

# **The Impact of Legislative Reforms to Canadian Federalism on Toronto's Ability to Reduce Poverty**

For Prof. Fuchs, Seminar in Urban Politics  
By Jake Schabas  
December 7<sup>th</sup>

## 1. Introduction

In the past decade, the Canadian city of Toronto has undergone radical internal shifts in its socioeconomic geography and governance structure while having simultaneously emerged on the world stage as an extremely livable and financially successful city. No longer simply the economic engine of the Canadian economy, Toronto is now North America's fifth largest 'Megacity,' it ranks twelfth on the Global Financial Centres Index and is consistently recognized as one of the world's most livable cities (Financial Centre Futures 9). Despite a rising international profile, poverty rates in Toronto are growing rapidly, particularly in areas near the City's<sup>1</sup> boundaries known as the 'inner suburbs.' Recognition of Toronto's new spatial arrangement of poverty has grown at all three levels of government — Municipal, Provincial and Federal — along with an acknowledgement of the legislative limitations in place that prevent the City from adequately addressing these challenges. These constraints became particularly apparent during the City's fiscal crisis following the 1998 Provincial decision to amalgamate of the City of Toronto with its surrounding boroughs and reconfigure governmental responsibility for local services known as the Local Service Realignment (LSR) reforms. Amalgamation and the LSR reforms had a devastating impact on the City, delegating more service responsibilities to Toronto without the commensurate increases in fiscal resources, quickly sending the City's finances into a tailspin.

The shock of the 1998 reforms and the subsequent years of overburdened Council agendas and fiscal hardship galvanized municipal politicians to lobby higher levels of government for expanded legislative powers. Under the leadership of former Toronto mayor David Miller, a "New Deal for Cities" was reached between municipalities and the federal

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<sup>1</sup> The capitalized 'City' here refers to Toronto as a municipality, whereas 'city' refers to an urban form.

government in 2004. In December 2005, a new *City of Toronto Act* was passed by the Province of Ontario that explicitly recognized Toronto as a mature order of government requiring commensurate responsibilities and fiscal authority. This paper will explore to what extent these changes to Canadian federalism impacted the City of Toronto's ability to carry out policies addressing rising poverty in its inner suburbs. Following a brief history of the legislative reforms that have impacted the City of Toronto, Paul E. Peterson's concepts of functional and legislative federalism will inform an analysis of mayor Miller's multi-pronged and place-based approach to reducing inner suburban poverty through three policies: the Strong Neighbourhoods Strategy (SNS), Tower Renewal and Transit City. Because all three programs are still in the preliminary stages, this analysis will not consider policy outcomes. Rather, this study will explore how the funding structures and current status of these three policies has been shaped by recent legislative reforms. The paper will go on to argue that despite their stated intentions, these reforms have not gone far enough in providing the City with sufficient legal and fiscal autonomy from the Province.

## **2. An Early History of Municipal Legislation in Canada**

Canadian cities, like their counterparts in the United States, have historically had little formal legal standing. The 1867 *British North America Act* that established the operation and structure of Canadian federalism, defined here as the division of power between three levels of government — municipal, provincial and federal — established municipalities as creatures of the Province (Cote 8). Unlike the constitutionally entrenched status of federal and provincial governments, municipalities are entirely under the jurisdiction of their respective provinces. Little changed in Ontario until 1953, when the Provincial government passed the *Municipal Toronto Act* creating the Municipality of Metropolitan Toronto; a two-tiered governmental structure with 13 lower-tier governing units (reduced to six boroughs in 1967) responsible for local service

delivery and an upper-tier Metro Council who oversaw city-wide issues such as planning and transportation (Horak 2008, 12).

In 1997, Toronto's place in Canadian federalism was radically reconfigured following the passing of the *City of Toronto Act* that amalgamated Metropolitan Toronto into a single tier government and rearranging service delivery responsibilities through a program of Local Services Realignment (LSR). The LSR program has been described as “probably the greatest realignment of powers in the history of the [Canadian] municipal system.” (Siegel 31). Presented as a revenue-neutral rebalancing of responsibilities, it radically altered the Province's role in providing local services in Toronto. However, it is now widely acknowledged that LSR “downloaded” many Provincial service responsibilities onto the City without providing the adequate fiscal resources (Slack 2005, 2-3). While LSR shifted the majority of costs for public education to the Province, it offloaded most of the responsibilities for social housing, social assistance, public transit, child care and long-term care onto Toronto without significantly changing the City's revenue-generating powers (Horak 2008, 13). By 2001, LSR has been estimated to have increased Toronto's net annual service provision costs by \$276.5 million, almost 5% of the City's budget (Horak 2008, 19). Furthermore, the predicted cost-savings ostensibly driving amalgamation turned into one-time municipal operating deficits of somewhere in the range of \$153 to \$275 million (Horak 2008, 14). Despite vocal local opposition, LSR and amalgamation were pushed through by the Province, quickly sending the City into a fiscal crisis.

