions.

Despite extensive, critical coverage of the proposed amalgamation in Quebec, the provincial government is pressing ahead with a religious-like faith in the efficacy of nineteenth-century solutions.

Conclusions and Policy Implications

The Canadian evidence on the relationship between the structure and performance of local government is consistent with that from European and US experience. Urban areas have developed where residents have different requirements for public services, differences that traditionally have been better accommodated by relatively small local governments than by large central cities. Research shows, however, that size in itself is not the major determinant of per capita costs, and that governments of different sizes can deliver services efficiently. It is simply not the case that big governments cost less because they can achieve economies of scale.

In fact, smaller governments can cost less, not because they can produce all services efficiently but because they can take advantage of specialization and trade in markets without attempting to produce all activities themselves. Instead, they can use contracts and joint agreements to obtain services from larger producing organizations where there are economies of scale. In addition, unlike monopolistic government bureaucracies, producers of services that operate under contract are

obliged to meet the needs of their customers (the local governments that employ them) if they expect continued business. And even large local governments operate more efficiently when they sell services to smaller local governments (Warren 1966). Thus, the buying and selling of services among municipalities benefits those who are served by both the purchasing and the selling governments.

The conclusions of a half-century of research on the relationship between the structure and performance of local governments in metropolitan areas need to be taken into account when confronting the problems that inevitably arise in any polycentric system. The most important conclusion, however, is applicable to all problems: do not base recommendations on a comparison of an actual situation with an ideal. Such ideals are virtually always ideas from the past that are obsolete by the time they become popular.

It is no longer useful to think of the ideal local government as a large integrated bureaucracy supervised by full-time politicians and run by professional bureaucrats.

It is no longer useful to think of the ideal local government as a large integrated bureaucracy supervised by full-time politicians and run by professional bureaucrats. Instead, a system of local governments should be viewed as consisting of groups of citizens organized into cooperatives to provide services they prefer through a variety of production arrangements on a suitable geographic scale. The focus thus changes from single organizations to the incentives and relationships that prevail among multiple organizations.

The primary responsibility of local governments is governance, not production. Governance involves finding ways in which citizens can express their wishes and work with councillors to make decisions on regulations, what services to provide, what their quantity and quality should be, and how they are to be produced and financed. Encouraging citizens to be reflective and to participate in policy debates is important to the health of a democratic society, and local governments need to be small enough to play a role in strengthening civil society in an age of globalization in other arenas. Moreover, local governments represent a huge investment in social capital as well as a supplier of local services, and every effort should be made to retain them.²⁰ For local governments to function well, those that run them need to see both the benefits and the costs of the actions they take, and they need to be supplemented by larger-scale institutional arrangements that can facilitate cooperation among smaller governments and undertake activities (such as the financing of welfare and social services) that smaller governments simply cannot handle efficiently.

There is no one best way to govern regional institutions. If their role is to facilitate cooperation in the production of services, a model such as British Columbia's — regional boards made up of locally elected officials who are responsible to their citizens for local services — works well. This model has also been expanded to other regional activities, such as transportation and growth management planning, where it appears to work as well as alternatives elsewhere and may even be superior in that it ensures important issues are publicized rather than negotiated within a bureaucracy. In other cases, regional organizations may be governed by directly elected officials, but the scale of elections is such that the

²⁰ In fact, since smaller municipalities can be expected to be more responsive to their citizens' wishes, major benefits could result from the breaking up of large municipalities. A serious effort is now under way, for example, to break up the City of Los Angeles, since the city is viewed as not serving its citizens as well as the other 80 or so smaller municipalities in Los Angeles County.

officials are much less likely to represent the views of the electorate and more disposed to the special interest groups that are willing to finance their election campaigns.

Finally, and most important, changes are likely to occur much more rapidly in the twenty-first century than in the twentieth. A system comprising self-governing, fiscally equivalent local governments of a variety of sizes and that draws in turn on a variety of different organizations for the provision of local services in a competitive environment will be much better able than any large, monopolistic local government to adapt to change. The future will require us to abandon any nineteenth-century idealization of bureaucracy and to recognize the benefits of polycentric systems. Only with such a change in thinking are we likely to realize the benefits from local governments that we have already achieved through markets and federalism.

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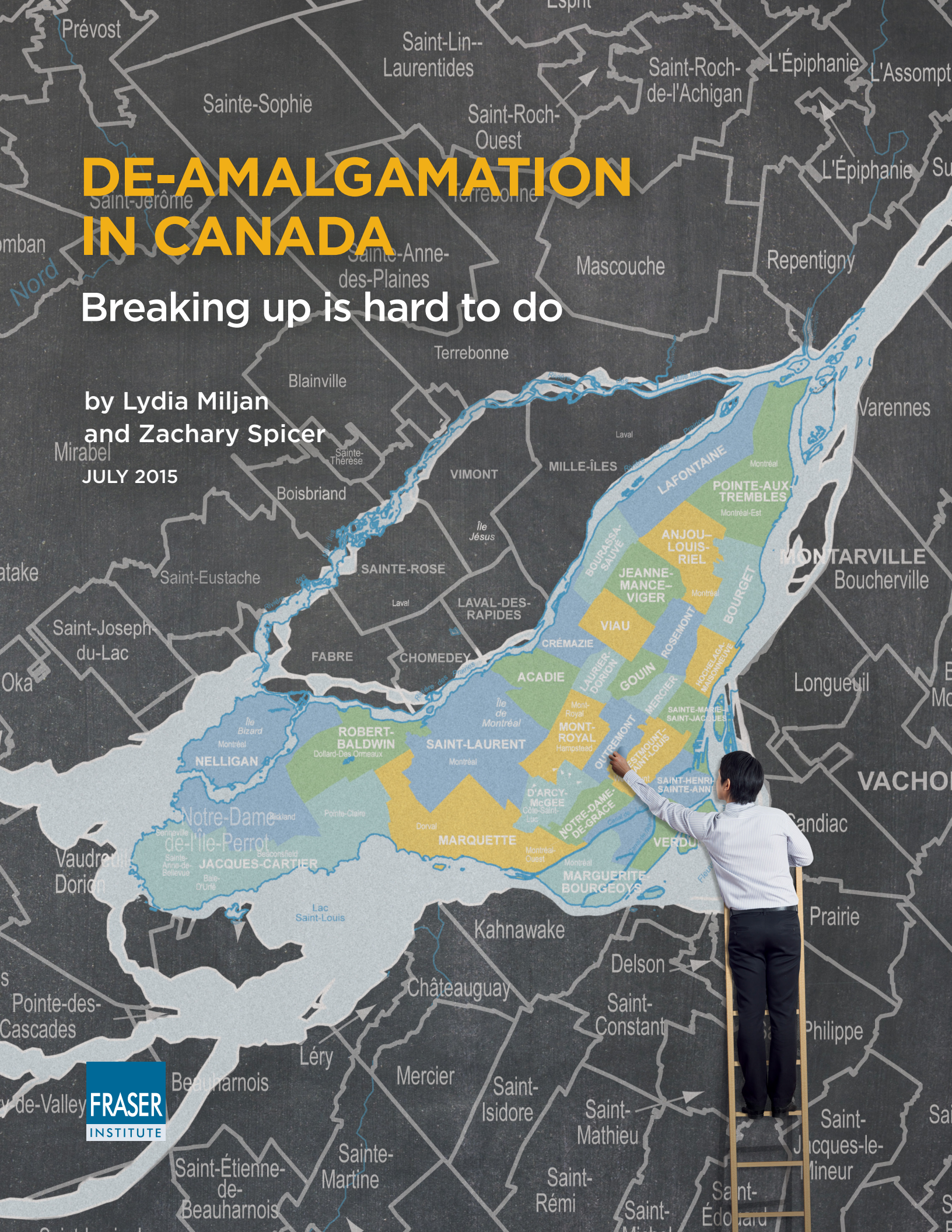
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Breaking up is hard to do

JULY 2015



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Executive Summary

Although nearly every province in Canada has pursued some form of local restructuring over the past 25 years, municipal amalgamation remains a controversial subject. A vast amount of research has found that consolidation fails to produce promised cost savings, rarely leads to more efficient service delivery, and reduces the ability of citizens to be involved in the life of their local governments. It is no surprise, then, that local restructuring proposals have often been met with stiff resistance from local residents. It also comes as no surprise that many residents argue that their communities were better off prior to amalgamation.

In the wake of this lingering resentment, de-amalgamation is often offered as a solution. For many, the idea has some merit: if the new municipality has become inefficient, costly, and less responsive to local need, then simply undo the work of amalgamation and return the municipality to its original borders. For those unhappy with the new incarnation of their municipal government, this is an attractive prospect, but poses some significant challenges. There are significant costs to de-amalgamation, there is no guarantee a municipal government would be any more efficient after de-amalgamation than before, and, finally, there is no guarantee there would be community consensus to move forward with the plan. Despite all of these concerns, de-amalgamation proposals continue to emerge in amalgamated communities. Some are more vocal than others, but lingering concerns about the efficiency, cost, and the nature of representation within amalgamated communities persist.

Taken together, the prospect of de-amalgamation raises two important questions. First, is it possible to reverse a municipal amalgamation? And, second, if so, is it even desirable to de-amalgamate? This paper delves into these questions and examines two cases of municipal de-amalgamation: Montreal, Quebec and Headingley, Manitoba, which seceded from Winnipeg. After provincially imposed amalgamations, residents of both communities demanded institutional reforms. In Montreal, a change in provincial governments led to a de-amalgamation referendum, as communities within the newly amalgamated cities were given the opportunity to leave the new city. While many opted to stay, some did leave, forcing the creation of a new level of government to coordinate government activity on the Island of Montreal. In Headingley, community residents demanded they be allowed to secede from the amalgamated City of Winnipeg. After many years, the province finally took up their case and legislated their removal from the City of Winnipeg, sparking bitter separation negotiations that nonetheless finally restored Headingley's independence.

In this paper, we examine the fiscal and governance implications of both de-amalgamations and provide a set of criteria to evaluate when considering the de-amalgamation of a consolidated local government. Overall, we find no reason that de-amalgamation cannot be pursued, but we argue that is not often desirable.

Provincial governments have the ability to amalgamate municipalities and, therefore, also have the ability to separate them. Looking at the case of Montreal, we demonstrate that, if de-amalgamation is not done correctly, it is very possible to further complicate the governance of a region and distract from much more important conversations about regional policy integration and planning. We argue that the difficulty in successfully implementing de-amalgamation means that amalgamation is something that cannot, and should not, be easily entered into. More care needs to be taken in finding the best institutional structure for our municipal governments.

Introduction

At the conclusion of Toronto's most recent municipal election, pundits and researchers lined up to analyze the results. One of the most frequent arguments was that the city was divided, not a surprising conclusion for those looking at the electoral map. John Tory won votes mainly in downtown and mid-town Toronto, whereas Doug Ford won most of the polls in the city's suburbs in the former municipalities of Etobicoke and Scarborough. When examining the election results, *Globe and Mail* columnist Marcus Gee described the city as "hopelessly, irretrievably divided" and laid the blame for this divide on the city's 1998 amalgamation: "throwing the suburbs and the core together into one big city was a disaster" (2014). Similar conclusions were reached by the *National Post's* Robyn Urback, who also described Toronto as "divided" (2014), and Ryerson University's Murtaza Haider who argued the city's politics were polarized between the core and its peripheries (2014). Haider even speculated on the shape of the city's politics if amalgamation had not occurred: "if Toronto were not amalgamated, Mr. Ford would have been the mayor of Scarborough and Etobicoke" (2014).

The question is what should we do about this division? Many pundits put the responsibility upon newly elected mayor John Tory, who promised to build "One Toronto". Robin Sears of the *Toronto Star* went so far as to speculate openly about whether John Tory could truly accomplish this task, bluntly asking, "can John Tory unite a deeply divided Toronto?" (2014). Time will tell, but another group of pundits turned their attention to institutional change, expressing much less comfort in the notion of political healing between each part of a city united through a provincially imposed union. John Barber sang the praises of Metropolitan Toronto in the *Toronto Star*, arguing that the two-tier system was a "brilliant innovation" that let "localism thrive while leveraging the downtown tax base for massive, cross-border public works" (2014). His solution is a system of "refederation", where devolution could slowly resurrect the two-tier system over time (2014). Others did not share Barber's enthusiasm. Marcus Gee took time to argue that de-amalgamation was not the answer because "amalgamation is a done deal, in place for 16 years" (2014).

Gee, however, does not offer much more in terms of support, only asking a series of rhetorical questions: "Does anyone seriously argue that it would make sense to break into pieces again? Do we want to go back to having, say, a separate city of East York with its own mayor and city council?" (2014). This reaction is not uncommon. When you ask people to reflect upon the amalgamation experience and outcomes, you often receive a similar response: amalgamation caused a host of problems but we likely cannot do anything about it. The *status quo*, most will argue, is challenging but change is impossible.

Amalgamation could be compared to making an omelet or scrambling an egg. Many parts are combined together to create a whole, leaving the question: can we really unscramble an egg? Are pundits like Gee right? Is amalgamation set in

stone? Is there truly no way for amalgamated cities, such as Toronto, to return to their pre-amalgamation configuration? Or, are those such as John Barber correct in arguing that amalgamation can, and, in some cases, should be reversed? This paper begins to examine these questions, asking whether de-amalgamation is possible. If so, is it something desirable? Much of our research on restructuring has focused on the process of amalgamation. Very little has looked at the policy ramifications of reversing amalgamation. With this paper, we hope to change that.

There are several sections. In the next, we examine the process of amalgamation in Canada. Several provinces have pursued consolidation aggressively: the most notable is Ontario, the most recent, Manitoba. This section reviews these efforts, examining the process and outcomes. The next section examines the literature that has examined amalgamations in Canada empirically. Much of this work has been centered on Toronto. Since it is the largest city in Canada, it is certainly a unique case, but we can learn much from the results of its forced amalgamation. For the most part, the promises surrounding cost savings and efficiency have not materialized.

Next, we focus on the viability of de-amalgamation, examining both the costs and benefits that could come from reversing the consolidation process. We also examine two cases of de-amalgamation, the secession of Headingley, Manitoba from the amalgamated city of Winnipeg, and the city of Montréal. In the concluding section, we present a set of criteria for establishing the viability of de-amalgamation.

Amalgamation in Canada

Municipalities across the country—small and large—have experienced restructuring in the past several decades. While some amalgamations, such as the 1995 amalgamation of Abbotsford and Matsqui in British Columbia, have been voluntary and approved by voters in a referendum, the trend in Canada has been towards involuntary, or provincially mandated, amalgamation (Sancton, 2011). The first case of a municipality amalgamated against the expressed will of voters and council occurred in the Windsor area in 1935. In that case, the more affluent community of Walkerville was forcibly consolidated by the province with the three surrounding municipalities to create the new City of Windsor in an effort to stave off insolvency (Kusilek and Price, 1988). Walkerville fought the restructuring, even taking the matter to the Judicial Committee of the Privy Council in England, which at the time was Canada's highest court of appeal (Sancton, 2011).

After the precedent set in Windsor, a number of provincial governments have amalgamated their municipalities by force. One of Canada's first large-scale urban amalgamations occurred in Manitoba where, in 1971, the provincial government

consolidated the two-tier Metropolitan Corporation of Greater Winnipeg into a single-tier “unicity” (Kiernan and Walker, 1983). The provincial government had created the two-tier government only 11 years earlier in 1960 as a way to coordinate area-wide servicing between the City of Winnipeg and its ten neighbouring communities (Higgins, 1986). Motivated by a desire to end inter-municipal bickering and promote fiscal equity within the Winnipeg area, the provincial government amalgamated Metro Winnipeg in 1971 (Sancton, 2011).

