LEGITIMACY AND
MUNICIPAL GOVERNANCE IN ONTARIO

by

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Abstract

Viewed through a policy instrument choice lens, this project evaluates municipal government legitimacy in Ontario. By first situating 78 municipal governments using satisfaction surveys sent to small and medium sized businesses and local voter turnout information, other related data is analyzed to explain why some and not other local governments enjoy higher levels of sectoral and systemic legitimacy. The analysis suggests that while performance and financial reporting, and business improvement areas have no impact on local government legitimacy, amalgamation and adjustments to commercial property tax rates have a significant impact. The project concludes by suggesting policies that might help local governments improve their future legitimacy, including de-amalgamation or commercial property tax rate adjustments.

Keywords: Amalgamation; government legitimacy; municipal government; policy instruments

Subject Terms: Municipal government -- Citizen participation; Municipal government -- Case studies; Public Administration

Executive Summary

Legitimacy is a valuable "commodity" in governance. Without attaining legitimacy, governments become less efficient as the mobilization of support for government aims and initiatives places strain on already limited time and resources. This project analyses why some and not other Ontario municipal governments experience legitimacy problems. Two levels of legitimacy are considered in the analysis drawing on Michael Howlett's model of procedural instrument choice. The first is the sectoral level within a given group of local policy actors, and the second the systemic level within the entire municipal population.

Small and Medium Business Enterprise (SME) ratings of municipal governments are used as a proxy for sectoral legitimacy, while voter turnout serves as a proxy for systemic legitimacy. The SME ratings were obtained from a Canada wide survey of SMEs conducted by the Canadian Federation of Independent Business (CFIB) in 2003. Voter turnout data was obtained from individual municipal clerk's offices as well as from two data sets provided by the AMCTO for the 2000 and 2003 municipal elections. Regression models for systemic and sectoral legitimacy show that:

- The Amalgamation of municipal governments into single-tier municipalities has a detrimental effect on sectoral legitimacy (i.e. correlates with lower SME approval ratings)

- High commercial property tax rates also negatively affect SME approval ratings, although commercial to residential property tax ratios do not.

- Amalgamation involving the establishment of two-tier systems ("soft" amalgamation) has a detrimental effect on systemic legitimacy (i.e. lower turnout scores)

- Establishing Business Improvement Areas (BIAs) and extensive performance and financial reporting do not have an impact on either sectoral or systemic legitimacy.

Based on results from regression models, as well as more general predictions made by the model of procedural instrument choice, this study suggests a province-wide approach to increasing legitimacy in municipal Ontario would not be the best course of action. As individual municipal governments face different legitimacy concerns, customized policy solutions are suggested. For example, municipalities that have not been consolidated and are not part of a two-tier regional governance system would benefit from resisting provincial amalgamation initiatives if maintaining high legitimacy is a primary objective. In conjunction with this recommendation, municipal governments facing amalgamation would be well served by distancing themselves from provincial amalgamation initiatives and diverting "blame" to the provincial level of government.

If an overall view is taken, it would seem that de-amalgamation and tax expenditures would yield the greatest gains in sectoral and systemic legitimacy. De-amalgamation would also be the least costly solution. Property tax cuts, although effective in increasing sectoral legitimacy, would come at a high budgetary cost or substantial tax burden shift. Due to the trade-off between the two levels of legitimacy, they would also result in losses at the systemic level. As such, they are unlikely to be suitable as a policy alternative for municipal governments that are already suffering from low systemic legitimacy.

At the same time, governments that have not been amalgamated or have high systemic legitimacy may benefit from property tax cuts if they are willing to accept possible accompanying loss of systemic legitimacy. Furthermore, given there does not appear to be a policy window making de-amalgamation feasible at this time, if municipal governments deem legitimacy within the SME sector to be of high priority, commercial tax rate reductions would be the only effective means of increasing it. If it is not of high priority, given the substantial costs involved and concurrent losses in systemic legitimacy, the status quo remains the recommended policy choice.

To my parents,

whose help and support made this possible.

Thank you!

