



# Financing the Metropolis



Presentation to International Symposium on Innovations and  
the Making of Metropolitan Identity

Paris, France

27 November, 2013

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# Introduction

- ❑ Metropolitan areas are generally characterized by many small, fragmented local governments and public agencies that provide local services in different parts of the region
- ❑ Governance of these metropolitan areas is thus critical to coordinate service delivery across local government boundaries and to help shape a metropolitan identity
- ❑ This presentation asks “how do you deliver services and pay for them on a metropolitan-wide basis when there are many local governments?”

# Outline of Presentation

- ❑ Governance in metropolitan areas
  - ❑ Need to balance metropolitan and local interests
  - ❑ How do different governance models achieve this balance? How do they impact service delivery and taxes?
  
- ❑ Financing services in metropolitan areas
  - ❑ How should metropolitan services be paid for?
  - ❑ Which revenue tools?

# Balancing metropolitan and local interests

- ❑ Efficiency
  - ❑ Ability to achieve economies of scale
  - ❑ Ability to reduce negative spillovers (externalities) across local boundaries
- ❑ Equity
  - ❑ Ability to share costs and benefits of services fairly across the metropolitan area
- ❑ Accessibility and accountability for decision-making
- ❑ Local responsiveness/competition

# How well do different governance models achieve this balance?

- One-tier government model (fragmented local governments)
- One-tier government model (consolidated local governments)
- Two-tier government model
- Voluntary cooperation/special purpose districts

# Fragmented One-Tier

- ❑ Many local governments operate in metropolitan area with independence in choosing public services and fees, taxes, and debt financing
- ❑ Local autonomy, responsiveness, competition
- ❑ Inability to address spillovers; lack of coordination of services, planning and economic development; cost of services not shared equitably across metropolitan area

# One-Tier Consolidated

- ❑ Metropolitan government with powers to regulate service delivery and financing across metropolitan area
- ❑ Economies of scale; redistribution between rich and poor areas; coordination of service delivery; potential for more local influence with national policy makers; more unified actions for urban problems that do not respect political boundaries e.g. floods, crime, environmental pollution; more choices for efficient taxation
- ❑ Threat to local autonomy, responsiveness, and citizen engagement

# Economies of Scale?

- ❑ Spreading fixed costs over a larger population lowers per capita costs (e.g. public transit); economies from bulk purchases (e.g. busses, computer equipment, etc.)
- ❑ Empirical evidence shows economies of scale are service-specific:
  - ❑ Some economies of scale in central administrative functions; services with large capital inputs e.g. transportation, water and sewage systems
- ❑ Cities can also become too large – diseconomies of scale
- ❑ Canadian evidence: economies of scale for police at 50,000 people; for fire at 20,000 people (Found 2012)
- ❑ Evidence from Finland: economies of scale between 20,000 and 40,000 people (Moisio et al.)