Following Winnipeg’s consolidation, amalgamations went forward in the Atlantic cities of Charlottetown and Summerside in Prince Edward Island, Miramichi in New Brunswick and Cape Breton, and Halifax in Nova Scotia (Sancton, 2011). Many of these amalgamations were limited to larger cities. Other provinces, namely Ontario and Quebec, later set out to restructure municipal government on a much larger scale. In the 1990s and 2000s, these provincial governments engaged in one of the country’s largest consolidation programs. When Mike Harris and his Progressive Conservative government was elected in 1995, there were 850 municipalities in the province but by 2000 that number had been reduced to 444 (Siegel, 2005: 129). Much of the focus of the Progressive Conservatives was on Toronto, where the two-tier Metropolitan Toronto government was dismantled and converted into a single-tier government (Friskin, 2007). In Quebec, the provincial government moved forward with wide-ranging municipal amalgamations in 2001 and 2002, largely at the request of big-city mayors. Amalgamations occurred in and around Montreal, Quebec City, Longueuil, Hull, Chicoutimi, Sherbrooke, and Trois-Rivières (Sancton, 2011). A de-amalgamation movement discussed later in the paper reversed some of this restructuring.

Amalgamation in Canada is, of course, not a thing of the past. Manitoba’s government is currently attempting to amalgamate every municipality in the province that has fewer than 1,000 residents. The government’s plan would require 87 municipalities to amalgamate, a decision that prompted the Association of Manitoba Municipalities to file legal action against the province (Lambert, 2013). Many of the municipalities in the Greater Victoria Area recently held referendums to consolidate the region into a single municipality. Most voters opted to explore amalgamation (Knox, 2014).

Evaluating the Amalgamation Process

Much has been written about amalgamation in Canada. Forcible amalgamation has occurred in a number of Canadian jurisdictions. What has been the effect of this restructuring? Most of the research has analyzed amalgamated communities on one of two fronts: fiscal—Did amalgamation result in efficiencies? Did

amalgamation create cost savings? Did amalgamation save money?—and governance—Did amalgamation create challenges for governance? Did amalgamation create greater access for citizens? Did amalgamation increase accountability and transparency?. We explore both below.

Fiscal challenges

There is some debate about the fiscal advantages of consolidation. While some (Bahl and Linn, 1992) have argued that consolidated, single-tier municipalities offer greater fiscal capacity, more ability to borrow, and larger taxation capacity, most academic research has found that consolidation produces fiscal challenges. For the most part, local consolidation has produced few economies of scale (Byrnes and Dollery, 2002; Hirsch, 1959; Bird and Slack, 1993). Costs generally increase after amalgamation, largely because of a harmonization of service costs and wages (Blom-Hansen, 2010; Dahlberg, 2010; Bird, 1995). The transitional costs after amalgamation are often quite high and, in some cases, can reduce or even eliminate any immediate cost savings anticipated from consolidation (Flyvbjerg, 2008; Vojnovic, 1998). Research has also found that amalgamation has not led to more efficient service production or delivery (Kushner and Siegel, 2005; Found, 2012; Moisis, Loikkanen, and Oulasvirta, 2010). Additionally, municipal mergers reduce competition among municipalities, which weakens incentives for efficiency and responsiveness to local needs, while also reducing the choice of residents to find an ideal ratio of tax to services (Charlot, Paty, and Piguet, 2012; Bish, 2001). Since municipal mergers rarely result in boundaries that encompass entire metropolitan regions, externalities may still exist in transportation and land-use planning (Bahl, 2010; Slack and Chattopadhyay, 2009). Municipal amalgamations have also been shown to internalize externalities (for example, by forcing rural residents to pay for urban services to which they do not have access) (Vojnovic, 1998).

Within Canada, the cost savings always promised as a benefit of large-scale amalgamation have not materialized (Sancton, 1996; Slack, 2005; Sancton, 2000). For example, Kushner and Siegel, in their examination of three mid-sized amalgamated Ontario cities, found few cost savings: there were lower expenditures after amalgamation in Central Elgin but none found in the larger municipalities of Kingston or Chatham (Kushner and Siegel, 2005).

Toronto is perhaps the best-known example of consolidation in Canada. As such, it has attracted much of the scholarly attention in this area. Slack and Bird (2013) examined expenditures in some core areas of service delivery—fire protection, garbage collection, libraries, and parks and recreation—between 1997 and 2009 and found very few cost savings after Toronto’s amalgamation. Expenditures for fire protection, garbage collection, and parks and recreation increased after amalgamation. Only expenditures for library services decreased, although the authors argue that this is likely the result of the changing nature of library service, which moved from handing out books to providing electronic and internet resources (Slack and Bird, 2013). Slack and Bird also found that residential and

business property taxes decreased after amalgamation. Much of this, however, can be attributed to political decisions aimed at alleviating the widespread notion that amalgamation would lead to higher taxes (Slack and Bird, 2013).

A significant proportion of the anticipated cost-savings from the Toronto amalgamation was lost in the transition period. Schwartz (2003) found that the transition from Metropolitan Toronto to the new consolidated city cost \$275 million. The harmonization of service levels across the city was the major cause of these transition costs, but harmonization of wages and salaries was also a significant expense. Research has also found that, while some positions were eliminated in the wake of amalgamation, many more were added over time. Schwartz (2004) found that, between 1998 and 2002, about 2,700 positions were eliminated because of amalgamation but, over the same time period, an additional 3,600 positions were added. “Downloading”—that is, the transferring of responsibility for services from the provincial government to municipalities—also complicated the post-amalgamation financial picture of the city. The provincially mandated process of Local Service Realignment drove up expenditures in key Toronto service areas, particularly social services (Schwartz, 2001; Slack and Bird, 2013).

Impact on governance

Along with the fiscal impact of municipal restructuring, amalgamation has also caused strain in city governance. In the wake of Toronto’s amalgamation, for instance, there were concerns that resident’s access to local decision-makers would be diminished. In an effort to ensure there was adequate access for those communities amalgamated into the new city, a network of community councils was established; however, past research has found that these councils have largely fallen into a state of disuse, and been reduced in number (Golden and Slack, 2006; Côté, 2009). A similar situation occurred after the creation of the Winnipeg “megacity”: embedded resident advisory groups were eliminated and community committees were reduced after they received mixed reviews (McAllister, 2004; Kiernan and Walker, 1983; Axworthy, Grant, Cassidy, Siamandas, 1973).

Amalgamation in both Toronto and Winnipeg also neglected the regional question. In Toronto, for example, the provincial government seriously examined the broader integration of the Greater Toronto Area (GTA) prior to a change in government. The most notable effort in this area was the Task Force for the Future of the Greater Toronto Area, chaired by Anne Golden, which recommended a relatively powerful, but not directly elected, Greater Toronto Area Council, which would act as a new upper-tier authority and replace Metropolitan Toronto and the four adjoining GTA regional governments (Todd, 1998; Golden, 1996). Golden, of course, was also quite critical of the prospects of amalgamation for the GTA, arguing that the cost-saving benefits of amalgamation were often “over-stated” and that consolidation can also create diseconomies of scale (Sancton, 2000: 116). The provincial government, however, disregarded many of Golden’s recommendations and instead moved forward with altering the internal borders of Metropolitan

Toronto (Sancton, 1999). The regional conversation that Golden began fell by the way side and the problems with regional coordination identified by Golden and others persisted.

Taking these two governance issues together, researchers have concluded that Toronto is both too big and too small (Slack and Bird, 2013; Spicer, 2014). Slack and Bird argue that “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” (2013: 20).

Winnipeg experienced a similar phenomenon after consolidation. In 1971, the amalgamated City of Winnipeg accounted for 99.1% of the population within the Winnipeg Census Metropolitan Area (CMA) and 92.7% in 1996 (Sancton, 2000: 61). Between 1991 and 1996, the City of Winnipeg’s population increased by 0.5% while the rest of the CMA increased by 7.7% (Sancton, 2000: 62). Because of this regional disparity, the provincial government initiated the Capital Region Review in 1998. In the Review’s report, the following problems were identified:

the existing legislative, policy and procedural framework in the Region has not been entirely effective. In particular, there is a need to improve regional awareness and thinking; to institute strategic regional planning of those activities which involve region-wide impacts; and to ensure that the costs and benefits of service delivery in the Region are better allocated among the various governments, ratepayers, and residents ... We believe that some form of regional agency is required to address these needs. There is a broad spectrum of options available, ranging from a third tier of government to greater collaboration between existing local governments. (Sancton, 2000: 62)

Much like Toronto, Winnipeg eventually found itself in a situation where the enlarged, restructured city was unable to capture all of the region’s growth. In this case, the new City of Winnipeg was simply too small to address the growth pressures of the province’s largest (and only true) city region. As a result, the province began to muse about adding additional tiers of government to help manage growth and development that spilled over the city’s boundaries.

Taken together, the research on amalgamation has largely proven that consolidation has created a series of fiscal and governance challenges. Since this is so, it is no surprise that many jurisdictions that were amalgamated have been calling for institutional change. For instance, in Ontario, the Municipality of Killarney recently passed a motion asking the province to de-amalgamate part of the community (2014: 14-232). Of course, they are not alone. Ontario municipalities such as Essex, Sydenham, and Kawartha Lakes all have groups calling for de-amalgamation (Gowan, 2013). Would de-amalgamation be a viable alternative? In the next section, we examine this prospect.

De-amalgamation in Canada

In Canada, the overall trend in municipal restructuring has been toward creating larger, not smaller, municipalities. Very rarely have we seen municipalities de-amalgamate. This, however, does not mean that it is impossible to reverse restructuring. Below, we provide two examples: Headingley, Manitoba, and Montréal, Quebec. The two offer insight into different processes and results.¹ Headingley is a rural municipality west of Winnipeg and was de-amalgamated after a number of studies identified very little commonality with the rest of urban Winnipeg. The community was primarily rural and presented a servicing burden for the amalgamated City of Winnipeg. In 2003, the amalgamated City of Montréal was given the option of de-amalgamating in a city-wide referendum. Some areas chose to de-amalgamate, while others did not, creating a governance challenge for the region.

The two regions give us a look at the differences between urban and rural de-amalgamations. In the case of Headingley, the municipality was permitted to de-amalgamate largely because it was rural and had little in common with the rest of the city. Officials from the community wanted to remain rural and feared urban development would slowly overtake the area if they remained within the boundaries of the City of Winnipeg. Those in Montréal took a different perspective. Every community within the amalgamated City was urban and the referendum focused mainly on taxation and service levels along with the language politics that generally consume debate within the Montréal region.

Case study: Headingley, Manitoba

Winnipeg has undergone intense institutional change. Much like Toronto, Winnipeg was federated as a two-tier municipality prior to being forcibly consolidated in 1971. Caught in this process was Headingley, a small rural community on the western edge of the City of Winnipeg. After amalgamation, those in Headingley pushed for secession. As a primarily rural community, residents did not believe they had much in common with the larger, urban sections of the city.

The arguments of Headingley residents were finally formally addressed in a 1986 review of the City of Winnipeg's governance structure. The review was initiated by the provincial government in 1982, with a focus on examining, "city planning [and] the distribution of responsibilities and powers between the City of Winnipeg and the Province of Manitoba" (Wichern, 1986: 3). The review committee eventually made 73 recommendations concerning everything from the composition of council, to intergovernmental relations to the city's electoral system (Wicher, 1986: 3). Their recommendations on Headingley were, therefore, only one part of

1. There are relatively few examples of de-amalgamation in Canada. Therefore, the two most prominent were selected for this paper.

the extensive review but, for our purposes, they are central. Headingley, the report's authors argued, should be allowed to secede from the City of Winnipeg, noting:

We perceive the area as a predominantly rural area without the status of a rural municipality. It would appear beneficial, therefore, to permit the area to pursue its rural and agricultural future as either a separate municipality or as part of an existing rural municipality. As an important asset in the Winnipeg region, rural Headingley should be given the opportunity to govern itself within the role that apparently all parties within it play. (Sancton, 2000: 61)

In 1987, before the review was issued, the residents of Headingley began a campaign that called for the town's secession from the City of Winnipeg (O'Brien, 1993: 32). These efforts were mainly led a group called the "Headingley Taxpayers Association", who had been agitating for a review of the new amalgamated city structure since consolidation. The report merely confirmed their attitude toward Winnipeg.

In 1990, the City of Winnipeg commissioned a survey of Headingley residents² to gauge their attitudes on issues such as service delivery and governance. The survey did not ask residents specifically whether they wished to continue as part of the City of Winnipeg. What the survey did reveal, however, was that residents had a deep desire to continue as a rural community. A vast majority wanted Headingley to continue to keep its "semi rural atmosphere", with very little new development. Reduced property taxes were also favoured by a majority of residents over improved services and the introduction of "urban services". The largest concerns of Headingley residents were the loss of farmland from their community (City of Winnipeg, Dep't of Environmental Planning, 1990).

Overall, the survey found that most residents within the community had no desire to develop along the same grounds as Winnipeg. Headingley residents overwhelmingly wanted to remain as a rural community. Most respondents indicated that they liked most about living in Headingley was the "peace and quiet" (29.60%) and the "country atmosphere" (31.39%). Very few (6.27%) indicated they enjoyed the community's "proximity to Winnipeg" (City of Winnipeg, Dep't of Environmental Planning, 1990).

The City of Winnipeg used many of these results in drafting its "Action Area Plan", a framework for examining the status of Headingley. The report began by acknowledging the deep distinctions between Headingley and the rest of the communities within the City of Winnipeg. Of note, the report's authors identified the following about Headingley: its land area is one fifth that of Winnipeg, its predominant land use is agricultural, it has a rural service level and, finally, its

2. The survey itself was distributed both by mail to all homes within the Headingley community and at a public, open-house meeting. In total, 312 questionnaires were distributed, with a resulting coverage of 61.3% of the homes in Headingley. 194 questionnaires were returned, for a response rate of 62.2%.

groundwater is not potable (City of Winnipeg, 1991). The report also began by recognizing that many residents had concerns about tax dollars leaving their community to subsidize services in urban portions of the city and that it would be challenging to create a more compact urban form while still within the city's boundaries (City of Winnipeg, 1991).

The study identified that the community of Headingley was still very small. In total, 1,380 residents were identified as living in 435 private dwellings. The land area of the community was quite large (29,445 acres), with most of the land used for agriculture (75%) (City of Winnipeg, 1991). Although the report's mandate did not include the community's concerns with taxation, it did identify several challenges to providing city services within such a rural area, namely the inability of city buses to navigate primarily gravel side roads, the high cost of water delivery in consideration of the households served, and a lack of municipal water supply in the delivery of fire protection (City of Winnipeg, 1991).

Overall, however, the report found that the largest impediment to improving service levels in Headingley were the desires of local residents to maintain their semi-rural character. Wanting to remain rural was identified as an impediment to increased development in Headingley, which would have more easily facilitated extension to services to the community. As it stood, delivering such services was more costly than it needed to be. Residents also expressed concerns regarding the cost to them through local improvement levies for the local distribution system (City of Winnipeg, 1991). In short, the residents of Headingley were unwilling to accept the increased density that would have more easily facilitated the expansion of services and were unwilling to pay more such services in the absence of such development.