Acknowledgements

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List of Abbreviations

AMCTO	Association of Municipal Managers, Clerks, and Treasurers of Ontario
AMO	Association of Municipalities of Ontario
CFIB	Canadian Federation of Independent Business
FCM	Federation of Canadian Municipalities
FIR	Financial Information Reporting
GTA	Greater Toronto Area
GVRD	Greater Vancouver Regional District
HTML	Hyper Text Mark-up Language
MMAH	Ministry of Municipal Affairs and Housing
MPMP	Municipal Performance Measurement Program
OMO	Our Member's Opinion – CFIB survey series
PDF	Portable Document Format (Adobe)
SME	Small- to Medium- Sized Enterprise
StatCan	Statistics Canada
TCF	Toronto Community Foundation

1   Legitimacy: Definitions, Measures, and Importance

The importance of governmental "legitimacy" has been the subject matter of political and philosophical debate going back as far as Plato and Aristotle, with a universally agreed upon definition that as of yet remains to be found (Suchman, 1995; Beetham, 1991; Stillman, 1974). That the debate has been on going for such a long time is a reflection of the important role legitimacy plays in governance. Without attaining legitimacy, governance becomes increasingly difficult and ineffective, having to rely on coercive rather than voluntary measures to achieve compliance with government aims and initiatives (Howlett, 2000; O'Toole, 1997; Suchman, 1995; Merelman, 1966). In instances where a loss of legitimacy has occurred, re-legitimation often becomes the central policy concern. It is also the primary focus in this study.

The definitions and measures of legitimacy are addressed in the following section of this chapter. There are two theoretical approaches of particular relevance in this study to defining legitimacy. The first, and more traditional approach, defines legitimacy in terms of rules and legal process (Beetham, 1991). The second approach defines it as societal ratings of government performance (Stillman, 1974). Following the discussion of the definitions and measures of legitimacy, its importance in the governance context is briefly addressed in Chapter 1.2, and a model of procedural instrument choice prescribing a means to raise legitimacy is presented in Chapter 1.3 completing the theoretical basis on which the quantitative analysis in the subsequent chapters is built.

1.1   Definitions and measures of legitimacy

According to Beetham, there are three conditions a relation of power must satisfy in order to be legitimate (1991). It must conform to established rules, the rules must be justified by shared beliefs between the dominant and subordinate engaged in the power relationship, and there has to be explicit evidence of consent on the part of the subordinate to the particular relation of power. In terms of political legitimacy, the three conditions are met in contemporary liberal democracies through constitutional rules and political participation in elections where the governed legitimize government authority by openly consenting to obey it.

In addition, political legitimacy must be conferred using an act of mass legitimation where a majority, however arrived at and defined, must consent to the power relationship. At the same time, consent cannot be given on behalf of another unless specifically authorized to do so, and must be voluntary in the sense that it requires an effective choice between alternatives. Consistent with this definition, in western democracies there are freely held elections where each individual is entitled to a vote and an effective choice between a minimum of two parties or candidates running for a publicly held office. As such, political participation measured in terms of voter turnout is an indicator of legitimacy consistent with the legal and democratic definition used by scholars such as Beetham.

In a review of the historical concept of legitimacy and by drawing on the theoretical work of scholars such as Carl J. Friedrich and Harold Laswell, Stillman proposes that "a government is legitimate if and only if the results of governmental output [action] are compatible with the value pattern of society" (1974). This definition serves as an example of the performance rather than legal approach to defining legitimacy. The value pattern of society refers to the preferences, or in other words the ranking and ordering of whatever society desires, constrained by the availability of limited resources. Governmental output is defined as any action a government takes which has an effect on society, whether that effect is intended or unintended, or whether it comes in the form of laws, internal memos, regulations, or the direct provision of goods and services. The compatibility aspect of the definition refers to the idea that governmental output must be consistent with the value pattern of society, but not necessarily exactly aligned with it, hence allowing for a certain range of deviation from an existing value pattern.

The "performance" oriented definition and its emphasis on output is not entirely inconsistent with traditional definitions such as the one given by Beetham. Although he treats performance and legitimacy as two distinct concepts, according to Beetham, government performance plays a significant role in legitimacy (1991). Stillman on the other hand, explicitly includes performance as part of his definition of legitimacy. His definition is also consistent with that given by Suchman, who defines legitimacy as "a general perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, and beliefs." (1995). Other than being worded differently, both definitions bear close resemblance to each other.