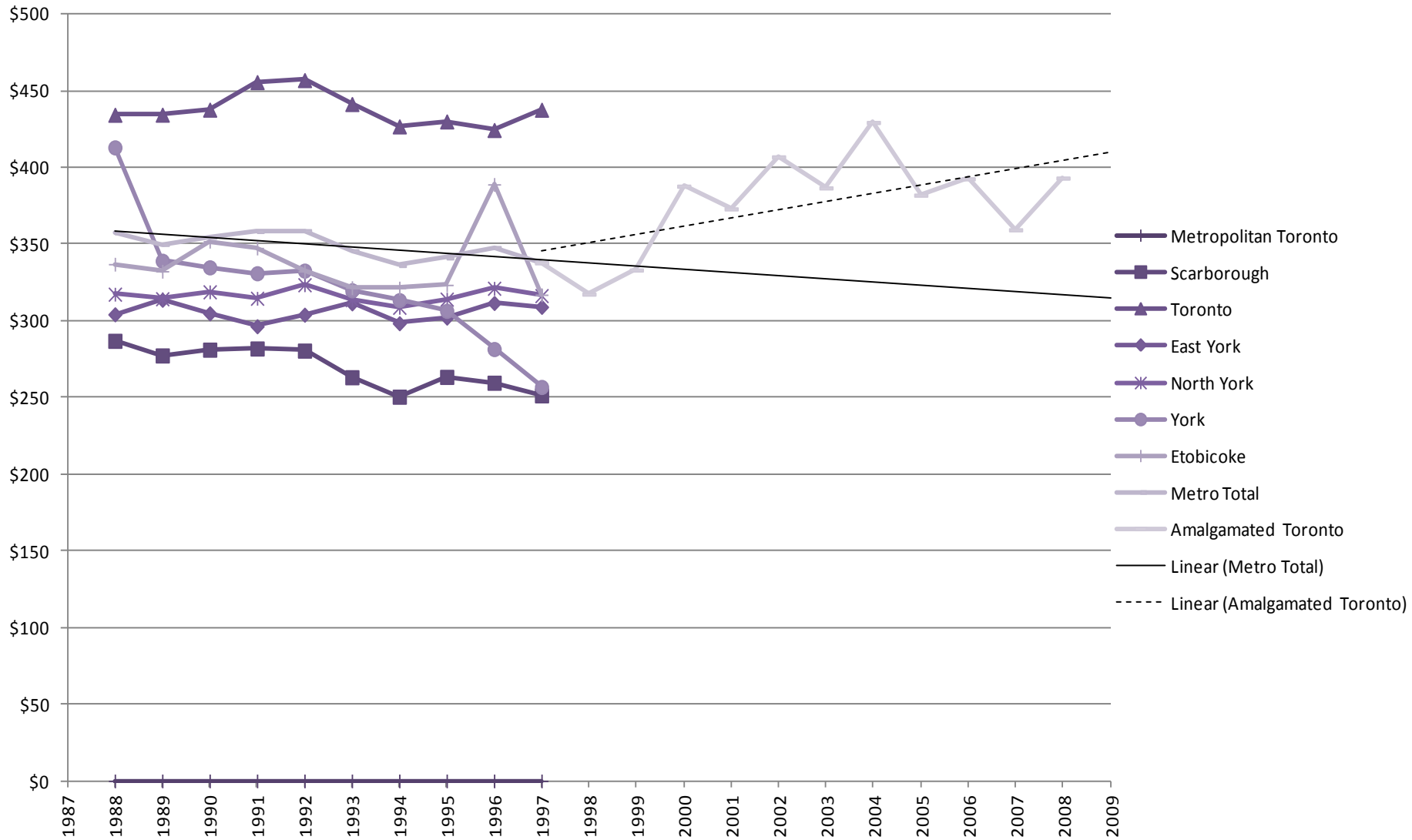
# Cost of Service Delivery

- ❑ Does consolidation/amalgamation reduce the cost of service delivery?
- ❑ May be able to achieve economies of scale and reduce duplication

BUT:

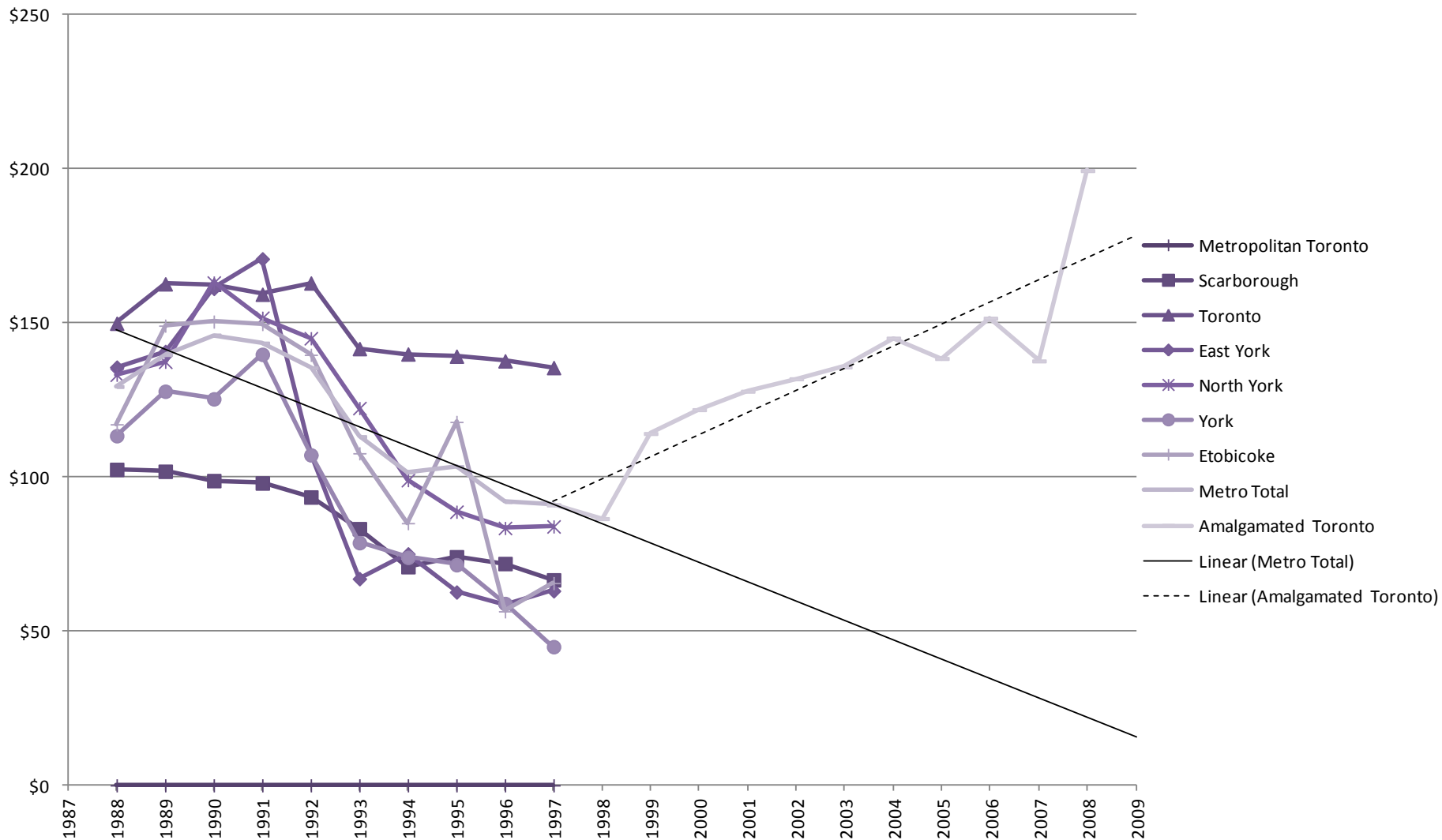
- ❑ harmonization of wages and salaries
- ❑ harmonization of service levels
  