In 1991, approval was granted from the provincial government to allow the residents of Headingley to hold a referendum on secession (O'Brien, 1993: 32). Of the 1,390 people entitled to vote, 1,163 voted and of these 1,008, or 86.7%, supported secession and the establishment of a new rural municipality (Sancton, 2000: 61). Following the results of the referendum, Jim Ernst, the provincial Minister of Urban Affairs, presented a bill before the Manitoba Legislature that would allow Headingley to separate from the city of Winnipeg (O'Brien, 1993: 32). Ernst read a summarized list of residents' concerns in the Legislature on February 24, 1992:

Unlike most suburban residential communities in Winnipeg, Headingley is a semi-rural community with no municipal sewer or water service, a limited bus service and unpaved roads ... in short, Headingley has more in common with its neighbouring rural municipalities than it does with Winnipeg, in terms of land uses and levels of municipal services available in particular (O'Brien, 1993: 32).

Ernst reassured his colleagues that his government continued to support the concept of the Unicity despite the secession of Headingley:

Let me assure the House that the government is fully committed to the concept of the Unicity. The government does not encourage or support the dismantling of Unicity. In our view this would be counter-productive. To conclude that because we agreed to Headingley's secession we would therefore permit any other community to become an independent municipality is ... an incorrect assumption (O'Brien, 1993: 33).

Ernst's bill contained an amendment that prevented any secession from leading to a new urban municipality and stated that Headingley was an isolated incident and did not threaten the Unicity concept, stating that "given the very special circumstances of Headingley there is no legitimate basis for concluding that allowing Headingley to secede means other communities will be permitted to withdraw one by one over time ... I can assure you this is not the government's intention, nor will that happen" (O'Brien, 1993: 33). Headingley was separated and gained the status of an independent Rural Municipality.

While the secession went ahead as planned, the legal wrangling over assets continued for some time. Headingley and Winnipeg were unable to find an appropriate method of dividing assets and referred the matter to the Municipal Board of Manitoba for a resolution. The Board examined four main issues:

1. division of the excess of assets over liabilities;
2. allowance for out-standing taxes payable to Winnipeg by Headingley taxpayers;
3. provision for Winnipeg-owned land within Headingley;
4. provision for debt relating to Headingley infrastructure.

Headingley made a submission, claiming they were owed a significant sum from the City of Winnipeg. Specifically, Headingley argued that they were owed: payment of \$650,000 for infrastructure capital costs in 1993, payment of \$100,000 to cover the cost of the consultants and preparation of materials for the Municipal Board hearing, the transfer of all Winnipeg-owned properties within Headingley, cancellation of all capital debt charges claimed by the City of Winnipeg for maintenance of farm drainage during the 1980s, cancellation of a retainer fee for fire services for 1993 (\$166,839), contribution of \$146,000 towards a repayable loan from the provincial government to support the operation of Headingley from 1992, and financial considerations for the John Blumberg Golf Course, which was formally a Winnipeg-run operation (Municipal Board of Manitoba, 1994). Overall, the most surprising part of Headingley's statement of claim was the demand for compensation for "neglect and excessive taxes" that the City of Winnipeg extracted from the community over the twenty-year period it was part of the amalgamated city (Municipal Board of Manitoba, 1994).

The City of Winnipeg agreed to the transfer of property, which was transferred to Headingley for the sum of \$1.00 (Municipal Board of Manitoba, 1994).

The Municipal Board did not see any validity to the claim that the continued operation of the John Blumberg Golf Course requires any compensation from the City (Municipal Board of Manitoba, 1994). On the more substantial issues, such as the transfer of assets from each community, the Board established some general protocols. The Board believed that since the two communities shared a governance structure for only 21 years, Headingley did not have a reasonable claim to share in all of the assets developed by City (1994). Assets put in place during that period, such as the City's Solid Waste Disposal System, were sharable (1994).³ The Board also felt that existing tax revenue was not sharable, but the City's unallocated reserves were (1994). Despite the objections of the City of Winnipeg, the Board also recommended that the equity from the Land Operating Reserve also be shared (1994).⁴ The Board considered City equipment and chattels sharable. These were estimated at a cost of \$53,204,600 (Municipal Board of Manitoba, 1994).

Once it had been established which assets were considered sharable, there was still disagreement about the apportionment of these assets. Headingley maintained that this ratio should be in proportion to the municipality's assessed value (in this case 0.0053) while Winnipeg argued it should be based upon portioned value, that is, the value on which taxes are levied (0.00424). The Board argued that the apportionment should be based upon portioned value (Municipal Board of Manitoba, 1994). Using that formula, Headingley's share of the equity of \$178,242,000 apportioned on the base of assessment amounted to \$755,746 (Municipal Board of Manitoba, 1994). In terms of outstanding taxes, the Board found that Winnipeg owed Headingley taxpayers \$139,055 (1994). Conversely, the Board also found that Headingley owed Winnipeg \$108,670 in outstanding taxes (1994).

Since Headingley left the City of Winnipeg, there have been no other secessions from the city, nor has the provincial government encouraged them.

Case study: Montreal, Quebec

Municipal amalgamation had been explored for some time in Quebec prior to Montreal's restructuring. After the wide-ranging amalgamations in Ontario during the 1990s, Quebec Premier Lucien Bouchard began to explore restructuring in earnest by assigning chairs of advisory committees for municipal structures in Montreal, Quebec City, and the Outaouais area (Sancton, 2011). Louis Bernard was appointed as chair for Montreal, and eventually proposed the creation of 27 boroughs, each of which would have a council with authority to manage a range of local services and levy property tax within the territory of the borough (Sancton, 2011). The Province put its agenda into action in December 2000, with the passage of Bill 170 in the Quebec National Assembly. The legislation led to the

3. On this particular component, Headingley was entitled to \$435,000 in equity from the Solid Waste Disposal System.

4. The Interim report on Headingley's secession argued that this Reserve had not originally included equity from land in Headingley but the City of Winnipeg was unable to prove conclusively that this was true. This led to a re-adjustment of the total allocation by the Municipal Board.

consolidation of 213 municipalities into 42, with the most significant amalgamation on the Island of Montreal where all 28 municipalities were merged to create a new Montreal megacity (Spicer, 2014). On top of the newly created amalgamated city, was another tier of government called the Montreal Metropolitan Community (MMC), which covered the entire metropolitan area (Sancton, 2011).

Because borough governments were included, Montreal's new structure would look very different from that of Toronto. According to Sancton, this step was unique: "never in Canadian municipal history had a serious proposal for an amalgamation been accompanied by such a high degree of political and financial decentralization" (2011: 159). Tomàs (2012) explains that there were two main reasons for creating the borough governments. The first was linguistic, as 14 of the municipalities where English was the language spoken by the majority had a bilingual status prior to amalgamation and provided services to citizens in both English and French. The second was about local responsiveness: the boroughs were seen as a way to preserve the sense of community in the former municipalities.

The amalgamation of Montreal was controversial. The mayors of many suburban municipalities were opposed to the merger. Some even held public consultations in their municipalities to gather support to oppose the mergers (Vaillancourt and Meloche, 2013). Others even took the matter to the courts and attempted to block the forcible consolidation (Vaillancourt and Meloche, 2013). Since this was the case, we should not be surprised that a level of animosity was still present after the restructuring process. In the 2003 provincial election campaign, the Quebec Liberal Party (PLQ) promised to allow residents to have a say on the municipal mergers. The PLQ's commitment to allowing debate on municipal amalgamation was long-standing. At the party's 2000 congress, a resolution allowing for de-amalgamation was moved by Roch Cholette, the party's municipal affairs critic (Sancton, 2006). Party leader Jean Charest expressed support for the motion, including the need for voters to have a say in the fate of their communities (Sancton, 2006). The current government's merger plan, Charest argued, was heavy handed and largely excluded the public. During the election campaign, a large public rally was held in Pointe Claire in the west end of the Island of Montreal, where Charest promised to provide a mechanism for de-amalgamation, if elected. Specifically, Charest stated: "The Liberal Party [has promised] once it forms a government [that it will] allow the citizens who have been victims of these forced mergers to speak and undo what the Parti Québécois has done" (Sancton, 2006).

The PLQ went on to win the election and, once in power, passed a law requiring citizen consultations on the territorial reorganization that would allow municipalities that wished to leave any newly amalgamated municipalities to do so under certain conditions. Two conditions were put forward for de-amalgamation: first, a minimum of 10% of registered voters within a former municipality's borders had to sign a register and, second, a referendum to lead to a de-amalgamation had to include a majority of voters who represented at least 35% of registered voters (Vaillancourt and Meloche, 2013). Across the province, 31 municipalities—15 of

which were on the Island of Montreal—opted for de-amalgamation (Spicer, 2014). Municipalities that chose to de-amalgamate had their independent status restored on January 1, 2006.

Agglomeration

The de-amalgamation on the Island of Montreal required yet another provincial reform: the creation of the Agglomeration. This new upper-tier structure was given responsibility for delivering higher-order services across the Island, including property assessment, social housing, large parks, policy, public transit, major streets, water supply, and sewage treatment. While the Agglomeration provides upper-tier services to the 15 de-amalgamated municipalities, it is dominated by the City of Montreal, which constitutes 87% of the population on the Island (Spicer, 2014). The Agglomeration council is headed by the mayor of Montreal and consists of 31 elected officials representing all of the municipalities on the island of Montreal: the mayor of Montreal, 15 members of Montreal's city council named by the mayor, the 14 mayors of the reconstituted municipalities (Île-Dorval and Dorval share one representative), and a second representative from Dollard-des-Ormeaux (because of the size of its population) (Vaillancourt and Meloche, 2013). Voting on the Agglomeration council is weighted, so that Montréal has 87% of the votes.

Servicing responsibility for the Island of Montréal is divided between the Agglomeration, the City of Montreal, and the boroughs. The Agglomeration is responsible for area-wide services (for example, property assessment, social housing, transit, and public safety). The City and boroughs are responsible for local services with the City managing services such as water, waste management, and economic development, while the boroughs oversee services such as local street maintenance, snow removal, libraries, and local parks (Spicer, 2014).

Borough governments are funded largely through transfers from the City of Montreal; the transfers totalled \$850 million in 2012 (Vaillancourt and Meloche, 2013). Property tax rates are relatively consistent throughout the city, as boroughs make little use of their taxation powers. Still, some boroughs are raising up to 20% of their revenues from their residents—largely through service charges such as parking revenue—whereas local revenues represent as little as 5% in others (Vaillancourt and Meloche, 2013).

The amalgamation and subsequent de-amalgamation of Montreal has led to a great deal of complexity in governance. Within Montreal, there are effectively four levels of government: the boroughs, the City of Montreal, the Agglomeration, and the Montreal Metropolitan Community. Many of these have elected representatives. Borough governments are not distinct corporate entities and operate within the City of Montreal. Each has a directly elected mayor who also sits on city council. Most have at least one other councillor on its borough council and some have up to four more. In total, 40 borough councillors are elected to serve at that level, while 64 members are elected to serve on Montreal city council, including the Mayor of Montreal and the 18 borough mayors (Sancton, 2011).

Evaluation of the Case Studies

Since de-amalgamation, Headingley has remained relatively small. As of 2011, the municipality had a population of 3,215 people and only \$139 million worth of assessed property.⁵ In this sense, de-amalgamation advocates got their wish. The 1991 survey by the City of Winnipeg's planning office identified 1,380 residents, which means the community has seen only a marginal increase in population over 20 years. Headingley is also a fiscally healthy community. As of 2011, the municipality had over \$7 million in cash reserves and a \$30 million surplus—the highest in its municipal class (populations between 1,000 and 5,000). Unfortunately, we do not have a survey similar to the one conducted in 1991 by the City of Winnipeg to gauge the satisfaction of residents with their municipal services but, from the latest financial returns, it appears that Headingley is fiscally healthy.

The case of Montreal is, of course, considerably different. As noted above, the partial de-amalgamation of the city has caused significant challenges in governance. The region is also experiencing fiscal challenges. In a 2013 article, Vaillancourt and Meloche argue that it is challenging to identify cost savings results from amalgamation because of the complexity of governance arrangements following the creation of borough governments and de-amalgamation. Servicing responsibility for the Island of Montréal is divided between the Agglomeration, the City of Montréal and the boroughs, all of which, they argue creates a host of service inefficiencies (Vaillancourt and Meloche, 2013). There is no clear formula to determine who ought to be responsible for delivering which services, but Vaillancourt and Meloche (2013) argue that efficiency will generally be higher when responsibilities and costs are shared appropriately. They, therefore, identify ways in which Montreal's financial and administrative arrangements could be made more efficient. They suggest that three borough-administered services—libraries, waste collection, and road maintenance and snow removal—could be more efficiently delivered by the City of Montreal (2013). They further argue that transactions between the boroughs also need to be priced properly in order to provide full accounting for municipal services (2013). Similarly, cost-sharing mechanisms should be fully explored to bring more efficient service delivery for items delivered partially by both the city and the boroughs, such as library services, since borrowers may come from outside a particular borough library catchment area. Overall, it is unclear whether amalgamation and the reforms that followed produced cost savings in Montréal, but there seems to be plenty of scope for making the city's current administrative arrangements more efficient than they are at present.

Headingley and Montreal have provided some valuable lessons about de-amalgamation. The case of Headingley should provide some hope for

5. Data from the Province of Manitoba's Municipal Statistical Information. These figures are as of the end of the 2011 fiscal year.

de-amalgamation advocates in the rural parts of Ontario’s “megacities”, such as Ottawa and Hamilton. In both, the provincial government merged rural and semi-rural communities with large urban centres, a measure that was met with stiff resistance. If Headingley could secede based on its relatively few connections to the urban centre of the city, then so too could communities like Flamborough in Hamilton or Osgoode in Ottawa. Headingley also seceded from Winnipeg 21 years after first being amalgamated, which provides hope for communities told that too much time has passed since their original consolidation to reverse restructuring effectively.

Montreal provides some very different lessons. The PLQ government should be credited for providing voters with a mechanism to vote for de-amalgamation. They promised to do so in the 2003 campaign and, when given the opportunity, held to their promise. The Ontario Liberal Party under Dalton McGuinty’s leadership promised something similar during the 2003 Ontario election campaign, but abandoned the notion of allowing de-amalgamations, even after a referendum on the issue was held in the consolidated municipality of Kawartha Lakes (Sancton, 2006). For the most part, the Ontario Liberal government felt that the fiscal health of many smaller, municipalities would be in jeopardy if they were allowed to de-amalgamate.⁶

While McGuinty was heavily criticized for his decision, examining the complicated governance network in Montreal may lend some support to his decision. Residents in Montreal now live in a multi-tier system, where decision-making authority, servicing, and financing responsibility is fragmented. While it is commendable that the government of Jean Charest, unlike the previous PQ government, allowed residents to have a say in the future of their municipal governments, by not reversing amalgamation completely, they created a needlessly complicated system of local governance.

Is De-amalgamation Possible?