The 1997 *City of Toronto Act* had the indirect effect of creating a powerful new political entity with 2.4 million constituents — by far Canada's largest municipality and the country's sixth largest unit of government — with far greater responsibilities and control over service provision (Horak 2008, 13). The offloading of Provincial responsibilities to the City brought to light the unique challenges facing Toronto. In 2001, City of Toronto residents comprised 49% of

people in the Greater Toronto Area (GTA) — a region of 5 million that includes Toronto and its four surrounding regional municipalities — yet they also had the distinction of being home to 71% of low income families, 75% of households on social assistance and 67% of the GTA’s recently arrived immigrants (Horak 2008, 19). Required to do more with less, at the start of 2003 almost half of the City’s operating expenditures were going to social services, housing and transit alone — all of which had formerly received significant funding from the Province. With no new major revenue sources granted by the 1997 *City of Toronto Act* despite expanded responsibilities, revenues from property taxes, user charges and intergovernmental transfers became insufficient, forcing the City to rely on its reserve funds and already depleted capital budgets to cover operating costs (See Tables 1 and 2 in Appendix, Slack 2005, 3-4). As Toronto’s dire finances began to garner attention through service cuts and growing public outrage, momentum began to build for another round of structural reforms to Canadian federalism.

### **3. Political Turnover and the New Deal for Cities**

In 2003, political changes at all three levels of government reoriented the fortunes of local service funding and governance structures in Toronto. At the City level, David Miller became mayor in November, a left-of-center City Councilor elected on a platform of transparency in the wake of a multi-million dollar computer leasing scandal connected to the former conservative mayor Mel Lastman. The Liberal party likewise replaced the Progressive Conservative party at the Provincial level only one month prior to David Miller taking office. At the federal level, November also saw Liberal Prime Minister Jean Chretien succeeded by Liberal Paul Martin, who prior to the election had spoken about the need for a “New Deal for Cities” (Horak 2008, 24). Adopting Martin’s language of a “New Deal,” Miller convened a meeting of mayors from Canada’s ten largest cities in January 2004 to act together in pressuring Martin to increase

funding transfers to municipalities. As a result, 2004 saw all municipalities relieved from paying the 7% Goods and Services Tax.

The City of Toronto also had great success in getting intergovernmental transfers for transit funding. In 2004, the City signed a five-year agreement with the Province and Federal government committing each government to providing \$70 million a year in funding towards capital costs of Toronto's public transit system (Horak 2008, 28). In the same year, Miller convinced the Province to allocate 1 cent per liter of gas taxes to municipalities that would increase to 2 cents by 2007 with distribution based 70% on transit ridership — a move that greatly favored transit-heavy Toronto. This brought in an additional \$163 million per year to the City (Horak 2008, 32). In February 2005, the Federal government committed to sharing 2.5 cents per liter of their gas tax with municipalities, although this funding was allocated on a per capita basis, along with an additional 1 cent per year to large cities based on transit ridership (Horak 2008, 32). These two new revenue streams relieved some of the fiscal pressures on Toronto's public transit system stemming from LSR, yet they did little to address the operating deficits and cuts looming over social service provision in the City.

#### **4. A New City of Toronto Act**

In June 2006, a *Stronger City of Toronto for a Stronger Ontario Act*, the product of a joint task force of staff from the City and Province known as the new *City of Toronto Act (COTA)*, passed through the provincial legislature and came into force on January 1<sup>st</sup>, 2007. As outlined in its opening pages, the act's purpose was "to create a framework of broad powers for the City which balances the interests of the Province and the City and which recognizes that the City must be able to do the following things in order to provide good government..." (Government of Ontario 2.0). These measures included determining the appropriate governmental structure, mechanisms for municipal service delivery, levels of municipal spending and taxation, and

finally the “fiscal tools to support the activities of the City” (Government of Ontario 2.0). Furthermore, COTA states that the relationship between the Province and the City should be “based on mutual respect, consultation and co-operation” (Government of Ontario 1.2). The opening pages of COTA depict the extent it is a deliberate attempt to rebalance the federalist system to strengthen the role of municipal government in Toronto.

Whether COTA lives up to its intentions or founding principles is less clear. Unlike the 1997 *City of Toronto Act*, COTA adopts a “permissive” rather than “prescriptive” powers approach, meaning that the City of Toronto can pass by-laws on any issue not specifically prohibited by the Province (Cote 8). COTA also lengthened council terms from three to four years to reduce electioneering and allow for long term policies, enabled Council to restructure the ward boundaries and composition of its municipal government and opened up the possibility of taxing vehicle registration and land-transfers (Government of Ontario 267.1). The mayor’s power was also increased, giving him the authority to Chair the Executive committee at council — a predominantly agenda-setting body — appoint the deputy mayor and standing committee chairs and negotiate for the City with other levels of government (Cote 9-10). The City also was given power to set up Tax Increment Financing Zones, delegate decision-making responsibilities to bodies other than Council, enter into agreements with the Federal government as well as the ability to create municipal corporations (Government of Ontario 148). However, many proponents of stronger municipal governments were unhappy that the act still prohibited any major new revenue sources such as general sales taxes, income taxes, wealth taxes as well as gas taxes and road tolls except if approved by the Province (Government of Ontario 267.2.1-13). Furthermore, social assistance and housing remained the responsibility (Government of Ontario 114.5). These legislative limitations raise the question of whether COTA provided the City with sufficient powers and revenue-raising tools to significantly improve its ability to institute policies

aiming to reduce poverty through improve service delivery in the inner suburbs and is the subject of this paper.