- ❑ Case study of Toronto amalgamation 1998

# Figure 1: Fire Expenditures Per Household - 1988-2008

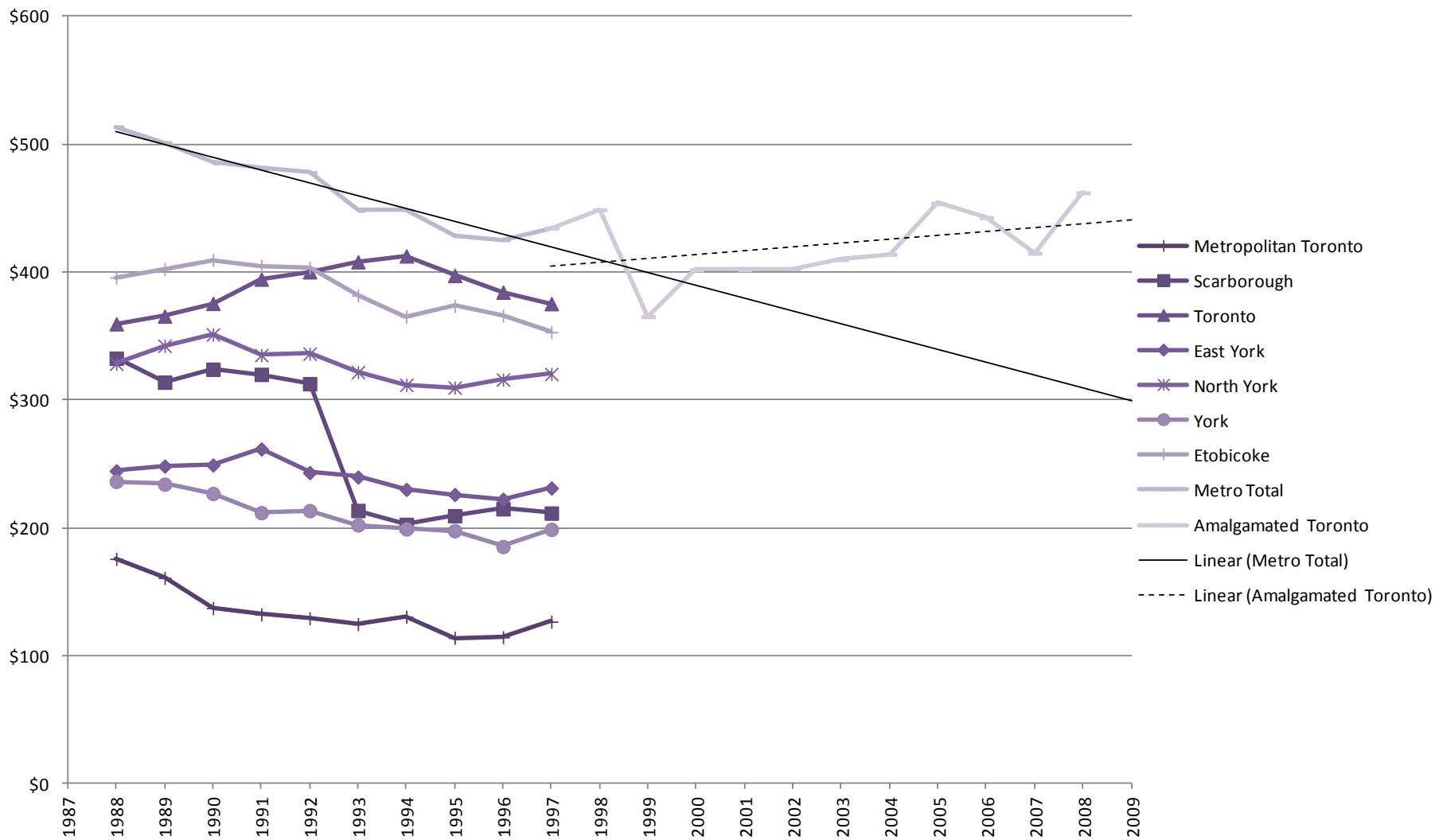


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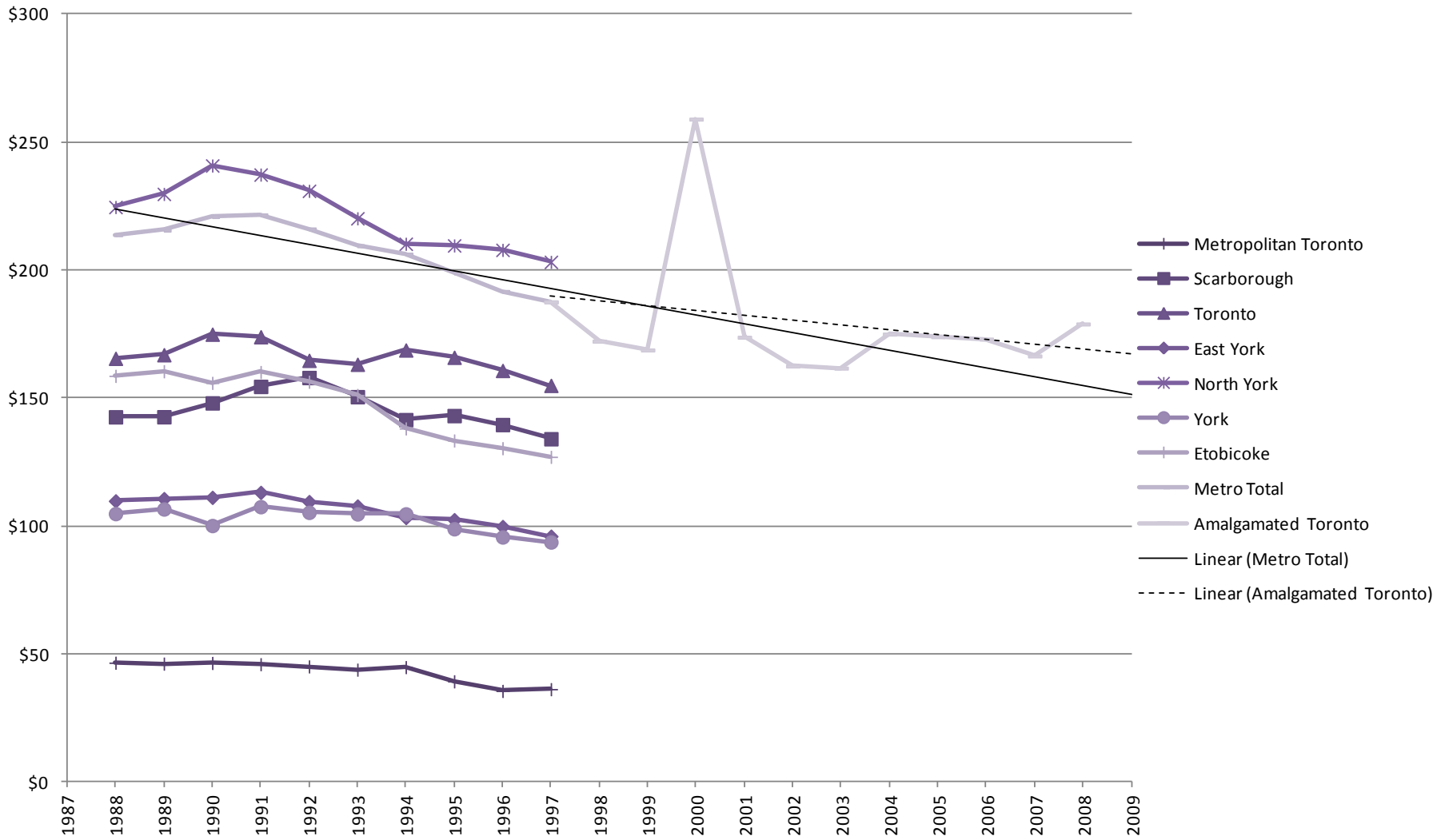
# Figure 2: Garbage Collection Expenditures Per Household - 1988-2008