The theoretical discussions of scholars such as Stillman and Suchman, as well as Beetham, albeit to a lesser extent, suggest that a measure of government performance can serve as an adequate indicator of legitimacy. Their theoretical arguments also find support in empirical research. In a study validating a measure of legitimacy, Fraser focused on government performance as an indicator of legitimacy by looking at values, expectations, and attitudes with respect to government action (1974). According to him, legitimacy does not merely refer to authority derived from some set of concrete legal rules, but rather to the extent to which members of a political system believe that the individuals or groups yielding authority are adequately meeting societal expectations about how they ought to behave (Fraser, 1974). Consistent with the definition proposed by Stillman and Suchman, the legitimacy an individual confers on their government is based on their own evaluation of governmental performance.

Fraser's empirical test of performance ratings as a measure of legitimacy was conducted using a survey of 201 Kentucky university students (1974). The students were asked to rate state and federal government performance as well the university administration's performance, which served as a proxy for the local level of government.[1] The respondents were then asked questions about both levels of government and their university that are commonly used to measure political efficacy and political cynicism in traditional studies looking at legitimacy. The results from both sets of questions were analysed and compared to assess whether performance ratings serve as an adequate measure of legitimacy.

The test verified that performance ratings are a good indicator of legitimacy at the federal, state, and local level of government yielding the same results as traditional measures based on efficacy and cynicism (Fraser, 1974). More specifically, Fraser found that a performance rating resulted in theoretically expected observations, was not strongly associated with other variables from which it was assumed to be distinct, was significantly correlated with other expected political variables such as efficacy, and was easy to administer making it a desirable variable for use in research dealing with legitimacy (1974). Consistent with these empirical results and theoretical considerations by Beetham, Suchman, and Stillman, SME ratings of government performance and voter turnout are used as proxy variables for legitimacy in municipal Ontario.

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[1]The questions were "What do you think the main purpose of the government/administration in (Washington / your home state / your university) ought to be?" followed by "How well do you think the government/administration in (Washington / your home state / your university) has fulfilled this purpose?" (Fraser, 1974).

1.2 Why legitimacy matters

Setting aside the theoretical and philosophical considerations surrounding the concept of legitimacy, scholars agree it has important practical implications in terms of governance. Without attaining societal consensus and legitimacy, governments could not function effectively without frequently resorting to highly coercive measures of compliance (Suchman, 1995). In terms of modern governance, frequent reliance on coercion as an enforcement mechanism is neither desirable nor practical. Taking resource constraints into account, continuous reliance on coercion is often simply not feasible making some form of voluntary compliance a mandatory requirement to make policy implementation feasible (O'Toole, 1997).

Organizations seen as legitimate are more likely to be supplied with resources because they appear desirable, proper, or appropriate, and require little ongoing investment in collective mobilisation (Suchman, 1995). Furthermore, according to Easton, when the acceptance of an organization is highly dependent on coercion, social costs will be high and change difficult and slow due to increased resistance (Merelman, 1966). There is also a distinction between active and passive support and the required level of legitimacy for each. An organization seeking passive support, or in other words wishing for a particular audience to simply "leave it alone" will likely require a much lower threshold of legitimacy relative to an organization seeking resources and active involvement in its activities (Suchman, 1995). In other words, political regimes and organizations suffering from low legitimacy are likely to be far less efficient than those which have high legitimacy.

The problem of low legitimacy is further compounded in that an ineffective and inefficient organization may in and of itself further undermine its legitimacy as a direct result of those inefficiencies (O'Toole, 1997). A vicious cycle is created where organizations suffering from legitimacy problems function less efficiently and effectively and their resulting ineffectiveness and inefficiency further undermine their legitimacy. Not surprisingly, in instances where legitimacy becomes a serious problem, policy focus shifts from substantive considerations such as the tangible provision of goods and services to procedural considerations "intended to manage state-societal interaction in order to assure general support for government aims and initiatives" (Howlett, 2000). What shape that action can potentially take is the focus of the next section which discusses a model of procedural policy instrument choice.