## **5. Toronto’s 13 Priority Neighborhoods and the “Strong Neighborhoods Strategy”**

Ontario is unique among Canadian provinces in that municipalities still fund a significant amount of social services. As David Siegel points out, “everyone involved in the system (even provincial public servants in private conversations) recognizes that this is a problem and that social-assistance expenditure needs to be moved to the provincial level” (Siegel 57). Functional federalism, following Paul Peterson’s definition, dictates that the redistributive quality of social services should make it a funding responsibility of a higher level of government (Peterson 129). There are three reasons substantiating this argument: first, higher levels of government have greater access to income taxes and far larger jurisdictions (Peterson 30). This makes them less vulnerable to taxpayers avoiding the payment of taxes — “exiting,” to draw upon Albert Hirschman’s terminology (21) — while increasing their ability to redistribute resources through social services from “haves to have-nots” (Peterson 17). Secondly, property taxes are an inappropriate way to fund social services, since property tax revenue fluctuations are inversely related to social service needs. Such is the case during a recession, when declining property values have decreased property tax revenues yet social service needs such as welfare and housing have increased. Finally, as Enid Slack points out, “since welfare recipients tend to congregate in larger urban centres, a disproportionate burden is placed on these centres” (Slack 2005, 4). Because cities have larger lower income populations, they have far greater social service needs than smaller municipalities without having additional revenue sources.

The failure of COTA to upload social service responsibilities from the City to the Province demonstrates the extent to which the Act is an example of legislative federalism, which Peterson describes is when the legislative distribution of power is “shaped by the political needs

of legislators responsible for its design” (16). Providing for social services has become especially burdensome in Toronto for two reasons: first, as was mentioned before, Toronto has a disproportionate share of the region’s lower income population and; secondly, over the last thirty years, poverty has largely shifted from the inner city to the inner suburbs — areas of the amalgamated boroughs at the fringes of the new City’s municipal boundaries. The spatial shift in lower income groups was first brought to light in a 2004 study by the United Way of Greater Toronto *Poverty by Postal Code: The Geography of Neighbourhood Poverty*, documenting how census tracts defined as ‘poor’ or ‘very poor’ had increased from 16 to 108 in the amalgamated inner suburbs of Toronto between 1981 and 2001 (United Way 27). Despite a decrease in inner city family poverty rates by 0.9% during this period, the overall family poverty rate in the city climbed from 13.3% to 19.4%, an increase accounted for entirely in the inner suburbs (United Way 17, 22). These findings presented new challenges to the amalgamated City, since these pockets of poverty are isolated from most social services, which were located in the downtown core rather than in the former boroughs.

*Poverty by Postal Code* provoked the City to launch a chain of policies all informed by the new spatial reality of poverty in Toronto. Beginning in the spring of 2004, a “Strong Neighbourhoods Task Force” was launched by the City in partnership with the United Way of Greater Toronto (UWGT) and the Toronto City Summit Alliance — a charity and a local advocacy group, respectively — that defined nine priority neighborhoods based on socioeconomic distress and accessibility to services such as libraries, health centers, schools and youth services (Horak 2010, 12). In 2005, the Task Force was expanded into a Strong Neighbourhoods Strategy”(SNS) that identified 13 priority neighborhoods all in the inner suburbs where people-centered interventions including youth programming, community services and policing would be initiated (see attached map [Figure 1] in Appendix). These 13 priority

neighborhoods would become the targets of a comprehensive, multi-faceted strategy by the City to alleviate poverty in Toronto.

Funding for SNS, the first City policy to address the 13 priority neighborhoods by directly focusing on increasing social services, was not forthcoming. SNS called for a large-scale, five-year investment agreement among all three levels of government, while likewise making use of private funding raised by its partners (Horak 2010, 12). At the federal level, a newly formed minority Conservative government had taken power in 2006 that held no ridings in Toronto. From them, no funding for SNS ever materialized. At the provincial level, two programs specific to the 13 priority neighborhoods were initiated: the Toronto Anti-Violence Intervention Strategy (TAVIS), which gave \$17 million in funding to the Toronto Police Services to reduce gang and gun violence beginning in 2005 and; the Youth Challenge Fund, which began providing grants not to youth-led initiatives beginning in 2006 that involved the arts, safety, peer support and skills training (Horak 2010, 14). However, both provincial initiatives, despite operating in the 13 priority neighborhoods, circumvented the City's, which had not called for increased funding for the police and was skipped over in the delivery of the Youth Challenge Fund (Horak 2010, 14-15). Finally, there is little evidence that the City provided much funding for its own SNS. Horak writes that "one City administrator noted that the figure most commonly thrown about for total new investment in the SNS neighborhoods is \$65 million (which seems plausible), but that this figure is contested" (Horak 2010, 15). What is clear, however, is that no change in municipal funding for SNS came about following the implementation of COTA in 2007.

The lack of funding from the provincial and federal governments for the City's SNS policy supports a legislative federalist argument that political interests trumped functionalism. The same cannot be said about the relative absence of municipal funding in terms of the fiscal goals set out by SNS, since social services are not under the purview of the City, following a

functional federalism model. Nevertheless, one commentator recently remarked that “a review of the sparse attention paid to the SNS in official City documents and at Council Meetings over the last three years supports the notion that pursuing integrated neighborhood revitalization efforts remains rather low on the citywide policy agenda” (Horak 2010, 15). It is this paper’s contention that such a statement couldn’t be further from the truth. Rather, the lack of importance or funding given to SNS reflects the structural constraints re-entrenched by COTA that face the City when it attempts to increase direct spending on social services to address poverty issues. Integrated neighborhood revitalization efforts were in fact made a priority under mayor Miller, except that these efforts were to effect the poverty in the 13 priority neighborhoods indirectly, in a form dictated by the structural limitations of COTA. Two policies that looked to seize upon opportunities made available through COTA will now be analyzed.