De-amalgamation does not necessarily mean a return to pre-amalgamation boundaries. As we have seen through the two examples above, often de-amalgamation means accepting peculiar boundaries and new governance arrangements. In Headingley, the community long felt that they had no connection to the rest of the City of Winnipeg. As a rural community, residents of Headingley took pride in their agricultural economy and feared that urban expansion would soon overtake their community. The section of the City of Winnipeg that contained the former

6. Personal communication from Richard Joy, Former Advisor to Minister of Municipal Affairs and Housing, John Gerretsen, Government of Ontario (February 28, 2014).

municipality was sectioned off and Headingley was reborn with Rural Municipality status. The legal wrangling over assets took some time to conclude, largely because of how long Headingley had been part of the City of Winnipeg. In Montreal, the amalgamated city was not together very long, allowing de-amalgamation without many legal complications. The question remains, however, is de-amalgamation possible?

In a theoretical sense, de-amalgamation is certainly possible. If the borders of municipalities can be enlarged, they can be reduced or divided. Provincial governments in Canada have the ability to redraw local boundaries and re-assign responsibilities. Simply put, if provincial governments can amalgamate, they can de-amalgamate. The question then becomes: If de-amalgamation is possible, is it desirable? Would de-amalgamation correct many of the problems identified above? In this case, the question is less clear. In fact, as we have seen by examining Montreal, the end result of de-amalgamation could be a messy governance arrangement. Below are some items to be taken into account when evaluating whether de-amalgamation would be beneficial.

Fiscal health

One of the most important factors in restructuring municipal governments is the fiscal health of the community. For many municipalities, size and function are often most important for ensuring municipalities are fiscally healthy. Does it have enough of an assessment base to properly deliver services to residents? What the Ontario Liberals found when they examined the case for de-amalgamation of the City of Kawartha Lakes was that many of the smaller communities, who were once independent municipalities in Victoria County, were not able to absorb the cost of many of the services transferred to their responsibility by the provincial government. It is likely that many communities could be facing similar situations. In the years since amalgamation, fiscal conditions may have changed. Therefore, it is important to find the right governance structure to ensure the new municipality is fiscally healthy.

Governance

Consideration must be given to the type of governance network that would accompany de-amalgamation. In Montreal, de-amalgamation led to the creation of a new tier of government to help coordinate services. This new system, as we have seen, has created confusion amongst residents and fragmentation in the region's governance and service-delivery structure. De-amalgamation in Montreal has created a patchwork of governance within the region and blurred the lines of accountability. Adding institutional layers to a region, however, does not always solve these types of servicing and governance dilemmas. Research has shown that inter-local cooperation shows promise in ensuring service and policy continuity throughout a region (Feiock, 2007). De-amalgamation could, therefore, be achieved without replicating the complexity found in Montreal by relying on voluntary service sharing networks.

Service delivery

In many cases, amalgamation is pursued to better provide for service continuity, or to limit the amount of inter-jurisdictional bickering related to servicing. It is unclear whether de-amalgamating a community would mean a return to these types of servicing dilemmas. Structural change does not always solve inter-jurisdictional conflict. For this reason, there is a chance that de-amalgamation may further complicate matters, an aspect the Montreal case clearly demonstrates. How can economies of scale and scope be best achieved? Would service quality improve? Would service delivery be more efficient? In certain cases, de-amalgamation may likely make achieving service efficiency more challenging if the right governance structure is not put in place.

Transaction costs

The relationship between Headingley and Winnipeg in wake of Headingley's de-amalgamation has shown that there are steep costs to de-amalgamation. When communities de-amalgamate, they are rarely able to leave without some costs, especially if they have been amalgamated for a particularly long time. In some cases, the transaction costs may be too high to make de-amalgamation possible. Not only will there be legal and financial negotiations with the municipality from which the community is separating, but consideration will have to be given to the transition costs of establishing a new administrative and political structure. As we noticed with Toronto's amalgamation, labour costs erased much of the anticipated savings. The same forces would be at play during de-amalgamation. In some cases, these transaction costs could affect the ongoing fiscal health of the community, perhaps making de-amalgamation unfeasible.

Public support

As we have seen, the public is often excluded from decisions surrounding amalgamation. Municipalities can be forcibly consolidated without ever gaining consent from the community. In fact, a number of provincial governments have taken this route. Manitoba is currently engaged in a large-scale forced amalgamation of its smallest municipalities. A number of municipalities in the Greater Victoria Area recently held referendums on whether to explore amalgamation. This, however, is a rarity. Even when public input was not sought prior to amalgamation, it is important to seek it prior to de-amalgamation. Institutional change should have the broad support of residents. In Montreal, the option of de-amalgamation was provided to all former municipalities and was rejected in many. As unpopular as forced amalgamation often is, many do find benefit in these new governance structures. Seeking a clear mandate to pursue de-amalgamation not only bolsters the case of those advocating it but also ensures community support.

Even in the right conditions, provincial governments will not always consider de-amalgamation. Politics are inevitably in play during amalgamation

and de-amalgamation. In the absence of provincial political support or if de-amalgamation does not make sense, administrative decentralization may help residents return some semblance of local control to their communities. Community councils may be able to accomplish this, if they were empowered with decision-making ability and responsibility over local matters and some finances. Participatory budgeting and the type of borough councils that Montreal has in place also show some promise. There is a way that these types of mechanisms would garner the benefits of a two-tier system: local control over fiscal and planning functions, but with an area-wide purview for service delivery.

De-amalgamation, however, has been shown to be possible. It has been pursued on a number of occasions, but rarely achieved. Provincial governments are generally not motivated to reverse their decisions. Even new provincial governments are loathe to revisit the decisions of previous administrations when it comes to municipal amalgamations. Opponents of amalgamation have made their case to reverse restructuring decisions in certain cases. Headingley and Montreal present two cases: one is rural, while the other is urban; one was a partial de-amalgamation and the other was gauged on a city-wide basis. An important distinction, however, is also the length of time between amalgamation and de-amalgamation. In Montreal, de-amalgamation activists pressured the government to reverse their decision throughout the merger process. An opposition party saw an opportunity to capitalize. In Headingley, the de-amalgamation process took more than 21 years to achieve but, in this case, advocates never relented and continuously made a case restore their community's autonomy. The key, then, appears to be advocacy and research.

Returning to the question posed by Gee and his colleagues, what would de-amalgamation look like in our largest city, Toronto? Is Gee right that de-amalgamation is not possible? Quite frankly, no. De-amalgamation in Toronto is possible. Montreal has shown us that de-amalgamation of a large city is possible. Headingley has demonstrated that the tenure of consolidation complicates the de-amalgamation process, but that does not fatally harm it. The City of Toronto, therefore, could, at least in theory, be de-amalgamated and the previous borders restored. However, is it desirable to do so?

The key lesson from Montréal's experience with de-amalgamation is that allowing certain areas to de-amalgamate and others to stay can create a fragmented patchwork of governance across the region. A similar situation in Toronto is not desirable. If de-amalgamation were to be pursued, the return of a two-tier structure would be the best option. The external boundary of the City of Toronto and Metropolitan Toronto are the same. The provincial government merely removed the internal boundaries at the time of amalgamation. Some of these boundaries are still in place. In the wake of amalgamation, community councils were established to address issues that were local in nature, such as business licensing and property standards issues. Originally six community councils were established, adhering to

the boundaries of the former lower-tier municipalities in Metropolitan Toronto. In 2003, the number of community councils was reduced to four: Etobicoke-York; North York; Scarborough; and Toronto and East York.

These current boundaries could theoretically serve as new internal boundaries, leaving the exterior boundaries in place. Servicing responsibility could be decentralized within the city and placed in the hands of these local councils, effectively recreating a two-tier system that was, at one time, widely praised for its ability to balance local interests with servicing efficiency. Metropolitan Toronto originally had responsibility for area-wide services, such as property assessment, the construction and maintenance of arterial roads, major sewage and water facilities, regional planning, public transportation, the administration of justice, metropolitan parks, and housing (Colton, 1980: 71). The lower-tier municipalities would be responsible for local services, such as police and fire protection, business licensing, public health, and libraries (Colton, 1980: 71). In other service areas, responsibility was shared with Metropolitan Toronto (Colton, 1980: 71). The same servicing arrangement could be put in place again, thereby ensuring a degree of localization while maximizing economies of scale and scope.

All of this, however, is only speculative. There is no guarantee that the service framework or governance structure mentioned above is even feasible. In fact, the possibility of de-amalgamation in Toronto needs to be buttressed by two important points. First, the majority of the research on Toronto's amalgamation has indicated that restructuring has created a host of challenges for the city. There is no reason for us to believe that today's provincial officials would do a better job de-amalgamating the city than yesterday's officials who were responsible for its amalgamation. Second, prior to Toronto's amalgamation, provincial policy-makers were engaged in a regional conversation, attempting to bring about greater connections between the city and its suburban neighbours. Amalgamation ended those discussions. Since then, regional coordination continues to be a challenge. De-amalgamation, then, could very well postpone those much-needed discussions once again.

Municipalities require the right governance structures. Research has shown that municipal amalgamation is fraught with fiscal, policy, servicing, and governance challenges. Policy-makers ought to pursue an institutional arrangement that best provides for economies of scale and scope, while also allowing citizens suitable access to decision-makers. It is not always apparent whether de-amalgamation would provide this type of institutional arrangement. A number of factors, including fiscal health, governance, service delivery, public input, and transaction costs need to be carefully considered prior to pursuing de-amalgamation. In certain cases, such as Toronto, de-amalgamation is possible, but likely not desirable, mostly because such a decision would further complicate the region's coordination challenges. We have, however, seen cases of successful de-amalgamation. Headingley provides us with an excellent example of a community that expressed their desire to be independent and long pressed their concerns with the province. By all accounts,

today the municipality is fiscally healthy and free to remain primarily rural, a key desire of de-amalgamation proponents. Montreal, on the other hand, provides us with an example of how de-amalgamation can create a messy and blurred governance network. As such, Montréal is an example that de-amalgamation proponents should hope to avoid.

Overall, however, examining both cases and considering de-amalgamation in a large city like Toronto, should give us pause when considering both amalgamation and de-amalgamation. The goal of policy makers should be to find the right type of institutional structure for municipalities that is embraced by citizens. As we have seen from this discussion on de-amalgamation, reversing local institutional change is very difficult. It is a long and challenging process, that often has high legal and financial costs. Therefore, provincial governments should more carefully examine the benefits of amalgamation because once implemented, this type of restructuring is nearly impossible to reverse without significant cost and challenge. Institutional restructuring, therefore, is something we should never take lightly.

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THE ECONOMIC ARGUMENTS AGAINST MUNICIPAL MERGERS

(October 2001)

Despite strong local opposition, the government of Quebec has forged ahead with its ambitious project of municipal reorganization. This means that beginning January 1st, 2002, the 28 municipalities on the island of Montreal will be amalgamated into a single city divided into 27 boroughs; elsewhere in the province, dozens of other municipalities have also been forced to merge.

However, the debate over the merits of this reorganization is set to continue. First because, in the political field, the main provincial opposition party has taken a stand in favour of a process that would allow a "demerger" in cities where a majority of residents wish to do so. But also because in spite of ideological fashions which vary from one country or one period to another, economic theory and data lead to a very precise conclusion: that citizens are better served in urban regions which have numerous small municipalities than in those dominated by only one or by a few.

The current mergers are thus likely to arouse dissatisfaction and disappointment when the anticipated benefits do not materialize. This can already be seen happening in Toronto and in Halifax, and it still can be seen in New York City more than a century after the amalgamation there – the last one in the United States similar to those now being implemented in Canada – formed the largest city in North America.

This *Note* will thus review the main economic arguments that should inform the debate on the principle of mergers, regardless of whether this debate continues after the next provincial election or resumes in the decades to come.

The theoretical basis

In 1956, Charles Tiebout published the first explanation of the link between high citizen satisfaction levels and a large number of local jurisdictions in a now celebrated article.⁽¹⁾ According to Tiebout's Model, a resident has little influence on the range and quality of local services (roads, police, fire brigades, parks, libraries, etc.) offered in his municipality, or on the price that he pays to obtain them. As public goods, these services are not sold in the same way that consumer goods are on the market. A citizen can of course try to influence his councillor into implementing his desires, or he can vote for someone else in the next election that will, but he will only be satisfied if a majority in his community agrees with him.

Tiebout however showed that if there existed, in a given urban region, a large number of small municipalities, people could then "vote with their feet" by settling in or moving to cities which offer what they would consider the optimal level of public services. Some people would be prepared to pay higher taxes to obtain better quality services; others would prefer fewer services at lower cost. Some cities would emphasize industrial development and job creation for their citizens; others would provide more greenery and leisure activities; and still others would specialize in family services.

In this context, every citizen would be able to find the community which is most suitable to him – just as he can have better choice in a competitive private market, where different products are on offer, than in a market dominated by a single provider. Therefore, every municipal entity will be under pressure to satisfy the needs and desires of its citizens, because it will be subject to the competition of nearby cities. In order to remain prosperous and to keep or attract residents, it will have to be more efficient in the provision of services and less greedy when setting taxation levels.

Costs and Economies of Scale

Tiebout's Model offers a good explanation of why large administrations that face little competition will tend, over time, to become bureaucratic, as well as why they will show themselves to be more responsive to the demands of pressure groups and municipal employees' unions than to their citizen-electors. Reducing costs nevertheless remains a major argument for those who support mergers.

In her *White Paper* on municipal reorganization made public in April 2000, the minister for Municipal Affairs and the Metropolis declared: *The merger of municipalities makes it possible to offer better services to the population, and this, at lower cost. By eliminating duplication and by making possible economies of scale, they allow municipalities to reduce costs and to reach a level of efficiency so that they can more easily provide services of better quality. The amalgamation of municipalities can also provide an opportunity to downsize and rationalize their organization.*

One of the most tenacious myths that surround this issue of cost is that reducing the number of mayors and councillors from small suburban municipalities can mean important savings. These expenses are not only marginal, they do not necessarily decrease in merged cities. Robert L. Bish compared the costs of 88 elected representatives and their staffs in 13 administrations, with those of 23 representatives elected within a merged administration serving the same population. He concludes that the per capita costs, in both cases, counted for less than 1% of total spending. Not only that, because of the higher salaries and the more numerous staff in the merged city, the per capita costs in both systems were practically identical.⁽²⁾

Furthermore, empirical research shows that economies of scale are negligible when it comes to municipal services. They can be achieved only for very specialized services, such as murder investigations, or for those that require important capital investments, such as water treatment plants. However, agreements between municipalities, which are already very numerous in Quebec, make it possible to realize these potential savings without compromising the autonomy of the participating municipalities. In the case of Montreal, the Montreal Urban Community (MUC) already administered these services, so the merger will make no difference.

Professor David Sjoquist of Georgia State University has looked at operating costs in 48 metropolitan regions of the Southern United States and observed that the costs of services are smaller in regions that contain numerous small municipal administrations.⁽³⁾ Furthermore, Professor Jacques Desbiens of the Université du Québec à Chicoutimi has argued that for the majority of municipal services, economies of scale are already in place even in cities of very small size, and, in fact, that it is diseconomies of scale that one sees when municipalities of more than 2000 inhabitants are amalgamated.⁽⁴⁾

Having reviewed numerous studies on this subject, Robert L. Bish concludes that *there is overwhelming evidence that the least expensive local governments are found in polycentric systems of small and medium-sized municipalities that also cooperate in providing those services that offer true economies of scale. Large municipalities do not seem to be as capable of cooperating in this way, of decentralizing their services, or of using alternative delivery mechanisms for services that lack economies of scale.*⁽⁵⁾

Even a report commissioned by the City of Montreal from the consulting firm Secor arrives at similar conclusions.⁽⁶⁾ According to the authors, *municipal mergers do not necessarily, and especially not automatically, result in savings. There are few economies of scale to be realized in municipal functions and these savings are*

reached when populations are relatively small. About half of the potential savings identified in the report originate in the elimination of duplication (multiple city halls, mayors and support staff, etc.), an area where hopes are bound to be disappointed, as shown above. The other half comes from the reorganization of services that the merger would allow. But the report notes that *some of these savings could in theory take place in each of the cities separately, even if the probability of seeing them realized would increase appreciably because of the opportunity created by the dynamics of the merger.*

So in the end, mergers offer a probability that relies on short-term dynamics of a bureaucratic nature instead of permanent incentives stemming from a competitive environment

Regional Equity

Another important reason used to justify the mergers is that of the fiscal disparities between municipalities of the same urban area and the need to establish equity between rich and poor districts. This argument does not hold water for several reasons.