1.3 Procedural Instrument Model

A government's legitimacy can be assessed both at the systemic (macro) and at the sectoral (meso) level (Howlett, 2000). Systemic legitimacy encompasses political support among the entire population across individual sectors while sectoral legitimacy encompasses the level of support among a given sub-group, or sector of the population (Howlett, 2000). According to Howlett, a government can have the same level of systemic and sectoral legitimacy or a combination of high or low legitimacy at either level. In instances where a loss of legitimacy occurs, be they at the sectoral or systemic level, governments resort to the use of procedural rather than substantive policy instruments, or in other words "government tools", in order to regain legitimacy and to make governance at the substantive level more manageable and in extreme cases of "de-legitimation" feasible (Howlett, 2000). Based on existing taxonomies of instruments, Howlett identifies four broad categories of policy instruments on the substantive and procedural side (Howlett 2000; Howlett & Ramesh 1995). On the substantive side, the four categories are information, finance, regulation, and bureaucratic supply instruments. On the procedural side, they are information, finance, recognition, and institution manipulation. The instrument categories and models are defined and discussed in the following sections.

1.3.1 The distinction between procedural and substantive instruments

The primary difference between the two sets of policy instruments lies in what their use is supposed to achieve in terms of intended policy outcome. Policy intent determines whether an instrument can be classified as substantive or procedural (Howlett, 2000). For example, when the policy intent is an outcome with tangible results such as the provision of goods and services, instrument use is classified according to the substantive model. On the other hand, if the outcome is not tangible but aims to alter or influence existing policy sectors in order to increase legitimacy and make the use of a substantive instrument feasible or more effective, the instrument is classified according to the procedural model. Although the theoretical distinction between procedural and substantive instruments is clear, in practice there is considerable overlap. A given policy can for example, have a distinct substantive outcome combined with the procedural component aiming to increase legitimacy. In such cases, it is possible to classify instrument use according to both models.

The procedural and substantive models of policy instruments are based on the same spectrum of "state involvement" in the policy process (Howlett, 2000; Howlett & Ramesh, 1995). Both sets of instruments are aligned on a spectrum going from low direct state involvement associated with "voluntary" instruments, to high direct state involvement associated with "compulsory" instruments. In the procedural instrument model, which uses legitimacy as a rationale for instrument choice, information instruments are placed on the low end of the spectrum while institution manipulation instruments are placed on the high end of the spectrum with funding and recognition manipulation in between. The larger the extent of legitimacy concerns, the higher the level of state involvement will have to be in order to increase legitimacy favouring instruments towards the high end of the spectrum.

The same alignment on this spectrum applies to substantive instruments where information provision is located at the low end and direct provision of goods and services, which constitutes the use of government institutions (bureaucratic supply), is located at the high end of the spectrum, with financial instruments such as subsidies and taxes as well as regulatory instruments in between. In terms of a rationale for instrument choice, in the substantive instrument model, state capacity and sub-system complexity serve as determining factors for instrument use. (Howlett, 2000; Howlett & Ramesh, 1995). The higher state capacity and the lower sub-system complexity are, the more feasible direct government involvement becomes in the policy process favouring instruments towards the high end of the spectrum.

1.3.2   Procedural instruments and "sectoral" and "systemic" legitimacy

The specific choice of procedural policy instrument is a function of the level of systemic and sectoral legitimacy. As previously mentioned, drawing on existing taxonomies of policy instruments as well as the substantive policy instrument model, Howlett identifies and classifies four major categories of procedural policy instruments according to their most appropriate use for a given level of sectoral and systemic legitimacy (2000). As Figure 2.1 shows, given low systemic legitimacy coupled with low sectoral legitimacy, a government would have to engage in institution manipulation in order to increase legitimacy. Depending on the level of sectoral and systemic legitimacy, the other policy instrument choices include recognition manipulation, funding manipulation, and information manipulation.

Figure 1.1   Matrix of procedural policy instrument choice.