## **6. Mayor’s Tower Renewal**

The Mayor’s Tower Renewal program is a clear example of how the legislative limitations set out in COTA have led the City to pursue innovative, indirect approaches to tackling poverty issues in Toronto. The plan now known simply as Tower Renewal is ostensibly an environmental initiative to improve “the energy efficiency of the more than 1,000 high-rise residential concrete frame buildings located throughout Toronto” (City of Toronto 2010b, 2). Yet the program itself is far more ambitious. Built during the post-war period, a significant majority of these concrete frame towers are located in the city’s 13 priority neighborhoods (see map [Figure 2] in Appendix) and are home to mostly new immigrants and low-income families (City of Toronto 2010b, 51-80). These demographics have led to the expansion of Tower Renewal’s environmental mandate to include local resident empowerment programs, land use reforms to encourage walkable, healthy neighborhoods and local economic development (City of Toronto 2010b, 11-12). This unconventional approach where poverty issues are addressed through an

environmental building retrofit program is in many ways the product of the legislation set out in COTA. As was previously mentioned, COTA did little to remedy the City's overdependence on municipal property taxes, yet it made available certain new financial tools. These two features, along with continuing municipal budgetary constraints and an unwillingness from other governments to provide transfers in large part dictated the complex funding structure proposed for Tower Renewal.

“Toronto is a city of towers,” states the June 1, 2010 *Tower Renewal Implementation Draft Book* (City of Toronto 2010b, 10). Between 1945 and 1984 there were 1189 multi-unit residential buildings over eight storeys tall built within the City of Toronto, the greatest number in North America outside of New York City (City of Toronto 2010a, 10). These buildings were typically built in clusters evenly spread throughout Toronto under the direction of the former Metro government in order to encourage relatively even residential density and income levels throughout the City. Today, these towers make up the majority of the city's rental housing units, yet they are often isolated from many basic services such as community centers, recreation programming, local retail shops and employment opportunities (City of Toronto 2010a, 11). Aside from being extremely energy inefficient, these towers also comprise a large portion of the housing stock of the City's 13 priority neighborhoods and are home to many recent immigrants and low-income families (City of Toronto 2010a, 10-11). Of the four pilot tower sites currently being studied, in 2009 the tower with the highest average median housing income was \$5,000 below the Toronto average of \$53,000 (City of Toronto 2010a, 51-76). All four towers have at least 10.6% unemployment rate, again higher than the citywide average of 7.6% and immigrants made up at least 65% of the tenants in all four towers (City of Toronto 2010a, 51-76). These demographics have therefore been worked into Tower Renewal, which explicitly includes “increasing the number of local retail shops, social services and employment opportunities” as

parts of its goals (City of Toronto 2010a, 11). These statistics, along with the prevalence of Tower Renewal opportunities in the 13 priority neighborhoods, impart the extent to which the program presented as a building retrofitting initiative largely addresses the same locations and socioeconomic challenges as does the Strong Neighborhood Strategy.

The relatively few fiscal tools allowed under COTA in part explain the City's unusual use of a building retrofit program to address poverty issues. A report prepared by Morrison Park Advisors entitled "Tower Renewal Financing Options" states that "the retrofit projects envisioned by Tower Renewal are comprehensive and large scale, likely costing several million dollars per building" (City of Toronto 2010a, 2). Projects would also include a "Sustainable Towers, Engaged People" (STEP) program that would seek to empower local residents through influencing the project and finding local employment opportunities that involve the retrofitting (City of Toronto 2010b, 19). They would also make improvements to the surrounding recreational areas and open spaces, reform land use policies to encourage local amenities, build social services and create local employment opportunities in green technologies (City of Toronto 2010b, 11-12). The retrofits themselves would lower the utility bills of the buildings' inhabitants while reducing greenhouse gas emissions. Tower Renewal also intends to involve local partners, including existing SNS offices, in a neighborhood revitalization process (City of Toronto 2010b, 27). Since the City intends to eventually expand this program to towers all across Toronto, this entails financing in the order of over \$2 billion (City of Toronto 2010a, 2). Complicating matters is that approximately 800 towers are privately owned rental properties — the remaining towers are controlled by Toronto Community Housing, the second largest social housing provider in North America run by a board of appointed City Councilors (Toronto Community Housing 2010) — with owners who need to be convinced to participate in Tower Renewal (City of Toronto

2010b, 10). The City therefore requires large sums of money to make Tower Renewal retrofits possible and attractive to private owners.

With current budgetary constraints making subsidies infeasible, the City intends to finance Tower Renewal through a combination of new revenue mechanisms derived from COTA and through increased fiscal authority that will require approval from the Province. Using the new powers set out in section 148 of COTA that allow for the establishment of corporations (Government of Ontario 148.1), the City plans to establish a Tower Renewal Corporation to finance individual retrofits. All retrofitting projects would be grouped together and paid for through issuing bonds on the capital market to ensure that all retrofits are funded and that the risk to investors on individual renewal plans is spread among all projects (City of Toronto 2010a, 5). Furthermore, the City would improve the Corporation's credit terms by over-collateralizing the capital pool through providing a small amount of equity or subordinated debt to give extra protection to bondholders (City of Toronto 2010a,10). This would make the bonds more attractive to investors by further reducing risk, however it will require provincial approval since it is currently prohibited under COTA for the City to invest in a corporation that has a "below investment-grade credit rating," which a new corporation would (City of Toronto 2010a, 16). Morrison Park Advisors estimates that seed money to start and maintain the corporation and the over-collateralization will cost the City a maximum of \$20 million annually, assuming Tower Renewal continues for 15 years and takes on at least \$2 billion worth of projects (City of Toronto 2010a, 10).