First, on the issue of financing regional equipment, the MUC already acted as a mechanism for sharing costs for the entire island of Montreal. If the goal were to simplify the structures and to include off-island suburbs in this cost sharing, expanding the territory covered by creating the Metropolitan Community of Montreal would have been enough; there was no need to amalgamate the municipalities of the island.

Also, besides having a system of "progressive" taxation, the federal and provincial governments already devote billions of dollars to various social programs. It is absurd to upset municipal administration in order to add an additional mechanism to transfer wealth. In any case, if the mergers were really a solution to regional inequities, all the municipalities of the region would then have to be included in the new city, including Laval and the prosperous suburbs of the north and south shores, and not those of the island only.

Finally, as is the case for federal equalization payments and other regionally based wealth transfer programs, redistributionism often creates a vicious cycle whereby underdevelopment is being fostered instead of being eradicated. Wrong incentives lead local decision makers to try to obtain a larger slice of the redistributed funds instead of improving the competitiveness of their region. Small municipalities, which have to count on their own means to prosper, do not have this option and thus tend to make better decisions.

International Competitiveness

Helping urban centres to face international competition is also a major argument used by those who favour mergers. The *White Paper* explains that *the absence of a coherent development strategy makes it difficult for our urban centres to take up the challenge of competing with the rest of the world. Indeed, there is a connection between the creation of strong socio-economic poles, able to effectively sustain competition in the context of the market globalization, and the existence of a clear development strategy emanating from a decision-taking role at the level of city regions.*

However, this belief does not correspond to the facts either. Dynamic urban regions as different as Silicon Valley, Boston, Houston and Dallas were able to prosper with very fragmented municipal administrations (see **Table 1**). No empirical link between the centralization of decision-making authority and international competitiveness has ever been established by researchers.

Table 1
Municipal fragmentation in Montreal (before the merger)
and in American urban areas of comparable size

Urban area	Population (000)	Number of municipalities*
Boston	5,828	282
Detroit	5,439	151
Dallas	4,683	207
Houston	4,320	115
Atlanta	3,627	102
Miami	3,515	55
Seattle	3,368	88
Montreal	3,327	111
Cleveland	2,908	146
Phoenix	2,840	32
Minneapolis	2,792	192
San Diego	2,723	18
St-Louis	2,558	228
Pittsburgh	2,361	238
Denver	2,318	67

*Excludes counties, except in Boston where they have the same functions as multi-level municipal administrations, including cities.
Source: Andrew Sancton, *Merger Mania: The Assault on Local Government*, 2000.

The *White Paper* repeatedly mentions the danger of "sterile competition" that would be damaging to economic development. This stems from the discredited notion that development results from a consensus among local actors and from centralized economic planning. On the contrary, a multiplicity of municipal administrations can stimulate healthy competition between several development strategies, a situation that favours experimentation and specialization while minimizing the consequences of failure for the whole region.

The ideal of having a region "speak with one voice" is doubtless relevant when it comes to lobbying higher levels of government or international organisations with the aim of obtaining subsidies, projects or prestigious events, but it has no effect on what matters above all for the prosperity of a city, namely the dynamism of its private sector economy. For this, the quality of basic services and competitive taxation levels are the major factors. As for the promotion of the city abroad, this can be taken up by bodies such as Montréal International or by the Metropolitan Community of Montreal and in no way requires the amalgamation of the municipalities of the island.

Conclusion

The forced mergers, in Montreal as in the other urban areas of Quebec, are the wrong remedy for a badly diagnosed problem. In the case of Montreal, the suburban municipalities were generally prosperous and well managed, and if one takes as representative the crushing majorities which voted against the merger plan when local referenda were held, one has to conclude that their citizens were satisfied with the services that they received. These politico-economic successes were nonetheless jeopardized in order to solve the problems of the central city, an administration notoriously indebted, badly managed and with deficient services.

In the new City of Montreal, 18 boroughs correspond to the territory of the former 27 suburban municipalities, while the ancient City of Montreal by itself gets 9 boroughs. This geographic apportionment points to an alternative solution to solve the problems of the central city: its division into several smaller municipal entities.

Increasingly, this is indeed what city dwellers fighting for urban renewal in the United States have been doing. In New York, Los Angeles, Miami, Houston, Atlanta and in other American cities, citizens' movements resist the expansion of central cities, advocate the incorporation of new municipalities in the surrounding districts and even try to detach districts belonging to big cities. The case of the New York borough of Staten Island, where two thirds of the residents voted in favour of secession during a consultative referendum in 1993, is doubtless the best-known example.

Professor Howard Husock of the Kennedy School of Government of University Harvard explains how this solution would help restore life to old and decrepit central city neighbourhoods:

Rather than expanding cities, we should break them up into an array of independent, neighbourhood-based governments that would set their own property-tax rates, elect their own officials, and give city residents the same control and sense of community that their suburban counterparts take for granted. City dwellers could direct public spending to the things they consider most important. They could ask the local public works director why their street went unplowed or unpaved, or push the local chief of police to deal with the rowdy playground gang before things get out of hand. Inevitably, such a system would favour economic growth over redistribution. Freed from centralized bureaucracies, these neighbourhoods, including many of the older, poorer ones, would prosper. As for paying to maintain, or build, expensive regional infrastructure systems: for that purpose, these independent local governments could cooperate in a loose confederation, or "special purpose district".(7)

Here we have, summarized in a few sentences, the real debate on municipal reorganization that should have taken place, and will one day or another have to be held.

1. Charles Tiebout, "A Pure Theory of Local Expenditures", *Journal of Political Economy*, n° 64, October 1956, p. 416-424. >>
2. Robert L. Bish, *Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First*, C.D. Howe Institute Commentary 150, March 200, p. 10. >>
3. David L. Sjoquist, "The Effect of the Number of Local Governments on Central City Expenditures", *National Tax Journal*, no 35, p. 79-88. >>
4. Jacques Desbiens, *Fusions municipales et économies d'échelle: mythes et réalités*, 1999. >>
5. Robert L. Bish, op.cit., p. 24. >>
6. Secor, *Économies potentielles liées à une fusion des municipalités de l'île de Montréal en une seule ville*, rapport présenté à la Ville de Montréal, 14 septembre 1999. >>
7. Howard Husock, "Let's break up the big cities", *City Journal*, Winter 1998, Vol. 8, No. 1. >>

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Merging Municipalities: Is Bigger Better?

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Institute on Municipal Finance and Governance



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Merging Municipalities: Is Bigger Better?

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Merging Municipalities: Is Bigger Better?

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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

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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.¹ 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).² 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.³ 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

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.⁴ 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.⁵

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

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.⁶ The empirical evidence is, at best, mixed.⁷ 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.⁸

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

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.⁹ 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.¹⁰

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 Piguet (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.¹¹ 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 Mergers¹²

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.¹³ 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.¹⁴ Directors are appointed annually by local councils (on the basis of representation by population) from the politicians who

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.¹⁵ 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.¹⁶ 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).¹⁷ 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.¹⁸ 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

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.¹⁹ 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.²⁰ 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.²¹ Without accountability, there is no incentive to be efficient: a higher level of technical efficiency through more

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.²²

4.4 Final observations on governance structure

Neither theory nor practice tells us clearly which model of governance is best for large metropolitan areas.²³ 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

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.²⁴ 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.²⁵

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.²⁶ 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,²⁷ 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.²⁸

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 6.²⁹ 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” (Friskén 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

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 1996.³⁰ However, the GTSB was given no legislative authority, except to

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.³¹

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.³² 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.³³ 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.³⁴ 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 1998.³⁵

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 2008.³⁶ 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).³⁷

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

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.³⁸ 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.³⁹ 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

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

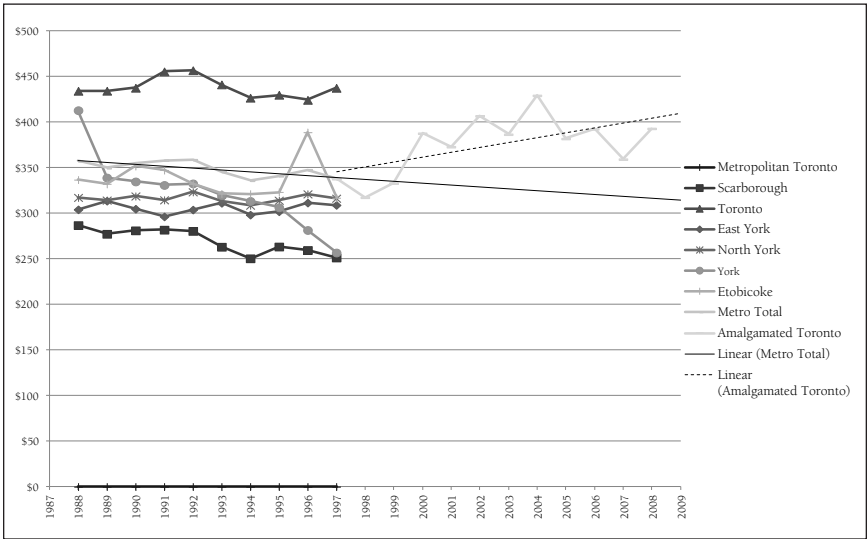


Figure 2: Garbage Collection Expenditures Per Household - 1988-2008

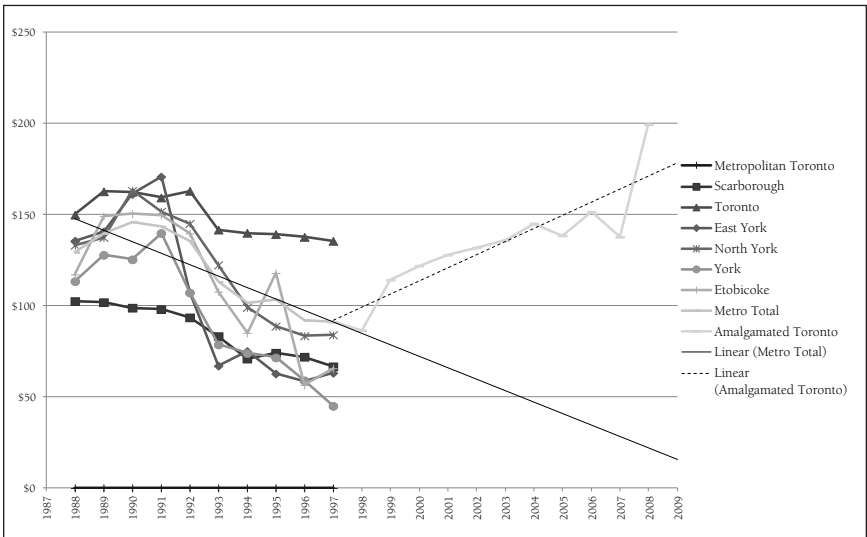


Figure 3: Parks & Recreation Expenditures Per Household - 1988-2008

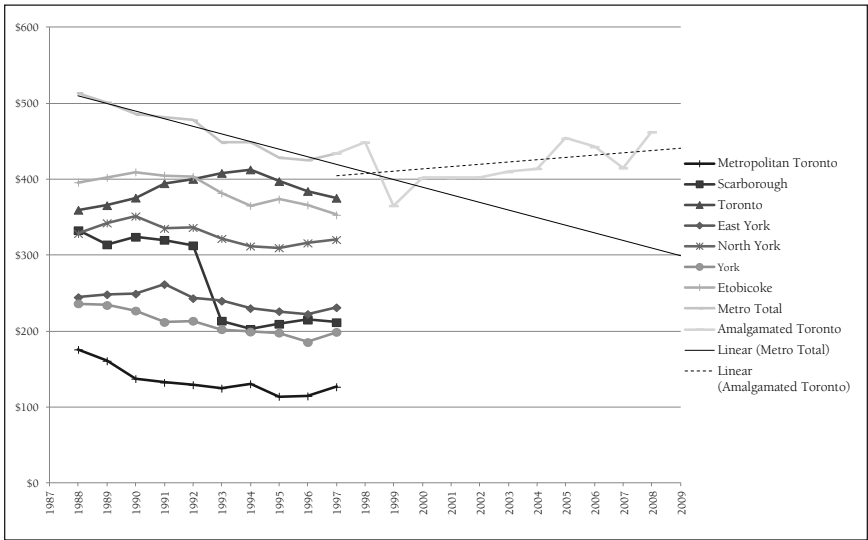
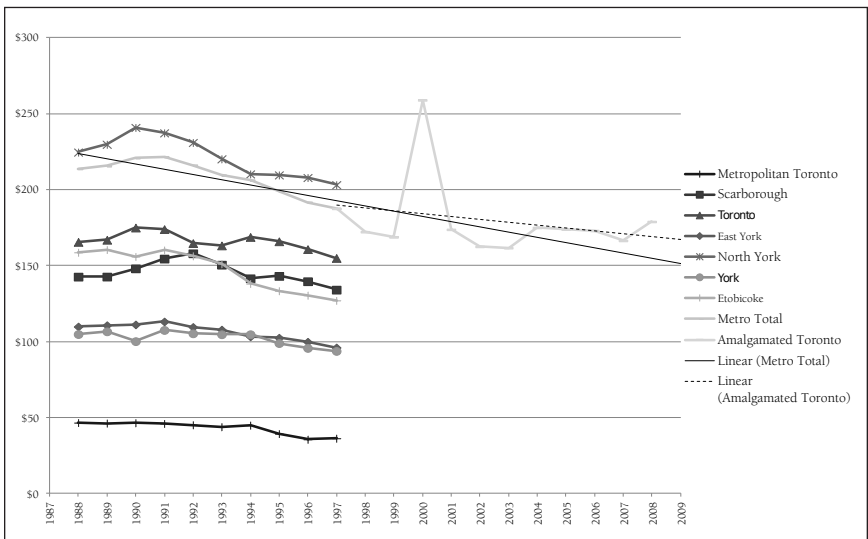