		Sectoral Legitimacy	
		High	**Low**
Systemic Legitimacy	High	Information Manipulation	Financial Manipulation
	Low	Recognition Manipulation	Institution Manipulation

Adapted from: Michael Howlett. (2000). Managing the "hollow state": Procedural Policy Instruments and Modern Governance. Canadian Public Administration, 43(4), 412-431.

Howlett provides the following definitions of the four instrument categories in the matrix (2000). Institution manipulation is defined as institutional reforms designed to restructure existing policy subsystems completely, or in other words alter policy networks. They might for example, include the establishment of special committees or task forces. Instruments in this category are most likely to be used when legitimacy is low at the sectoral and systemic level. Recognition manipulation, which would be used under circumstances of low systemic and high sectoral legitimacy, involves giving policy actors what can be described as standing in the decision making process. This category of procedural policy instrument includes, for example, the use of focus groups, committees, as well as other mechanisms to induce public participation. Funding manipulation, which is used in situations of high systemic and low sectoral legitimacy, includes the use of government funding to create or selectively support specific interest groups or to give certain policy actors financial incentives to support government initiatives using tax expenditures or subsidies. The final category of instruments, which involve information manipulation and are used in circumstances of high systemic and sectoral legitimacy, make use of selective information provision through, for example, simple information release or education campaigns aiming to inform the public about government action and policies.

The discussion of the instruments as presented above places their use in a "positive" light. However, each instrument category can also be used "negatively" (Howlett, 2000). For example, information manipulation does not necessarily have to involve information provision. It could equally well involve the withholding of information. Recognition manipulation does not have to involve giving standing in the policy process; it could equally well involve exclusion. Financial manipulation could involve funding, but it could also take the form of ceasing funding. Institution manipulation might take the form of establishing a new committee, but it could equally well mean the dissolution of an existing organization. Notwithstanding the potential for "negative" use, the focus in the analysis is exclusively geared towards "positive" and "constructive" instrument use aiming to re-legitimate by gathering support rather than using "divide and conquer" strategies.

Leading up to the preceding discussion of the model of procedural instrument choice, two definitions of legitimacy, its measures, and importance in a governance context were identified. The definitions of legitimacy treated it as a matter of law, measured by consent through public participation, or as performance ratings of government output. Legitimacy was established to be of vital importance in governance, especially when governments are seeking active policy support rather than passive support in the form of non-interference. Finally, a model of procedural instrument choice, which incorporates systemic and sectoral legitimacy, was introduced and serves as the basis for the discussion in the following chapters. The model is first applied in the classification of individual municipalities according to instrument choice and later adapted as the general analytical framework in the quantitative assessment of legitimacy at the systemic and sectoral level in municipal Ontario.

2 Municipal Legitimacy in Ontario:

The primary intent behind the analysis presented in this study is to evaluate possible policies that can be used by Ontario municipal governments to address the problem of low sectoral and systemic level legitimacy. The analysis represents an addition to what others have stated has been a general lack of empirical research into governance issues at the municipal level in Canada (Kushner et al, 1997; Milner, 1997). Using Fraser's validation of government performance ratings as a measure of legitimacy, Small and Medium Enterprise (SME) ratings of municipal governments in Ontario were chosen as a suitable measure of sectoral legitimacy. Voter turnout, although not an ideal proxy for reasons discussed in Chapter 2.2, was chosen as a measure of systemic legitimacy.

The focus on Ontario's municipal governments was primarily the result of scarcely available data at the municipal level in other provinces. Although data availability at the municipal level also remains an issue in Ontario, organizations such as the AMO and AMCTO make matters more manageable by providing access to some centralized information. Unfortunately, the same cannot be said about most other provinces. In addition, Ontario's municipalities appear to be particularly hard hit in terms of legitimacy at the sectoral and systemic level. Ontario's average voter turnout of 44.4 percent in the 1994 municipal elections for example, fell over ten percent short of the average in Quebec's 1995 municipal elections (Milner, 1997). In 2003, it had declined to 40 percent (AMO, 2003). In terms of legitimacy at the sectoral level, municipalities in Ontario also fare worse relative to their counterparts elsewhere in the country making Ontario, as the largest province and home to Toronto, Canada's largest city, a good jurisdiction for the analysis to focus on.