The remaining challenge is to make Tower Renewal an appealing project for private owner participation. While the completion of a Tower Renewal project will add value to a building, it will take longer for owners to reap such returns than most are will to wait, likely ten to fifteen years (City of Toronto 2010a, 10). Furthermore, returns on Tower Renewal projects are

not as large as are currently available in more traditional equity investments (City of Toronto 2010a, 11). These challenges have led the City to look for other ways of making Tower Renewal attractive, including by securing loans to private tower owners in ways other than through equity or additional mortgages. The City has therefore proposed to build upon the “priority lien” status given by Ontario to municipalities to collect property taxes by extending such status to include Tower Renewal loans, a move that will require approval from the Province. In other words, a loan from a Tower Renewal Corporation would be considered an essential service whose payment is enforceable and attached to the building’s property taxes in case the property is sold. If the owner does not repay the loan or goes into bankruptcy, the loan’s “priority lien status” ensures that the Corporation’s claims for reimbursement takes precedence over other claimants such as mortgage lenders (City of Toronto 2010a, 12). The priority lien status mechanism that would attach a loan to property taxes makes Tower Renewal an appealing opportunity precisely because it means making an investment in the property without taking out a second mortgage on a property or increasing mortgage payments (City of Toronto 2010a, 14). For these reasons, the City has chosen to pursue the creation of a Tower Renewal Corporation with a credit-enhanced capital pool that can secure loans using a priority lien status property tax mechanism.

The creation of a corporation, the use of the priority lien status of property taxes and the need for Provincial approval all reveal the extent to which COTA has both empowered the City while still failing to give it adequate revenue raising mechanisms. Although COTA gave the City the power to establish a corporation, it barred it from all mechanisms suggested by Morrison Park Advisors that could make investing in Tower Renewal attractive to private tower owners. These mechanisms include extending the use of the property tax-based mechanism, providing any financial aid to a corporation — in this case, a loan to cover start-up costs — or over-collateralizing the credit pool of a new corporation. Furthermore, the fact that Morrison Park

Advisors has suggested building upon property tax collection mechanisms for securing private loan repayments speaks to the extremely limited methods of collection tools of the City.

Tower Renewal's need for provincially approved funding mechanisms despite COTA demonstrates how the City still finds itself incapable of raising sufficient revenue for programs related to social housing and assistance which before LSR were partly funded by the Province. The goals of the building retrofitting program and its complex funding mechanism also speaks to how COTA has impacted the City's strategies for addressing issues identified in Toronto's 13 priority neighborhoods. Ironically, the City has yet to be granted approval for the new fiscal powers, yet on December 6, 2010 the Province released another report entitled *Tower Neighbourhood Renewal in the Greater Golden Horseshoe* authored by the same architects and planners behind Toronto's Tower Renewal plan (E.R.A. Architects 2010). It argues for a tower retrofitting program mirroring Toronto's Tower Renewal plans except expanded to the 1,925 towers across the Toronto region (Toronto Star 2010a). The lack of authority provided to the City by COTA despite the Province's apparent interest in Tower Renewal programs highlights the extent to which COTA exemplifies a legislative rather than a functional model of federalism.

## **7. Transit City and the Toronto Transit Commission**

The funding of Miller's "Transit City" plan, an expansion program seeking to bring higher order public transit options to the inner suburbs, is revealing of COTA's failure to make clear either the role of intergovernmental transfers or the power of Toronto's mayor in deciding public transit policies. Up until 1998, the Toronto Transit Commission (TTC), Toronto's public transit system, received 25% of its operating costs and 75% of its capital costs from the Province annually (Horak Forthcoming, 10-11). When funding was withdrawn following LSR in 1998, the TTC became solely reliant on ticket box sales and already strained municipal property tax revenues, sending its finances into a crisis. However, as Enid Slack argues, property taxes are

functionally an appropriate method for funding public transit since the benefits derived from improved local services are reflected in higher property values (UN-HABITAT 2009, 24). A good use of intergovernmental transfers, Slack asserts, are for redistributive purposes (Slack 2005, 4). For these reasons, weaning the TTC off Provincial grants more directly makes its services accountable to its riders. As will be demonstrated, Miller's 2007 Transit City plan is unusual in that it aims to utilize intergovernmental transfers for public transit infrastructure in a redistributive fashion. By planning higher order public transit lines through Toronto's 13 priority neighborhoods, Miller's Transit City plan should be understood as part of the holistic and place-based approach to reducing inner suburban poverty.

Miller had a history as an advocate for public transit, having been appointed to the TTC for all of his time as a City Councilor from 1994 to 2003. While mayor, Miller successfully fought for a share of the provincial and federal gas tax to go to funding transit. In February 2004, months after his election, the City signed a five-year, tri-level Canada Strategic Infrastructure Fund (CSIF) committing each level of government to provide \$350 million towards the TTC's capital program (Horak Forthcoming, 13). The CSIF funding, along with the agreements reached with both the provincial and federal government to share the gas tax (mentioned above) led to a vast increase in intergovernmental transfers to funding public transit in Toronto (See Table 3 in Appendix). These successes speak to both Miller's ability as a public transit advocate as well as the dire financial state of the TTC that had resulted from LSR and amalgamation.

In 2007, Miller's transit strategy shifted gears. The TTC announced that it was pursuing a ten-year multi-billion dollar expansion plan that proposed building over 120 kilometers of light rail throughout the city — one of the largest light rail projects in the world — with one third of funding coming from both the Provincial and Federal governments (Horak 2008, 38). Ostensibly rooted in increasing general transit service and capacity, the plan that came to be known as

Transit City had a profoundly social function: it aimed to bring higher order transit to all 13 priority neighborhoods in the inner suburbs currently underserved by heavily used bus routes (see Figure 3 in Appendix). Because the City technically has complete decision-making authority on the TTC — a power reaffirmed by COTA — Miller set forth transit goals as a means of increasing accessibility and opportunities in the 13 priority areas of the city. All that was required was intergovernmental funding for Transit City, which while not strictly adhering to a functional federalism model, would ultimately have a redistributive capacity that could provide the justification for large intergovernmental transfers.