Figure 4: Libraries Expenditures Per Household - 1988-2008



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

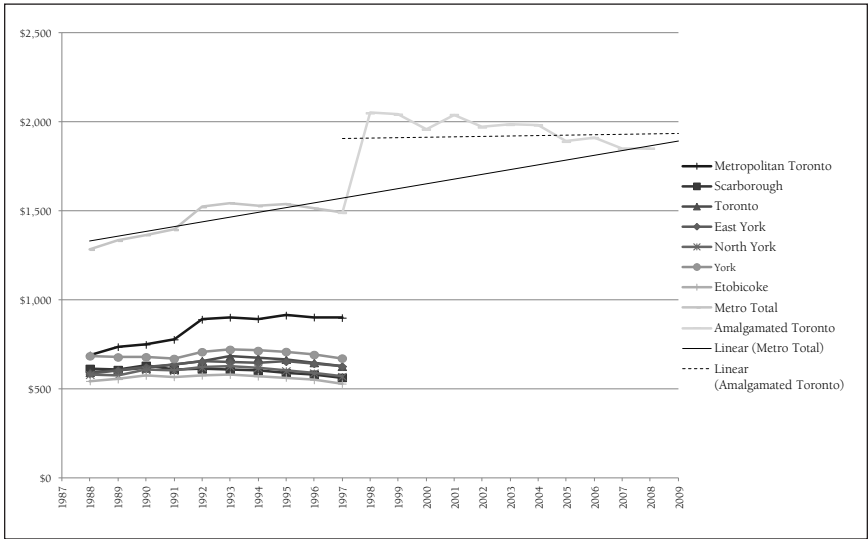
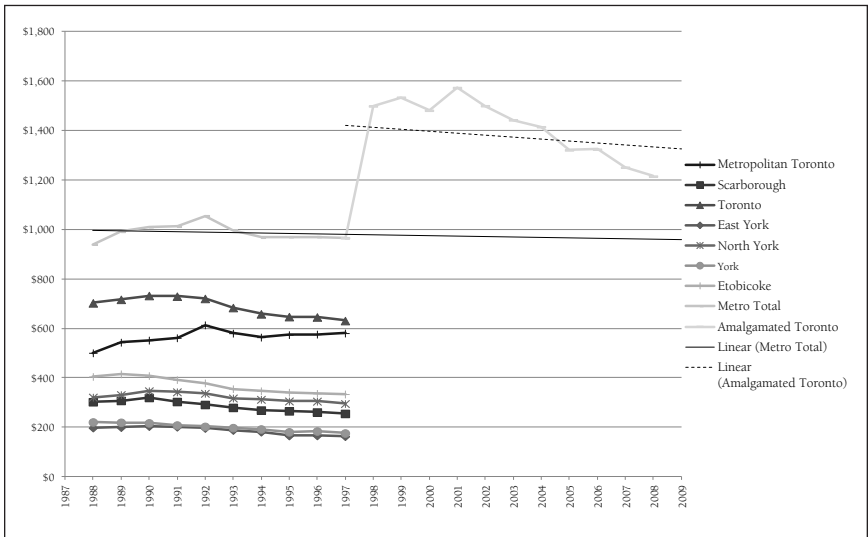


Figure 6: Business Taxes Per Household - 1988-2008



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.⁴⁰ 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.⁴¹ 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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Amalgamation Discussion Referendum: An Open Letter to the Community

City of Waterloo Residents,

Next week you will be asked if Waterloo City Council should enter into discussions with Kitchener City Council about the advantages and disadvantages of merging the City of Waterloo with the City of Kitchener.

We strongly urge you to **vote NO. Do not support** the discussions of amalgamating Waterloo and Kitchener. As former Mayors of Waterloo, we know how our city operates and what makes Waterloo such a great place in which to work, to learn, to live, and to play. We love Waterloo and we certainly do not support merger discussions:

- **Talk is expensive.** Merger discussions will involve costly spending on staff resources, lawyers, accountants, consultants, and take away valuable councillor time from important city and ward matters. The Sweeney Report created to explore amalgamation discussions in 1995, cost almost \$1 million. What would it cost taxpayers this time?
- **Loss of representation and control.** This would **not** be a negotiation between equals. Kitchener with twice the population of Waterloo would dominate. Waterloo would be outvoted 2 to 1 on every issue. Why would we ever enter into discussions where we give up our control, our identity, and ignore more than 150 years of success?
- **Lower involvement and engagement.** As other amalgamated cities have discovered, people tend to participate less in larger cities - volunteer rates decline, there are fewer neighbourhood initiatives such as local arts and cultural events, sporting activities, as well as often the loss of local newspapers.
- **Unique communities.** Waterloo and Kitchener have been separate cities with very different neighbourhoods, ambitions, priorities, and approaches for over 150 years. Each city's Official Plan demonstrates how much our goals, challenges, and decision-making processes in each City Hall differ.
- **Consistently rejected.** Since 1857 amalgamation has been consistently rejected by the residents of Waterloo and Kitchener. As recently as 2009, every other municipality in Waterloo Region strongly rejected discussions and attempts to amalgamate.
- **Amalgamation is not necessary.** Some of the most successful cities in the world are clusters of communities: Silicon Valley, CA (40 municipalities); London, England (33 boroughs); and Boston, MA (282 municipalities). At present, 75 co-operative agreements with Kitchener have been created and there is no reason why Waterloo cannot maintain its independence and identity while working together with all of our neighbouring municipalities.
- **Amalgamations don't work.** In Toronto, Ottawa, Hamilton, Kawartha Lakes, and elsewhere amalgamations have resulted in significantly higher costs, less representation, and bloated, less responsive bureaucracies. They have never achieved the expected efficiencies or savings.

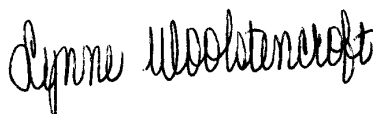
Why would anyone want to pay more for fewer services, less representation, diminished democracy, and reduced control while facing a significant loss of community and identity?

Please consider what amalgamation will mean for your neighbourhood. If you love Waterloo, please **vote NO** and encourage others to vote against amalgamation discussions as well on October 25th.

Your former Mayors of Waterloo,



Herb Epp



Lynne Woolstencroft



Marjorie Carroll

Surviving and thriving in an irrational world

Brian Lee Crowley, President
Atlantic Institute for Market Studies

Commentary based on a talk to the Alberta Urban Municipalities Association
Red Deer, Alberta
30 April 2009



My talk today was inspired by a comment I overheard while I was getting my breakfast. One of your number said to one of his colleagues as he was walking in the door, “I’m here to find out if we’re even going to be here in five years”.

That made me rush upstairs and give my talk the following title: *Surviving and Thriving in an Irrational World*.

Now the world is an irrational place in many ways. Who would have ever thought that there would be professional hockey in the hot dry desert of Arizona, that Oprah Winfrey would become one of the richest women in America, that Ontario would become a have-not province and get equalisation payments, or that we came within a hair’s breadth of getting a national government totally dependent on the votes of a party dedicated to breaking up the country?

But the irrational world I particularly want to talk about today is the different one of local government, and particularly its relationship with the provincial governments who establish much of the framework within which they operate. The questions of whether, in fact, some of you or your opposite numbers in

other provinces will be here in five years probably depends, more than any other single factor, on what provincial governments here and elsewhere do.

And that is a scary thought.

I probably don’t need to explain why it is a scary thought, but I do think it is important to discuss these matters by way of concrete examples. So let me tell you a story about the irrationality of senior governments, vis-a-vis municipalities, that comes from my home province of Nova Scotia.

This section of my talk is called “The Chief Cause of Problems is Solutions”!

In the 1990s the decision was made to force the amalgamation of the four municipalities that constituted the Greater Halifax metro area into the Halifax Regional Municipality (HRM). So if amalgamation was the “solution” what was it supposed to solve and what problems has it created instead?

In my view, to understand the HRM experience, you have to understand three particular circumstances.

For the first, one might easily make the case that the amalgamation of metropolitan Halifax was caused by the Price Club big box retailer now known as Costco. This is only a slight exaggeration. The old municipalities of Halifax and Dartmouth got in a destructive bidding war with each other to attract the Price Club store that had been announced for the metropolitan area. This was silly, since the benefits of the Price Club went well beyond the boundaries of each municipality. In the end, Halifax won the right to have the store built within its boundaries at a cost of about \$1-million. That amount was a direct gift from the taxpayers of Halifax to the shareholders of Price Club for zero public benefit, other than sticking it to the municipality of Dartmouth across the harbour. Ironically, of course, there will shortly be a Costco in the new Dartmouth Crossing shopping centre...! It opens on May 13th.

It was events like this that raised great suspicion of the rivalry between these municipalities and convinced many, including in the provincial government, that a single municipality would be cheaper and more efficient because it would abolish such wasteful behaviour.

Second, the discovery of natural gas off the shores of Nova Scotia triggered a huge flurry of public spending on the assumption that the revenue to pay for it was just around the corner. Except the corner turned out to be two decades away. By the early 90s, as the federal government cut back transfers in an effort to fix its own fiscal problems, and the province's debt had reached truly monstrous proportions, the province was in desperate fiscal shape – more so than virtually any other province – and they were desperate to cut costs. I am sure that this circumstance has absolutely nothing to do with the current state of Alberta's finances.

The third circumstance is that we have in Nova Scotia a culture of what I call executive personalism in government (that is the fancy social science-type term for it; you and I would call it pigheadedness, uninformed by any real information) – the policy formulation process is excessively weak, and fashionable ideas that get into the heads of premiers and powerful cabinet ministers are not subjected to searching analysis. If an idea sounds good to the right people, things happen – heavy water plants, steel

mills, long gun registries, Olympic stadiums, and municipal amalgamation being only a few examples. Again I am sure what I am describing here has absolutely no parallels with your experience of the Alberta government, but even if this is a totally foreign experience for you, humour me and hear out the rest of the story.

The Premier, John Savage, and his minister of finance, Bernie Boudreau, got it into their heads that there were major efficiencies to be had in amalgamating the municipalities. Now if they had actually wanted to test these ideas properly, if they had wanted to engage in that dangerously radical practice known as evidence-based policymaking, they could easily have consulted the literature on local government and amalgamation, a literature which is now quite vast. Had they done so, they would have discovered the following:

First, they would have discovered that local government is not merely a device for *supplying* municipal services, but also for finding out what services people *want* and how much they are prepared to pay for them. The smaller the government unit, the better they are at discovering this, because the evidence is very strong that local government is *closest* to the people, and the smaller it is, the closer it gets to the population. Amalgamation tends to undermine this relationship and therefore can only really be justified if there are pretty remarkable efficiencies to compensate for dilution of responsiveness and democratic accountability.

But, second, they would have discovered that the evidence is quite strong that creating **single-tier** local government monopolies doesn't reduce costs — it increases them. It levels costs *up* to the highest common denominator in the pre-existing units, and seems to result in higher *trends* of cost growth over time. This is especially true where amalgamation has ***eliminated competition between pre-existing municipalities*** both in terms of attracting residents and industry and in terms of tax and service levels.

It seems that the most dynamic force helping to keep costs down is not a highly centralised and bureaucratic monopoly provider of public services, but a decentralisation of authority and decision-making within several municipalities in an urban area

or even a mixed rural and urban region where residents cannot vote themselves benefits at the expense of other taxpayers in other parts of the region. This ensures that people only demand services that they're prepared to pay for, and municipalities have powerful incentives to keep costs low and satisfaction high, or risk the erosion of their tax base as people and businesses vote with their feet.

Where service provision has serious spillover effects (such as transit or water provision, for example) across municipal boundaries, it appears that the correct response is a co-ordinating body that takes over those specific functions. That's why Andrew Sancton has written that Greater Vancouver, with its many municipalities and the Greater Vancouver Regional District co-ordinating spillover activities, is the best form of municipal government in Canada. And this is an initiative you can take yourselves. Prove to senior governments that you can solve spillover problems and take away one of the main reasons they have to put a bull's eye on your back.

In most amalgamated municipalities, spendthrift city centres vote for big spending and pass the bill along to suburban and rural voters who don't want them. I am not aware of a single serious scholar studying municipal amalgamation on a broad scale in Canada or the United States who has concluded that they save money or improve efficiency. In fact, one of our leading thinkers on this issue, Howard Husock of the Kennedy School of Government at Harvard, is now arguing that de-amalgamation is the way to go....

Hey, Harvard has to be good for something, and if it is saving your municipality, I say "Go For It". Here is part of what Husock says:

[S]tudy after study has shown that the efficiency gains of bigger government do not materialize. [The evidence in one such study established] that such economies existed in only two areas: fire protection and library services. Localities...can provide other services-police, recreation, public works, waste management – at equal or less cost than an amalgamated, or, in the U.S. context, county jurisdiction. ...Somehow, however, the myth of efficiency through amalgamation lives on, so that it is worth explaining exactly

why bigger government won't save money. And it is worth considering the possibility that the greatest efficiency gains may actually be realized by moving in the opposite direction: breaking cities up into their component neighborhoods.

These findings are replicated in other work in Canada that I will come to.

Professor Husock introduces my third point, namely that it is a fairly small part of public services where there are significant "returns to scale" – in other words – where the bigger you are, the cheaper it is to produce a unit of a given service. Researchers seem broadly to agree that roughly 80% of municipal services enjoy no economies of scale. The evidence says pretty unambiguously that the lowest observable level of per unit costs for most services are compatible with *very* small municipal units (on the order of 5,000-10,000 residents). Moreover, there are significant *diseconomies* of scale beyond relatively small population numbers – on the order of 250,000 residents. And, finally, that the supposed savings from smaller councils and elimination of several city halls and other trappings of multiple local governments, is so paltry as to be not even worth mentioning.

But of course, given the culture of executive personalism (remember this means pigheadedness of the "don't confuse me with facts, my mind is made up" variety) that I mentioned, they didn't consult the literature or the research. Had they done so, they, like California under Ronald Reagan, would likely quickly have abandoned their amalgamation policy.

Instead they committed a nearly always fatal mistake – they hired a consultant. And instead of asking this consultant to review what was known about the dynamics of local government, they asked him to write an abstract report about all the ways one could, theoretically, save money if one were an omniscient manager and if there were economies of scale in the provision of most municipal services. The consultant duly told them that there were significant savings to be had at very low cost. This is not hard to do since any outsider can look at any organisation and identify ways that things could be done "better". In 1996 HRM was duly created.

Now what is interesting to note is that the HRM is an extremely valuable test case, because it is the only large scale amalgamation in North America to have been studied from the outset by a team of experts. A very great deal of what Bob Bish, one of Canada's leading authorities on local government, learned from his years of studying municipal government, and from the HRM study in particular, became the key material for his extremely illuminating paper for the CD Howe Institute a few years ago under the revealing title of "Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First."

Now before I report on their findings, let me emphasise that these results were preliminary, and the research team themselves recognised that the five years they gave themselves to study the new entity was not enough for it, and its procedures, to be fully formed.

Still, certain things are clear and I have not seen anything in the subsequent years of HRM's operation to persuade me that these early results were atypical or unrepresentative. In our work on our municipal performance report, I see no evidence that the trends I have identified have changed for the better.

So what can we see with hindsight? Well, for example, the consultant's implementation study underestimated the cost of amalgamation by a very significant margin. The final tally, including a new financial management system and labour agreements, reached something on the order of a minimum of \$40-million, whereas the estimate was under \$10-million.

No cost savings or economies of scale are observable yet, and it is not obvious that they ever will be, or where they might come from. Both taxes and other charges, as well as debt increased significantly. User charges rose and average residential property taxes went up about 10% in urban areas and by as much as 30% in suburban and rural areas in the early years, and it has got much worse since. Polling data show low levels of satisfaction with post-amalgamation services, although again it may be premature to make a strong judgment here.

Recalling the Price Club fiasco, it was clear that the business community thought that amalgamation would produce a more disciplined and efficient municipality and that this would improve the business climate. Other than the innovative public-private partnership that now looks after HRM's economic development, I haven't seen the evidence that this has occurred and it is worth noting, as an aside, that those US cities with the highest rates of economic growth count many with the most fragmented local government structure. ***There is no observable correlation between amalgamation and economic growth.*** The expectation that these two things would be correlated shows a misunderstanding of the relationship between local government and economic growth.