The link between legitimacy and political participation serves as the driving force behind numerous empirical studies looking at voter turnout at the federal, provincial, and unfortunately to a far lesser extent, local level of government (Kushner et al, 1997; Milner, 1997; Morlan, 1984). One of the principal aims of empirical studies by the likes of Kushner et al, Milner, and Morlan, has been to identify factors that influence political participation and to inform policies which can be used to raise it. By doing so, they also implicitly address what has commonly been referred to as the "crisis" of institutional legitimacy and governance in modern democratic states

(Shields, 1998). Under the rubric of "democratic administration," increasing public participation in the political process in general elections and by "opening up the limited model of popular participation" beyond elections, is seen as a viable means of addressing the legitimacy crisis afflicting modern democracies (Shields, 1998). This study draws on existing research at the municipal level by incorporating political participation in elections as a measure of systemic legitimacy. At the same time, it adds a new component to existing research within the field by using government performance ratings as a measure of municipal legitimacy at the sectoral level. The adaptation of the procedural instrument model to form the general analytical framework for the quantitative analysis also represents a first at the municipal level in Canada.

2.1   Sectoral legitimacy in Municipal Ontario

SME ratings of municipal government performance were chosen as the proxy variable for sectoral legitimacy. Out of what amounts to a plethora of potential sectors to focus on, the SME sector was chosen for the following reasons. The lack of data for other sectors, or in other words, municipal government performance ratings from other sub-groups within the population at large, constrained the choice to this particular sector for which data was fortunately available. Furthermore, SMEs play a vital economic role in Canada and Ontario making them important policy actors. The SME sector accounted for 97.7 percent of all businesses in Canada, employed 56 percent of Canadian workers, and generated 70 percent of all newly created jobs in the country according to 1999 and 2004 StatCan figures (Debus, 2005; Dulipovici, 2003). In addition, Ontario's SMEs, compared to SMEs elsewhere in the country, were more dissatisfied with municipal government performance relative to their counterparts in other provinces suggesting there might at the very least be room for improvement if not a serious policy problem within the SME sector in Ontario.

The less than encouraging reviews SMEs in Ontario gave their municipal governments are cause for concern. A survey of 22,360 SMEs across Canada conducted by the Canadian Federation of Independent Business (CFIB) in 2003 asked SMEs to rate their municipal governments on reasonable property tax levels, value for money of public services, control of municipal government wages, fairness of bylaws and regulations, and overall SME awareness on a scale of good, fair, and poor.[2] The survey's results showed that SMEs in Canada as a whole are more or less split down the middle in their ratings of local governments across the five performance criteria but that there is substantial variation from one province to the next.

Table 2.1   SME ratings of municipal governments in Canada, 2003

| | Aggregate Rating 2003 | | | | | |
Province	Good/Fair/Don't know (%)	Good (%)	Fair (%)	Poor (%)	Don't know (%)	(n)
Newfoundland	74.8	1.8	65.6	25.2	7.5	284
PEI	70.0	3.1	60.1	30.0	6.9	271
New Brunswick	68.6	8.4	43.7	31.4	16.5	894
Nova Scotia	66.0	3.7	49.5	34.0	12.8	991
Saskatchewan	65.7	15.2	41.4	34.3	9.2	903
Alberta	63.2	11.4	40.3	36.8	11.5	1826
British Columbia	62.4	8.9	36.5	37.6	17.0	1838
Quebec	61.2	13.1	31.4	38.8	16.6	3985
NWT	56.9	12.9	35.9	43.1	8.0	70
Ontario	*56.7*	*8.9*	*32.7*	*43.3*	*15.1*	*7657*
Manitoba	50.1	13.6	26.9	49.9	9.5	978
Yukon	42.0	6.6	26.9	58.0	8.5	106
Canada	**60.2**	**10.0**	**35.8**	**39.8**	**14.4**	**19802**
Mean	61.5	9.0	40.9	38.5	11.6	1650
Median	62.8	8.9	38.4	37.2	10.5	941
Standard deviation	9.0	4.5	12.3	9.0	3.9	2180

Source: CFIB OMO Survey # 53. January to December 2003. The figures may not add up to 100% due to rounding. The aggregate rating was obtained by adding all responses in each category across all five CFIB survey criteria, dividing by the total number of responses across all five, and rounding to the first decimal place. The case count represents an average across all five survey criteria rounded to nearest whole number for all valid responses. See Appendix A and B for the disaggregated results. The mean, median, and standard deviation represent statistical measures.