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



### Figure 4: Libraries Expenditures Per Household - 1988-2008



# Two-Tier Model

- ❑ Upper tier provides services that are region-wide, lower tiers provide local services
- ❑ Upper tier: economies of scale , redistribution, and internalize externalities
- ❑ Lower tiers: access and accountability
- ❑ Costs may be higher because of waste and duplication; may be less transparent and more confusing for citizens

# Special Purpose Districts

- ❑ Single function placed under control of special district government; may have access to dedicated revenue stream (e.g. user fee or earmarked tax)
- ❑ Easy to create politically; easy to disband; local autonomy; economies of scale; address externalities
- ❑ Potential problems of accountability; redistribution not automatic

# Examples from Nine Federal Countries

Country	Metropolitan Area	Governance Model
Australia	South East Queensland (Brisbane)	One-tier; strong state role
	Perth	Fragmented local governments; strong state role
Brazil	Belo Horizonte	Voluntary cooperation; state government in charge of shared functions; inter-municipal cooperation
	São Paulo	Special purpose districts; state role
Canada	Toronto	One-tier consolidated
	Vancouver	Two-tier
Germany	Central Germany	Voluntary cooperation
	Hamburg	Voluntary cooperation
India	Hyderabad	Amalgamation; special purpose agencies
	Mumbai	Special purpose agencies
South Africa	Gauteng city region	3 metros; limited inter-municipal cooperation
	Cape Town	One-tier consolidated
Spain	Barcelona	Two-tier
	Madrid	Two-tier
Switzerland	Geneva	Purpose-oriented intergovernmental cooperation
	Zurich	Purpose-oriented intergovernmental cooperation
United States	Louisville	Consolidated one-tier
	Los Angeles	Fragmented one-tier



# Findings from Governance Research

- ❑ Different models have worked in different places at different times
- ❑ Political boundaries rarely coincide with boundaries of the economic region
- ❑ Strong traditions of local autonomy make metro-wide cooperation difficult
- ❑ Special districts may work where metropolitan area is too large for a political structure
- ❑ Consolidation does not necessarily reduce costs but may make it easier to levy taxes over the metropolitan area

# How to Pay for Metropolitan Services

- ❑ Connection between those who decide, those who benefit, and those who pay:
  - ❑ Expenditure responsibilities matched by revenue resources
  - ❑ Revenue capacities matched with political accountability
  - ❑ Benefit areas matched with financing areas

# How to Pay for Metropolitan Services

- ❑ Taxes levied by local governments should fall on local residents or non-residents (commuters and visitors) who benefit from services
- ❑ The more closely spending and taxing decisions are linked by being made by the same body at the same time, the better government will be efficiency of service delivery
- ❑ Lack of metropolitan governing structure is a constraint in providing local services efficiently in metropolitan areas

# Financing Large Metropolitan Areas

- User charges
  
- Taxes:
  - Property taxes
  - Income taxes
  - Payroll taxes
  - Vehicle and fuel taxes
  - Sales taxes
  - Business taxes
  