There is still a very high degree of monopolistic in-house provision of services, although there are exceptions, in areas like solid waste collection. An innovative public-private partnership process for the construction of a waste water treatment system collapsed, in large part, in my view, because the powers-that-be in HRM favoured in-house monopoly provision for political reasons, ignoring the efficiency losses and loss of innovation and accountability it almost always entails. Now that that system has been built, it is performing poorly and is going to have to be shut down for months this summer. Unlike with a private provider, who could have been made to pay penalties for this poor performance, the public sector monopoly sails on serene in its indifference.

Part II: Where should local government be headed?

I've already remarked on some of the advantages of local government, and in particular the fact that it is the level of government most able to be relatively aware of the real concrete circumstances of their populations, and most able to see and correct the damaging and undesirable consequences of their policies. But the small scale of local governments, and having several of them, has other advantages.

For example, organised minorities and pressure groups benefit from centralised political power because that means that they can concentrate their lobbying power on a central point of authority. When power is widely dispersed to many small units of

government, it reduces their lobbying power because it is spread so thinly. Amalgamation in a large urban area, however, exaggerates the bargaining power of organised minorities in local government affairs. This is crucial to understanding why amalgamation drives up costs when previously different units, which specialised in different services to please their local population, are suddenly put together¹:

“When amalgamation occurs, all the various services and amenities packages of the many individual jurisdictions get put together . . . As a matter of political reality, no municipality can long provide certain services only to one area. All the jogging enthusiasts who'd previously been outnumbered in Jurisdiction A, suddenly can turn to the new Mega-City and demand that, because there are great jogging trails in what used to be Jurisdiction B, they, too, deserve such amenities. In other words, rather than being reduced, service provision inevitably rises to meet the many tastes that had previously been separate. Cost increases, as facilities such as basketball courts are built in areas which previously had made them a lower priority. Public employment must necessarily increase, not decrease.”

In the same vein, decentralisation reduces significantly the ability of voters to pass the costs of local decisions along to larger communities, which forces voters to be more fiscally responsible. When governments cover relatively small geographical areas, it reduces significantly the cost of “voting with your feet”. It is much cheaper to move from one town or suburb to the one next door than it is to move to another province or country.

“Government, in amalgamated cities, inevitably becomes more distant from the individual voter. It is harder for any one voter, or group of voters, to influence policy. This situation works to the advantage of well-organized interest groups, with the resources to employ staff to influence policy on their behalf. Even the most zealous unpaid neighbourhood activist is little match for the full-time paid staffs of public sector labour unions, for instance, who know local officials, help elect them and understand how the system works. Inevitably, unions will, in representing the interests of their members, resist cutbacks in municipal employment. They will insist that the efficiency gains of smaller municipalities be

eliminated. Thus, for instance, if Jurisdiction A formerly paid its recreation workers less than those in Jurisdiction B, where recreation was not as important to voters, we can expect that the new amalgamated city will have just one pay scale – at the higher rate.”

The third consequence of the existence of a large number of local government units is that it allows the benefits of successful experiments to be copied by other local and even more senior governments. Decentralisation, when linked to a high degree of competition between localities, increases the likelihood of spreading local policies and practices when these are successful, and getting rid of them when they are not. Imitation is a powerful force. The London Borough of Wandsworth, to pick just one example, pioneered in the 1970s many of the innovations that later became the backbone of Thatcherism, including the hugely successful idea of selling council flats (publicly-owned housing) to the tenants for almost nothing, which overnight transformed for the better many public housing developments.

But none of these positive effects can or will be realised without a vital element of competition. Because municipal officials really don't know that much about what their local population wants, about the true costs of various services, and about the potential of new methods to deliver efficiencies and improved service levels, we need a **framework for local government** that spurs competition, and ends rigid monopolies in the supply of local government services.

Competition is how we find out what works. Only people who do not understand how to satisfy consumer tastes and preferences would look at the existence of Wal-Mart and Target and Costco and Canadian Tire and say, “Look at all the wasteful duplication of services, capital facilities, management, inventory, etc. Let's have a single giant store to service everyone.” This is the Soviet model of consumer choice. Inevitably such a system is run in the interests of management, not customers.

At the local level, competition takes place on two dimensions:

First, there is competition within municipalities. By this I mean that the most successful municipalities, places like Charlotte, North Carolina, Phoenix, Arizona, and Indianapolis, Indiana, are more and more getting out of the game of directly supplying traditional local government services where local government employees under a rigid contract supply individual services, such as garbage collection or sewer and water services, to the residents of an entire city as a typical public sector monopoly. There is now an association of so-called “contract cities” in the United States where municipalities provide almost no services in-house, and act instead as a purchaser of services from many competing suppliers on behalf of their population. A former Local Government minister in the UK once famously remarked that his ideal local council would only meet once a year to approve contracts with suppliers of services for the coming year.

So the model that is emerging is of a much smaller local government that acts as a kind of buyer’s co-op on behalf of the residents of the locality, an experience that dovetails nicely with the Prairie history of reliance on co-ops throughout rural areas. Service standards are set, and contracts are let on the basis of those standards, to competitive bidders. The winning bidder is then held accountable for his success or failure in reaching the agreed standards. The question of whether the service is provided by public sector or private sector workers and managers is actually becoming irrelevant.

Naturally the monopolists are the ones who resist the most, and especially large centralised service provision bureaucracies and their associated public sector unions, but the benefits are so great from contracting out and privatisation – as Jim McDavid at the University of Victoria, Local Government Institute has been instrumental in documenting with respect, for example, to garbage collection – that the momentum is clearly with the reformers.

The other kind of competition that it is vital to preserve is that *between* municipalities on the local level. One of the things that drives local government toward reform is the ease with which people vote with their feet. One strategy for frustrating this crucial means of disciplining and controlling the quality of local policy and holding local officials

accountable, is to expand the boundaries of local government to such an extent that the costs of getting away from bad government become prohibitive.

This movement toward what we call municipal amalgamation is driven, ironically, in many cases by the business community, who believe that we have “too many governments”, resulting in “overlap and duplication”. Surely, it stands to reason that having only one mayor, one council, one city hall, and one public works department would save money and promote efficiency.

But as the evidence I’ve outlined here clearly shows, being big in itself is no guarantee of anything and, as I have already remarked, research in local government leads us to think that at least 80% of municipal activities offer little prospect of economies of scale (i.e. saving money because you are bigger).

In fact, there are good reasons for thinking that bigger government will be less efficient and responsive, not more. Certainly in the private sector thinking is running the other way, as the break up of business giants releases hidden value in their assets. We have seen this, for example, in the decision of companies like Telus to sell many of its large office buildings, because they argue that they are in the telecommunications business, not the property management business. Almost all conglomerates trade at a discount to the value of their component parts, which has driven many of them to break themselves up in one way or another. And of course in the municipal world we know now that the experience of amalgamation has been to drive costs up to the highest level, rather than down to the lowest.

So if single-tier amalgamation isn’t the answer (although remember what I said about the GVRD), what is?

The province can usefully play the role of stimulator of competition between local governments, as we see in the UK, New Zealand and Australia. Local governments undergo regular audits, where service levels and taxation levels are compared, permitting the publication of league tables and other instruments of accountability that grant to local voters much greater insight into the performance of their local

government and hence more means to hold them accountable. Research indicates that people and businesses that move from one municipality to another are actually quite knowledgeable about the conditions in both their old and new municipalities. Our Institute has just released its own performance report for municipalities in Nova Scotia and New Brunswick, and has prepared one for Maclean's magazine on the 30 largest municipalities in Canada. Our hope is to introduce and stimulate exactly this kind of competition between municipalities by increasing the knowledge of voters and taxpayers about what they are getting for their money.

It is important here to signal that it is not only senior government officials who act irrationally. I know because I could show you the knife scars on my back from the many angry municipal officials who are outraged and resentful that anyone would dare to gather information and report on their performance. My advice to them (and you can take this advice if you think it applies to you) is to 'Get Over It'. In fact, if your future is threatened by politicians at the senior level who hold the power of life or death over you, you shouldn't wait to fight a rearguard action against policies they've already decided. Take the initiative. Tell them and your own citizens and voters that you take performance seriously and that you intend to be measured against the highest, most stringent levels of public performance. Don't resist the drive to open up local government, or to collect important and useful performance data, and to use that data to make meaningful comparisons between municipalities based on those comparisons. My view is that your lives depend on it.

We must create a customer-service oriented culture in our municipal governments, something I have not seen much of anywhere in Nova Scotia. We must align the incentives of our elected officials so that they get rewarded for providing efficient, high quality services. This means we need them to focus on defining service levels, measuring them and rewarding superior performance by service providers.

Consider, again, New Zealand's cities, which Larry Mitchell has spoken of so eloquently. There performance pay is a significant portion of the management's compensation. Cities set goals or outcome measures that are important; they might say

that they will turn a building permit around in a week or fix a pothole in 24 hours. With sophisticated measurement systems, the services actually provided are benchmarked against such standards. Achieving performance goals, or continuous improvement against ever rising benchmarks, results in pay bonuses for management and employees. It is no longer about spending budgets or losing them, or prolonging and complicating service to minimize effort or maximize overtime.

In Indianapolis, unionized in-house providers actually proposed and benefited from an internal system called gain sharing where 25% of all savings beyond the bid price went to employees. With their eye on the ball of efficiency and good service, they out-competed the private sector several years ago and became the most successful municipal employee union in the U.S., winning the highest pay increases in that country.

High performing entrepreneurial communities measure their services in terms of what they get for their money, not on what they spend or how many employees they have. That way we can measure and reward performance. The employees, management, present and future citizens and taxpayers all find their interests looked to and positive behaviour rewarded. The behaviour that would be rewarded, by the way, would include creation of a co-ordinating tier of government for spillover services that allows economies of scale to be captured in those limited areas where they do exist.

One final observation about irrationality: the financing of much of our local government infrastructure (parks, roads, water, sewers and the like) is economically irrational and it poisons relations between the municipalities and both provincial and federal governments. I can't speak to the experience in Alberta, but I can tell you that I spend a lot of time in Nova Scotia giving municipal leaders this message: for God's sake, stop whining about downloading and underfunding. In many cases you have the power to fix these problems yourself but shrink before the political fallout. Then don't come crying to me when senior governments decide you can't get the job done.

Many municipal services are provided to consumers at considerably less than the real long-term cost, on the assumption that politicians at senior levels will pick up a significant part of the tab after the infrastructure's useful life is over. The totally predictable result is both that infrastructure is poorly maintained and that use of the infrastructure is much greater than if consumers had to pay the real cost of that use. Hence the fact that, for example, a great deal of municipal water in Canada is still unmetered and people pay a flat fee regardless of consumption. A formula guaranteed to encourage heedless consumption of water as well as egregious waste.

It is thus absolutely essential that we do something that Larry Mitchell constantly reminds us of: "separate capital and operating budgets for efficient, transparent and accountable capital investment" as well as "carefully constructed cost-benefit analyses" so that costs and benefits are correctly and completely documented and "co-ordinate capital projects between local departments and special purpose bodies such as utility commissions" so that, for example, road and water main maintenance and repair are jointly planned. Stop doing all that stopgap maintenance. It is costly and inefficient in many cases compared to doing the proper long term maintenance and repair. We all know that politicians prefer projects that will happen before the next election, but proper accounting, public reporting and other accountability measures would reduce this temptation.

But the difficulty in achieving these common sense recommendations is nothing compared to the key piece: "municipal infrastructure should be financed, as far as possible, by the residents who benefit from it, because this provides the surest guide to how much should be invested in what."

This recommendation, which comes from one of Canada's leading local government experts, Harry Kitchen, however sensible and essential it is, butts up against the reality that local politicians regard it as a matter of commendable machismo that they can arm twist politicians at senior levels of government to pony up for their pet projects, with the result that the projects are often delayed by political wrangling and the final outcome is serious overbuilding relative to what is really needed. Ottawa thus contributes to the economic irrationality of municipal infrastructure by

essentially bailing out local governments who have failed to account properly for their infrastructure and failed to make people pay the real costs of their use of that infrastructure and now find themselves with their pockets empty when the infrastructure reaches the end of its useful life. As Harry Kitchen so delicately observes "Economic arguments in support of capital grants are not strong. Their use should be conditional on recipient governments setting efficient user fees, prices and local taxes for services provided. As well, recipients should have proper asset-management programs, along with requirements that asset replacement costs be included in the charge for services."

Now I know that many of you will object that municipalities have to share the property tax base with e.g. education taxes, and I agree that this is a problem. However, the point I have been making is that, where the law allows, there are lots of mechanisms that allow the financing of infrastructure beyond the property tax base. Ditto for borrowing, again where the law allows. Where a piece of infrastructure has been subjected to a rigorous cost-benefit analysis and you are satisfied that it will provide a stream of genuine benefits that exceeds the capital cost over the life of the project, you *should* borrow to finance it, since it makes no sense to make today's taxpayers foot the bill for benefits to be enjoyed by future citizens. Borrowing is a way to distribute equitably the cost of the benefits enjoyed across the entire life of the infrastructure. Borrowing also allows you to cross the divide between today's system, where we have allowed the capital stock to deteriorate and not set aside any reserves to replace them, and tomorrow's where we will charge people the full cost of the infrastructure (and many other) services they consume.

There is lots that could be said about the right way for municipalities to finance long term investments, including multi-year capital budgets and dedicated fund accounts, revenue bonds, their own gasoline tax (not a transfer from Ottawa's tax), parking lot taxes, congestion and toll charges and much more use of P3s. This, however, is not the place to do so. What I can say, however, is that if you want senior governments to allow you to survive, wrong-foot them by demanding that legislation not only allow but require such measures in order to ensure that municipalities can do their jobs and not constantly be crying poor.

Public sector competition, like private sector competition, is not “wasteful”, but is a healthy discipline that promotes efficiency, accountability and good service. Such competition, where it has been introduced into local government, has transformed it for the better. That’s a lot more than the evidence suggests we can say about most of what passes for local government reform in Canada.

ⁱ I am indebted for some of the following paragraphs to “Why Bigger Local Government Isn’t More Efficient: The Case for Breaking up Cities” A talk given by Howard Husock, Director of Case Studies at John F. Kennedy School of Government, Harvard University, on Friday, May 18, 2001 at Montreal’s Omni Hotel.



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Quotes from

Discredited ideas and Utopian ideals driving municipal amalgamations, says C.D. Howe Institute study

The key, argues Bish, is local flexibility. Metropolitan areas with numerous local governments and a variety of production arrangements can respond to local needs at less cost than monolithic amalgamations.

Decentralization among local governments is no hindrance to economic growth, says Bish: some of the fastest-growing metropolitan areas are also among the most governmentally fragmented.

Amalgamation, on the other hand, tends to eliminate the very characteristics of local government that are critical to successful low cost operations.

Quotes from

THE ECONOMIC ARGUMENTS AGAINST MUNICIPAL MERGERS

(October 2001) by The Montreal Economic Institute

Dynamic urban regions as different as Silicon Valley, Boston, Houston and Dallas were able to prosper with very fragmented municipal administrations.