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[2] The statistics were obtained from data provided courtesy of the CFIB which was collected using its regular series of member surveys. The data is discussed and analysed in the following sections. Source: CFIB OMO Survey #53, January to December 2003. See Appendixes A and B for a summary of the ratings.

As Table 2.1 shows, well over half of all surveyed SMEs in Canada rated their municipal government as good or fair or were undecided (don't know) across all five performance criteria. Looking at the provincial and territorial breakdown of the ratings shows that municipal governments in Alberta, BC, and Quebec received ratings close to the Canadian aggregate, or in other words above 60.2 percent. At the same time, Ontario's municipal governments received the third worst aggregate rating out of all the provinces and territories. Despite of falling within one standard deviation of the statistical mean (61.5 percent), Ontario, Manitoba, the former North West Territories, and the Yukon were the only jurisdictions whose municipal governments received an aggregate rating below 60 percent on their SME "report card."

The results, broken down by individual CFIB survey criteria, are summarized in Appendix A. They show that Ontario scored below the national average across all five criteria and consistently towards the bottom of the pack relative to other provinces. The ratings of Ontario's municipal governments on a province wide basis relative to other provincial aggregates indicate there is room for improvement if not cause for concern and a serious policy problem. The picture in Ontario becomes even more worrisome when looking at the ratings for individual municipalities.

There was considerable variation between SME ratings for individual municipalities in Ontario. Based on the aggregate rating across all five criteria for 78 municipalities, the percentage of SMEs that gave their municipal government a positive or neutral rating (don't know) ranged from a low of 2.2 percent in Timmins to a high of 79.3 percent in Mississauga. The mean and median, at 54.7 percent and 55.3 percent respectively, were more or less consistent with the aggregate rating for the entire province, which as mentioned above, was 56.7 percent. Of the 78 municipalities, 24 were rated as good, fair, or neutral (don't know) by less than 50 percent of their SMEs. In other words, 31 percent of the 78 municipal governments included in the analysis received a failing grade from their SME sector.

Relative to the aggregate rating of municipal governments in Ontario as a whole, 42 (54 percent) out of the 78 municipalities, or slightly more than half; fell below the 56.7 percent mark. Relative to the Canada wide aggregate rating, 52 (67 percent) of the 78 municipalities fell below the 60.2 percent mark. Given the important economic role of the SME sector, and the poor ratings a large number of municipal governments in Ontario received in the 2003 survey, an assessment of current policies is warranted. SME ratings of municipal governments were provided courtesy of the CFIB based on a data sharing agreement, which allowed for the use of a specially prepared external data set in this study.[3] The data set covers 23,260 SMEs in Canada of which 8,360 were located across 307 municipalities in Ontario.[4] The valid case count in Ontario, based on all good, fair, poor, and undecided (don't know) responses, excluding missing cases, varied from a low of 7,265 with respect to control of government wage levels to a high of 7,885 with respect to reasonable property taxes. The average number of valid responses in each municipality ranged from 0.8 (Alberton) to 714.6 (Toronto).

Table 2.2 Summary statistics: SME ratings - Sectoral legitimacy

| Statistic | SME Aggregate Ratings | |
	$n_{m=78}$	Ontario
Aggregate Rating	56.0%	56.7%
Mean	54.7%	58.0%
Median	55.3%	58.1%
Mode	40.3%	50.0%
Min-Max	2.2%	0.0%
Max	79.3%	100.0%
Standard Deviation	13.5%	19.8%
(n_r)*	5841	7657

Source: CFIB OMO 53, December to January 2003. *Based on an average number of responses (n_r) across all five CFIB survey criteria, excluding missing cases, rounded to the nearest whole number.