- Intergovernmental transfers
  
- Financing infrastructure:
  - Development charges
  - Public-private partnerships
  - Borrowing

# DIFFERENT SERVICES – DIFFERENT REVENUE TOOLS

## Private

Water  
Sewers  
Garbage  
Transit

## Public

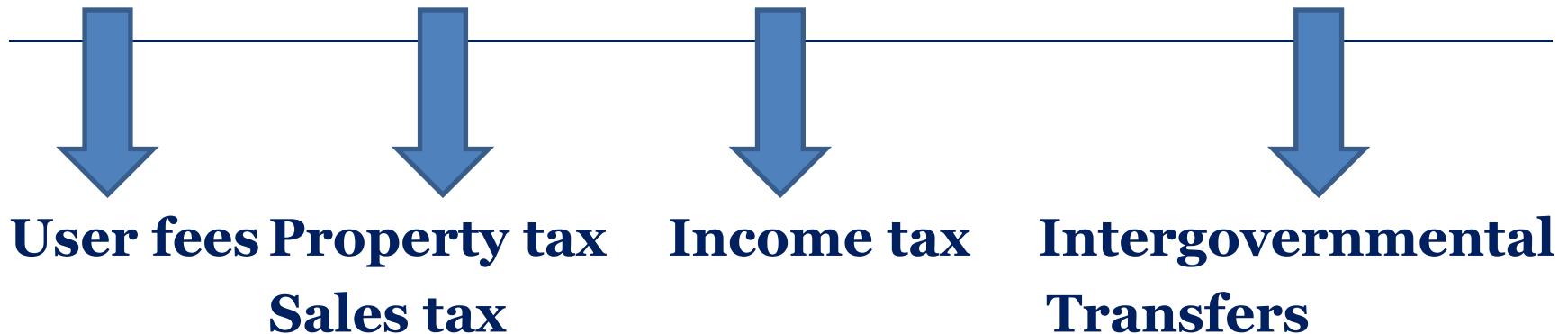
Police  
Fire  
Local parks  
Street lights

## Redistributive

Social assistance  
Social housing

## Spillovers

Roads/transit  
Culture  
Social assistance



# DIFFERENT INFRASTRUCTURE – DIFFERENT FISCAL TOOLS

## Taxes



short asset life  
(police cars,  
computers)

## User fees



identifiable beneficiaries  
(transit, water)

## Borrowing



large scale assets  
with long life  
(roads, bridges)

# DIFFERENT INFRASTRUCTURE – DIFFERENT FISCAL TOOLS

## Development charges



Growth-related costs;  
new development or  
redevelopment  
(water, roads, sewers)

## P3s



large in scale;  
revenue stream;  
measurable results  
(toll roads)

## Land value capture taxes



increase property values  
(transit)

## Distribution of Own-Source Revenues, Shared Taxes, and Transfers (%)

	Own-source revenues (taxes, user fees, other own-source revenues)	Shared taxes	Intergovernmental Transfers
London (2011/12)	26.2		73.9
Berlin (2010)	39.5	35.0	25.5
Madrid (2009)	58.5	4.5	37.0
New York (2011)	69.1	9.5	30.9
Paris (2011)	82.5		17.5
Tokyo (2010)*	82.3		7.7

Note: \*Included in own-source revenues are some taxes over which the metropolitan government has limited flexibility over tax rate setting



# How Should Metropolitan Services be Financed?

- ❑ Metropolitan areas should have greater fiscal autonomy than other urban areas –
  - ❑ greater responsibility for local services
  - ❑ greater ability to levy own taxes, collect own revenues, and borrow for capital expenditures
  - ❑ less dependence on intergovernmental transfers

**BUT**

- ❑ they need a governance structure that will allow them to levy taxes on a metropolitan-wide basis

# Final Comments

- ❑ Area-wide general purpose government to address public financing problems in metropolitan areas may not be attainable
- ❑ A two-tier metropolitan structure could foster a metropolitan identity, address metro-wide issues, while still retaining local autonomy
- ❑ Elected metropolitan governments could be viewed as service delivery areas and financing districts (matching taxes and expenditures, beneficiaries and payers)
- ❑ Room for metro-wide governments to contribute more own-source revenues to finance services in metro areas: user fees and taxes (e.g. property, income); less dependence on transfers