Despite reaffirming the City's control over the TTC, COTA left few options aside from grants from higher levels of government for the City to use to implement their transit plans. With income taxes, gas taxes and road tolls all requiring explicit provincial consent, Miller had few other resources to draw upon. COTA had allow for the possibility of two new highly controversial taxes, a vehicle registration tax and a land-transfer tax, which Miller forcefully passed through council in 2007 after declaring the City to be in a state of fiscal emergency and threatening to close on of the City's subway lines (Horak 2008, 37-8). These new taxes brought the City an additional \$350 million in unconditional revenue in 2008 alone, yet they were not enough to fund the Transit City Miller intended to have built (Horak 2008, 37).

Prior to the 2007 provincial election, Premier McGuinty promised if re-elected to fund regional public transit with as much as \$17.5 billion, yet once his liberal party was returned to power, things played out differently (Horak 2008, 39). In April 2009, the Provincial government initially agreed to fully fund three of the first four 'priority lines' — the Eglinton Crosstown, Finch West and Scarborough LRT — at the cost of \$7.2 billion (Government of Ontario 2009). The following month, the Federal government committed to funding one third of the final priority line — the Sheppard LRT — with the Province covering the remaining \$950 million, bringing

Ontario's total commitment to \$8.15 billion (Toronto Transit Commission 2010, 3). Construction of the Sheppard LRT began in December 2009, with all four priority lines expected to be completed by 2020. At this time, Transit City was a public transit expansion program fully funded by higher levels of government that would directly improve accessibility in Toronto's 13 priority neighborhoods. Furthermore, it directly aligned with Tower Renewal plans by better integrating the many clusters of isolated postwar towers — whose residents also happen to have among the lowest car ownership rates in Toronto — with the rest of the city (Toronto Star 2010b). Together, the funding made available for Transit City and Tower Renewal projects would indirectly accomplish many of the poverty reduction goals outlined in the unfunded Strong Neighbourhood Strategy plan.

Recent events have drastically changed the future of Transit City in Toronto, bringing into question the repercussions of a funding model so dependent on intergovernmental transfers while highlighting the vast shortcomings of COTA. In January 2010, cost estimates for the four lines had ballooned to \$10.5 billion, leading the Province to mandate the lines be “fitted” to the initial funding commitment of \$8.15 billion (Toronto Transit Commission 2010, 3). This led to the significant shortening of several lines and delaying completion dates. Upon release of the March 2010 Ontario budget, the Province announced the deferral of \$4 billion dollars from the project's first five years, citing the global economy (Toronto Transit Commission 2010, 4)). To reaffirm their commitment to Transit City amidst growing concerns, however, in June 2010 the Province signed a contract for 182 Light Rail Vehicles, exercising an option on a contract that brings their commitment to buying light rail vehicles to \$1.22 billion (Toronto Star 2010a). Signing the contract for the light rail vehicles brought the Province's total commitment to Transit City up to \$1.3 billion in signed contracts along with \$130 million already spent in consulting fees, studies and preliminary construction (Toronto Star 2010a).

Then on October 25<sup>th</sup> 2010, Miller — who wasn't running for re-election — was replaced by Rob Ford, a conservative politician and vocal opponent of Transit City. On December first, Ford's first day in office, the new mayor announced that "Transit City is over" (Toronto Star 2010a). Ford made clear he intends to cancel all current contracts for the 120km light rail line plan and instead would like to build an 8km subway in the suburbs at the cost of an estimated \$3.6 billion (Globe and Mail 2010a). A unique situation has therefore arisen as a result of the new mayor's stance that tests the governance and funding structures established by COTA.

First, the mayor does not technically have unilateral authority to decide on TTC matters, although he does have significant influence in appointing councilors to the commission who then decide on the motions that go to Council for a vote. Appointments to the TTC are proposed by the mayor to Council and are then voted upon, a process reaffirmed by COTA, yet traditionally the mayor has always had his candidates supported, giving him significant control over transit policies. Mayor Ford's TTC appointments will be voted on by Council on Wednesday December 8, 2010. When it comes to Council voting on motions passed by the TTC however, it is interesting to point out that under Miller, the entire Transit City plan was never directly voted on by City Council. Instead it was approved by the TTC commissioners and then, once it received funding pledges from the Province, was voted on in a piecemeal fashion by Council, addressing "individual aspects of the plan" rather than Transit City in its entirety (Globe and Mail 2010b). Due to the composition of the new Council following the recent election, it is unclear whether Ford will have his appointees to the TTC approved and whether, if they pass a motion cancelling Transit City, Council will support the decision. This state of affairs could potentially lead Ford to try to similarly circumvent a Council vote as Miller did before him.