Robert L. Bish concludes that *there is overwhelming evidence that the least expensive local governments are found in polycentric systems of small and medium-sized municipalities that also cooperate in providing those services that offer true economies of scale.*

Surviving and thriving in an irrational world

A talk to the Alberta Union of Municipal Associations

by Brian Lee Crowley, President, AIMS (www.aims.ca)

30th April 2009, Red Deer Alberta

But, second, they would have discovered that the evidence is quite strong that creating **single-tier** local government monopolies doesn't reduce costs — it increases them. It levels costs *up* to the highest common denominator in the pre-existing units, and seems to result in higher *trends* of cost growth over time. This is especially true where amalgamation has *eliminated competition between pre-existing municipalities* both in terms of attracting residents and industry and in terms of tax and service levels.

Researchers seem broadly to agree that roughly 80% of municipal services enjoy no economies of scale. The evidence says pretty unambiguously that the lowest observable level of per unit costs for most services are compatible with *very* small municipal units

(on the order of 5,000-10,000 residents). Moreover, there are significant *diseconomies* of scale beyond relatively small population numbers — on the order of 250,000 residents.

There is no observable correlation between amalgamation and economic growth and the expectation that these two things would be correlated shows a misunderstanding of the relationship between local government and economic growth.

Government, in amalgamated cities, inevitably becomes more distant from the individual voter.

Decentralisation, when linked to a high degree of competition between localities, increases the likelihood of spreading local policies and practices when these are successful, and getting rid of them when they are not.

Regional Review



**PRESENTATION TO
REGION OF WATERLOO COUNCIL**

WEDNESDAY APRIL 17 2019

**BY JAN D'AILLY
JAN@KANA.CA**

What we value ?



- Innovation
- Barn Raising



We need a supportive governance system

A thought experiment



- Let's amalgamate all the start-up incubators
 - They all do the same thing,
 - A single leadership team can do it more efficiently
 - Single application process, easier for applicants
 - Eliminate duplication of resources
 - Single voice to the angel investors and gov't funders
- Why don't we just do it?

Centralization of Power



- less responsive to the diverse needs
- more bureaucratic and slower to respond
- tendency to be monolithic
- fewer checks and balances
- concentration of power

Tends to **stifle innovation**

Tends to **stifle barn raising**

Municipal governance is complex



- **Many competing interests**
 - Provision of hard services
 - ✦ roads, parks, rec centers, transit, waste mgnt ...
 - Provision of soft services
 - ✦ Social services, zoning, A&C, sustainability....
 - Support as an economic unit
 - Accessible and responsive to all its citizens

All as cost effectively and sustainably as possible

Fostering Innovative Solutions



- **Friendly Municipal Competition**
 - Learn from and copy from each other's successes
 - Partnerships and collaborations
- **Local responses to local issues (within Regional context)**
 - Zoning, local arts and rec programming, by-law enforcement etc.

It's just easier to innovate when you are small and nimble



Barn Raising



- A value that we model on the Mennonite tradition of collaboration
- They compete at the local markets and come together to raise a barn.



Do they need to amalgamate their farms to raise barns or create/promote a brand?

Too many municipal politicians?



- Just 4 full time municipal politicians, rest are part-time
- That's where the innovation and barn raising comes.
 - Active in the community
 - Many access points into government
 - Great diversity of viewpoints
 - Balance the many competing interests of the entire community.
 - Working together for innovative solutions
- Fosters innovation
- Fosters barn raising

So what's best for Waterloo Region?



What does the data say?



- Research institutes and think tanks like
 - C.D. Howe Institute
 - Monk School of Global Affairs
 - Montreal Economic Institute
 - Fraser Institute
 - And many others

“Amalgamation does not produce more efficient municipalities”

Why is that?



- Except for big ticket and hard services like
 - Public Transit
 - Waste Management
 - Water/Waste water treatment

Economies of scale stop at between 50,000 and 250,000 people.

What we have works remarkably well



- Many successful municipalities are not single tier.
- Incremental, evolutionary change
- Moving forward, let's make sure we:
 - Understand the problem that needs solving
 - Evaluate the alternative solutions and secondary impacts
 - Determine our course of action

Let's continue to foster our culture of cooperation

Provincial Regional Review

By Kevin Thomason
April 24, 2019

Amalgamation Discussion Referendum: An Open Letter to the Community

City of Waterloo Residents,

Next week you will be asked if Waterloo City Council should enter into discussions with Kitchener City Council about the advantages and disadvantages of merging the City of Waterloo with the City of Kitchener.


We strongly urge you to **vote NO. Do not support** the discussions of amalgamating Waterloo and Kitchener. As former Mayors of Waterloo, we know how our city operates and what makes Waterloo such a great place in which to work, to learn, to live, and to play. We love Waterloo and we certainly do not support merger discussions:

- **Talk is expensive.** Merger discussions will involve costly spending on staff resources, lawyers, accountants, consultants, and take away valuable councillor time from important city and ward matters. The Sweeney Report created to explore amalgamation discussions in 1995, cost almost \$1 million. What would it cost taxpayers this time?
- **Loss of representation and control.** This would **not** be a negotiation between equals. Kitchener with twice the population of Waterloo would dominate. Waterloo would be outvoted 2 to 1 on every issue. Why would we ever enter into discussions where we give up our control, our identity, and ignore more than 150 years of success?
- **Lower involvement and engagement.** As other amalgamated cities have discovered, people tend to participate less in larger cities - volunteer rates decline, there are fewer neighbourhood initiatives such as local arts and cultural events, sporting activities, as well as often the loss of local newspapers.
- **Unique communities.** Waterloo and Kitchener have been separate cities with very different neighbourhoods, ambitions, priorities, and approaches for over 150 years. Each city's Official Plan demonstrates how much our goals, challenges, and decision-making processes in each City Hall differ.
- **Consistently rejected.** Since 1857 amalgamation has been consistently rejected by the residents of Waterloo and Kitchener. As recently as 2009, every other municipality in Waterloo Region strongly rejected discussions and attempts to amalgamate.
- **Amalgamation is not necessary.** Some of the most successful cities in the world are clusters of communities: Silicon Valley, CA (40 municipalities); London, England (33 boroughs); and Boston, MA (282 municipalities). At present, 75 co-operative agreements with Kitchener have been created and there is no reason why Waterloo cannot maintain its independence and identity while working together with all of our neighbouring municipalities.
- **Amalgamations don't work.** In Toronto, Ottawa, Hamilton, Kawartha Lakes, and elsewhere amalgamations have resulted in significantly higher costs, less representation, and bloated, less responsive bureaucracies. They have never achieved the expected efficiencies or savings.

Why would anyone want to pay more for fewer services, less representation, diminished democracy, and reduced control while facing a significant loss of community and identity?

Please consider what amalgamation will mean for your neighbourhood. If you love Waterloo, please **vote NO** and encourage others to vote against amalgamation discussions as well on October 25th.

Your former Mayors of Waterloo,



Herb Epp



Lynne Woolstencroft



Marjorie Carroll

Amalgamations Don't Work

- In Toronto, Ottawa, Hamilton, and Kawartha Lakes amalgamations have resulted in significantly higher costs, less representation, and bloated, less responsive bureaucracies.
- They have never achieved the expected efficiencies or cost savings.
- Many amalgamated municipalities end up investigating ways to de-amalgamate in the ensuing years.

Consistently Rejected

- Waterloo and Kitchener have rejected amalgamations since 1857
- Waterloo citizens voted 65% against amalgamation and just 34% in support in the most recent 2010 referendum
- Amalgamation has been rejected by all other municipalities at various times as well
- Don't even talk to anyone in Cambridge about amalgamation....

Unique Communities

- We are very unique communities - perhaps even more so than most with thousands of traditional Mennonites contrasting dozens of leading edge tech startups and research institutes.
- Separate cities, different neighbourhoods, ambitions, priorities, and approaches.
- We currently have very successful custom solutions tailored to each community.

Most Corporate Mergers Fail

- According to a recent Harvard Business Review Report 70 to 90 percent of corporate mergers fail
- Need common strategies, goals and ambitions
- Yet, very different cultures, expertise, management styles, procedures, models, plans, and priorities across our municipalities
- Doug Ford cutting staff, resources, and budgets at every possible opportunity

Loss of Representation and Control

- Our diverse Councillors are extremely cost-effective
- Potential risk of losing control and identity for so many unique and important aspects of our region
- To be equally as effective new solutions will have to be as significant and well-resourced.

Lower Involvement and Engagement

- People tend to participate less in larger cities
 - lower volunteer rates
 - fewer neighbourhood initiatives
 - less local arts and cultural events
 - less sporting activities
 - loss of local newspapers

Amalgamation Isn't Necessary

- Many of the most successful cities in the world are clusters of communities
 - Silicon Valley - 40 municipalities
 - London, England - 33 boroughs
 - Boston - 282 municipalities
 - New York City - 5 boroughs layered atop 7 counties
 - Melbourne, Australia - 31 municipalities
- We can continue to work collaboratively and maintain independent identities and priorities

Conclusion

- Why would anyone want to pay more for:
 - fewer services
 - less representation
 - diminished democracy
 - less accountability
 - reduced control and input
 - loss of community and identity
 - considerable likelihood that things aren't going to work out as hoped...

Why Amalgamation in the Region of Waterloo is not Beneficial In General and especially for most if not all of its Current Seven Lower Municipalities

Overview

In the search for the best approach for a governing structure for the residents comprising the area known as the Region of Waterloo (ROW) there should only be one goal to be achieved. That goal is to provide the structure which best meets the needs of ALL of the residents of the community in question.

The reasons for a change should not be based on expediency of the decision making process by politicians and central staff , nor for political gain from the motivation of outsiders, nor for cost savings at the sacrifice of efficiency and proper representation for many of the residents of the total community.

Also with the passage of time over the past 40 years there has been ample time to determine the validity, or not, of many of the pro arguments raised in the past and now being raised again.

The body of this report addresses the discussion under the following headings:

A - The majority of arguments raised for wanting a complete ROW amalgamation have been proven over the years to be either untrue or unfounded.

B – The negative impacts to the residents of many (especially the smaller) municipalities where complete amalgamations have taken place have been proven to be real, and are now making life less desirable for those residents.

C – The Current Structure in the ROW has proven itself to be a positive approach being economically successful while still providing the best political representation to all of the communities involved as well as a proper balanced approach to services provided to ALL of its residences. It also provides to all of its residents through the variety of Lower Tier options each with slightly different approaches which to choose from for where they want to live and work and play.

For these reasons , we strongly believe that the Current combination of Upper and Lower Tier Municipalities in the ROW provides the best approach for ROW structure to best meet the needs of All of its residents and why we do not recommend proceeding with the full Amalgamation.

A - Arguments proven unfounded or untrue

1 – We need One Amalgamated Municipality to compete economically and on the world stage

Over the past 40 years this argument has been used to push for ROW full amalgamation, yet over that same time period without full amalgamation, the total ROW Community has flourished both within Canada and internationally to the extent of being one of if not the highest economically performing municipalities in Canada and also recognized world wide

2 – With full Amalgamation there will be millions and millions of dollars of savings by centralizing all of the services.

The reality is that that with the centralization of services to date, whether within the ROW or in other amalgamated municipalities there have not been any such savings. The reasons being that with centralization there may be fewer front line staff, but there are now many, yes many, new layers of supervisory and managerial staff levels, all at much higher pay rates versus those front line people.

Also the base pay rates, pension and benefits packages now provided at the Regional levels have increased significantly over the years to now exceed the average of even those provided in the Private Sector.

The result is there have been no Cost Savings provided to the residents of the Regional Municipalities over the same 40 years. In fact comparatively the annual tax rate increases at the Regional levels have increased at a higher rate than those of the Lower Tiers and of other comparative municipalities.

3 – In a few years after amalgamation everyone will feel part of the new Regional community.

For the Municipalities within the ROW nothing could be farther from the truth. The residents of Cambridge consistently and vocally state their displeasure of being part of the ROW. They feel they are constantly treated unfairly and are already second fiddle to the needs of the current larger urban centre where the Region Offices primarily reside. This has no signs of changing as after 40 years those residents have still not even accepted the forced amalgamation of Galt, Preston and Hespeler which created Cambridge.

Even currently for the 2 largest cities within the ROW when asked by a vote if Waterloo and Kitchener should join to form one new City, the Residents of Waterloo voted against such a move fearing that what was important for their lives would be lost. Finally the differences with the rural vs urban needs will always continue to exist and will not go away but will be enhanced in a full amalgamation.

B – Proven Negative Impacts of full Amalgamation

1 – Taxes will increase for residents of the outside, smaller municipalities in a Regional Municipality.

Ask any resident from any of the smaller original municipalities where amalgamation has occurred in Ontario and they will all tell you that their tax dollars have increased to be equalized with the larger municipalities in each Region – despite not all services being provided to all. Also that their tax dollars no longer get utilized within their prior community , but rather are now primarily used in the larger Municipality chosen to be each Region's Centre.

2 – Municipal Services will become centralized and thereby more difficult to obtain

Those same residents will also confirm that the (regional) services (eg health, administrative) are now being centralized in the largest Regional municipal location increasing the distance and lack of convenience to get those services.

3 – Loss of Political Representation

Amalgamation results in fewer political representatives being available plus they are now farther away from the rural residents. Also with representation based on population most times now to balance the numbers and to avoid very large geographical areas, former rural municipalities are now split up and combined with portions of the large urban areas. Consequently the representative spends most if not all time and effort on urban issues only. The result being that rural residents no longer consider they have any political representation.

4 – Lack of Understanding of Rural Issues and Needs

For the same reasons outlined in B 3, the political representative may now face the 80 urban – 20 rural rule situation. With so much focus on the urban population, needs and issues, often there is no longer even an understanding of the rural needs and issues by the representatives. For residents already living in an urban environment, they see little change with an amalgamation. For rural residents however the understanding of their unique needs and services often no longer even exists within their defined representative.

C - If it is not Broken, do not try to fix it

As already stated, for many years the area comprising the ROW has been and is performing very well economically, plus it is well recognized internationally while under its Upper and Lower Tier Governing Structure.

The make-up of the Region comprising 3 Urban and 4 Rural Lower Tiers is also unique requiring a political structure to understand and to meet the needs of both of its Urban and Rural makeup. The current governing structure provides that balanced approach. Attempting to centralize anything that has dissimilar functions or needs usually results in dissatisfaction and loss of effectiveness.

So what is still left to be gained in a complete amalgamation? Opportunities for any potential major savings through combined services has already been addressed with all of the larger key Services. As already stated how much better can we expect to be economically? Are the residents of each of the Lower Tier Municipalities seeing value in, and therefore vocally demanding a need for a combined structure? Or is the opposite occurring in all cases?

Remember the governance structure is to be what is best for all its residents and not to make life simpler for its elected officials and staff to make arbitrary or dictated decisions without first having proper dialogue and input from all areas of the Region and looking for balance as exists today.

In summary, some people try to suggest the discussion is all about Loss of Identity in an Amalgamation. That is a non –issue and an over simplification in an attempt to minimize the real concerns. All of the Residents are only concerned about the impact amalgamation would have on their lives.

Today the residents here like the balance and the varied choices currently provided under the current structure. They like the local political representation and understanding by those local reps that they have access to today. They like that they know that at least some of their tax dollars will stay within their chosen local community and that they can have a direct say about how at least those dollars are to be used. So they do not want to see those factors changed through an amalgamation in the ROW, especially when there is no need for, nor major advantage to be gained by making such a change.

Don Heimpel