At the Provincial level, uncertainty as to the Ontario government's interest in seeing Transit City succeed also directly relates to COTA. Transit City is not only almost entirely

funded by the Province, but it is a central part of a long-term regional transportation plan set by a newly established transit agency Metrolinx known as “The Big Move” (Metrolinx 2008). The new Transit City lines would be under the ownership of Metrolinx, although they would be operated by the TTC. The Province might therefore be hesitant to allow for the cancellation of these lines, despite the intentions of the new mayor. The Province is also already monetarily invested in Transit City: \$130 million has already been spent and contracts totaling \$1.3 billion have already been signed (Toronto Star 2010b). However, to push forward a transit plan in Toronto that is unsupported by the City’s mayor who COTA states is “the representative of the City both within and outside the City” (Government of Ontario 134 (c)), could be seen to be against the spirit of “mutual respect, consultation and co-operation” as laid out in the opening pages of the Act itself (Government of Ontario 1.3).

Complicating matters further is the tenuous power of the mayor to pursue his agenda within what has been described as a “strong Council” model of municipal government (Cote 11). Since there are no political parties at City Hall and Council generally has to vote on TTC motions, it is unclear whether the new mayor can form a majority coalition of councilors when council is still made up of many Transit City supporters. In the case where the commission passes a motion cancelling Transit City yet the Council does not, the Province may once again be in a position of power to decide whether to side with the wishes of the mayor or the City Council. The ambiguity of who has decision-making authority over the TTC blurs accountability for transit in Toronto, reflecting another failure of COTA. Yet it is ultimately the City’s continuing reliance on intergovernmental transfers for any capital programs that is COTA’s greatest shortcoming, leading to the uncertainty of present plans that keep the City at the mercy of provincial largesse.

## **Findings and Conclusion**

The attempts under former mayor Miller to implement comprehensive, place-based policies — the Strong Neighbourhoods Strategy, Tower Renewal and Transit City — reveal how the gains made through COTA do not sufficiently empower the City to address inner suburban poverty. The lack of secure funding for all three programs is a direct result of the structural limitations placed on the City by COTA. The comparably minor increases in the City’s autonomy from the Province achieved through COTA are vastly overshadowed by the Act’s failure to upload financially burdensome social services to a more appropriate level of government or significantly expand the City’s revenue-generating tools. These shortcomings demonstrate the extent to which COTA is an example of legislative federalism; where political interests have trumped functionalism.

Remedying COTA would require intergovernmental agreements where services such as social assistance and housing receive legally mandated shares of the Provincial and Federal income tax revenues, as is currently done with gas taxes and transportation funding. Such a move would free up budgetary room for municipally provided services and policy initiatives addressing local challenges such as SNS, Tower Renewal and Transit City. Furthermore, the City should be given full autonomy over its finances, including the ability to collect income taxes, payroll taxes, excise taxes and establish complex financial tools as are proposed for Tower Renewal. Finally, the role of the mayor of Toronto must be more clearly defined, either through the establishment of a multi-tiered governance structure or through delegating increased decision-making authority. These structural changes would greatly increase the City’s capacity to implement place-based, comprehensive policies tackling inner suburban poverty. As has been shown in this paper, COTA has played a crucial part in guiding the form and present status of recent policies to reduce poverty in Toronto, highlighting the central place played by recent legislative reforms to Canadian federalism in the well-being of its largest city.

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## Appendix

**Table 1: Distribution of Operating Expenditures,  
Metro Toronto, 1978 and City of Toronto, 2003  
(%)**

	1978	2003
General government	9.3	6.4
Protection to persons and property	20.0	16.3
Transportation	27.7	20.8
Environmental services	13.4	16.5
Health services	3.0	4.0
Social services and social housing	12.7	27.4
Recreation and cultural services	12.3	8.0
Planning and development	1.7	0.7
Total expenditures	100.0	100.0

Source: Ministry of Municipal Affairs and Housing, MARS database

**Table 2: Distribution of Operating Revenues,  
Metro Toronto, 1978 and City of Toronto, 2003  
(%)**

	1978	2003
Property taxes	49.4	40.0
Payments in lieu of taxes	4.5	0.9
User charges	18.0	19.6
Transfers from other governments	22.3	22.0
Other revenue	5.9	17.5
Total revenues	100.0	100.0

Source: Ministry of Municipal Affairs and Housing, MARS database

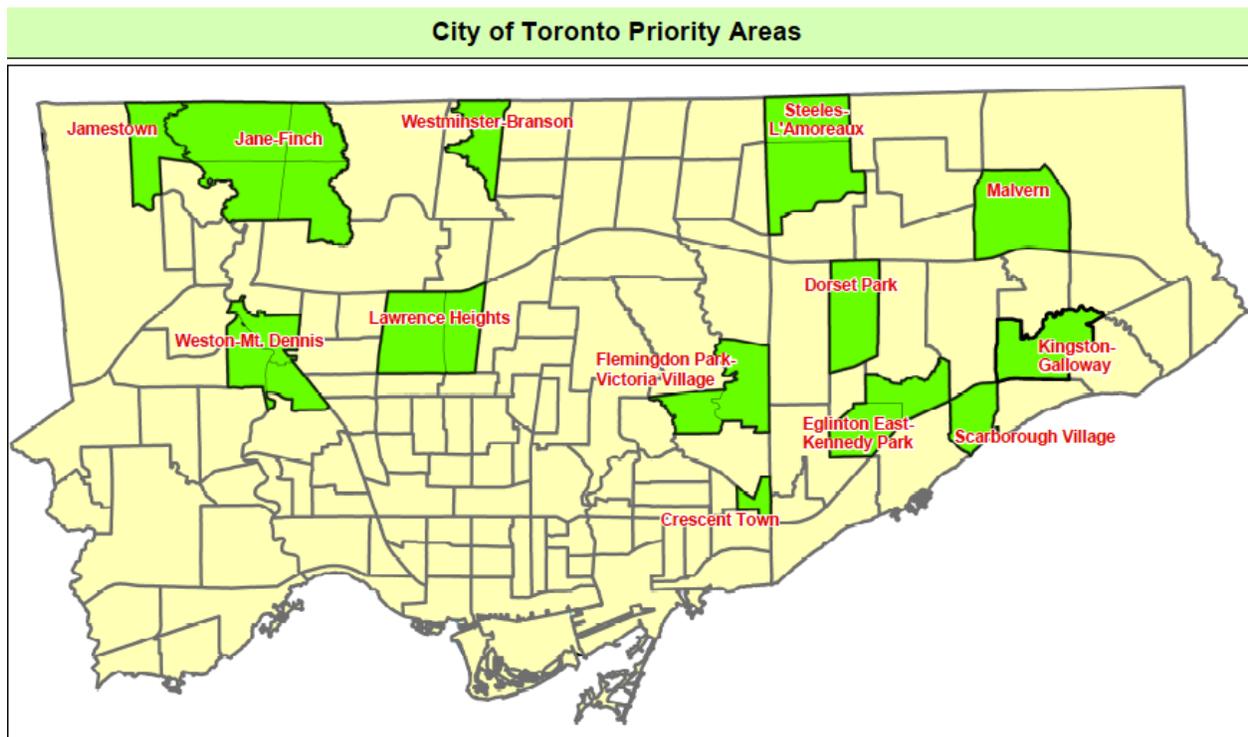
**Table 3. Intergovernmental funding  
for TTC, 2000-2007 (\$ million)**

	2000	2001	2002	2003	2004	2005	2006	2007
Provincial	0	0	63	141	141	159	271	329
Federal	0	0	62	14	12	163	166	112
<b>Total</b>	<b>0</b>	<b>0</b>	<b>125</b>	<b>155</b>	<b>153</b>	<b>322</b>	<b>437</b>	<b>441</b>

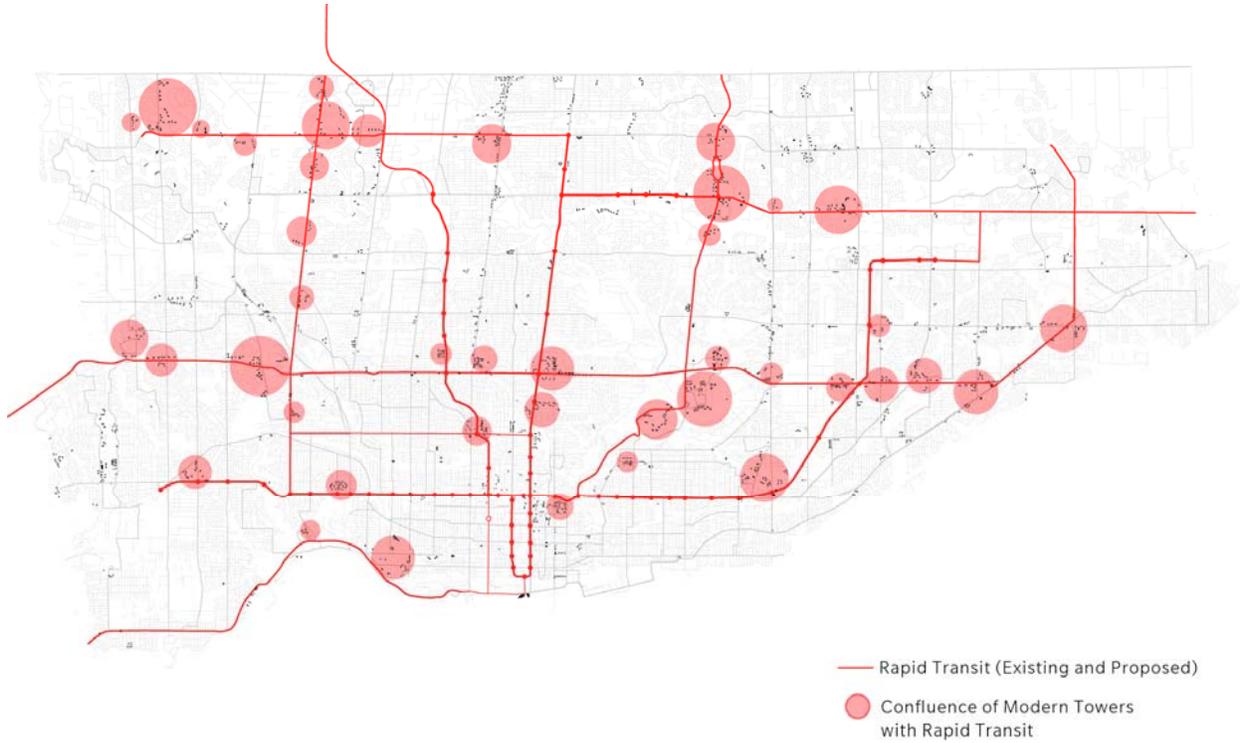
**Note:** All of the federal funding listed is for capital purposes. Provincial figures include operating subsidies, which started at \$70 million in 2003 and increased to about \$90 million in 2005 and thereafter.

**Source:** Toronto Transit Commission Annual Reports 2002-2007.

**Figure 1: 13 Priority Neighborhoods in the City of Toronto (Source: City of Toronto)**



**Figure 2: High-Rise Clusters with Current and Future Rapid Transit Lines (Source: E.R.A. Architects Blog <http://era.on.ca/blogs/towerrenewal/> )**



**Figure 3: Planned Transit City Lines and 13 Priority Neighbourhoods** (Source: <http://www.savetransitcity.ca/>)