[3] The data set remains the property of the CFIB and would not have been obtained if it were not for the efforts of Liv Fredrickson, who is a policy analyst working in the CFIB Regional Headquarters for B.C. and the Yukon located in Vancouver. The SME ratings were gathered by the CFIB as part of its regular series of OMO Surveys (OMO # 53) between January and December of 2003.
[4] These figures are based on the total case count including missing cases.

The aggregate ratings across all five CFIB survey criteria are summarized by municipality in Appendix B together with an example of their calculation.[5] The descriptive statistics for the 78 municipalities ($n_{m=78}$) included in the analysis and Ontario as a whole ($n_{m=307}$) are summarized in the table above. The statistical mean and median were 54.7 percent and 55.3 percent respectively with a mode of 40.3 percent. The close proximity of the mean and median to each other suggests the data is normally distributed which was confirmed using the K-S test for normality.[6] The ratings ranged from a low of 2.2 percent in Timmins to a high of 79.3 percent in Mississauga with a standard deviation of 13.5 percent.

2.2   Systemic legitimacy in Municipal Ontario

Voter turnout was used as a measure of systemic legitimacy. Unlike ratings of government performance, its use as a proxy for legitimacy presented some problems. As Fraser's analysis pointed out, performance ratings are a good measure of legitimacy because they are independent of other factors not related to legitimacy (Fraser, 1974). Unfortunately, the same cannot be said about voter turnout. As previous studies have shown, voter turnout is dependent on several factors not related to legitimacy such as type of electoral system, voting method, national versus local elections, and population size (Kushner et al, 1997; Milner, 1997; Morlan, 1984).

Since the analysis was based on 78 municipalities, it was not possible to control for all of these factors in the regression models without reducing the observation to independent variable ratio below the recommended 10 to 15 observations per independent variable (Field, 2000). However, population size was included as a control variable based on previous research by Kushner et al who found that it was a critical predictor of voter turnout in Ontario (Kushner, 1997). In an analysis using a larger data set with more observations, additional controls for voter turnout could and likely should be included. An alternative measure of systemic legitimacy, such as ratings of municipal government performance by a sample representative of the entire population, was not available.

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[5] CFIB survey criteria refer to the five "issues" on which local governments were rated. The survey question was "How do you rate your local government on the following business issues? Reasonable property tax levels / Value for money of public services / Control of government wage levels / Fairness of bylaws and regulations / Overall awareness of the small business sector."
[6] The K-S test results: Sig. ($n_{m=307}$) = 0.200, Sig. ($n_{m=78}$) = 0.200, Sig. ($n_{m=40}$) = 0.200. The null hypothesis that the data was not normally distributed was rejected at the 0.05 level of significance.

Prior to obtaining two data sets for voter turnout for the 2000 and 2003 municipal elections, individual municipal clerk's offices were contacted asking the clerk to provide voter turnout information for the 1997, 2000, and 2003 municipal elections.[7] In instances where no one was available to take the call, a voicemail was left explaining the details of the request together with a contact number and email address to which the clerk's office could respond. In total, 57 clerk's offices were contacted in this manner of which 37 either provided voter turnout information directly over the phone or by email. Taking the data obtained from municipal clerks for the 1997 to 2003 elections, as well as the data for the 2000 and 2003 elections from the AMCTO, the average voter turnout for $n_{m=78}$ was calculated.

Table 2.3   Summary statistics: Average voter turnout – Systemic legitimacy

Statistic	Average Voter Turnout, 1997 to 2003	
	$n_{m=78}$	Ontario*
Mean	39.8%	40.5%
Median	38.7%	39.7%
Mode	26.7%	34.0%
Min	22.2%	4.0%
Max	58.1%	84.0%
Standard Deviation	8.8%	13.6%

Source: AMCTO Post Election Survey, 2000, 2003 and individual municipal clerk's offices. The number of individual municipalities is denoted by (n_m). *Statistics based on 2003 election results.

An average over at least two election cycles was chosen in an attempt to control for variation in voter turnout resulting from factors which are not indicative of legitimacy. For example, in the 2003 elections approximately 80 to 90 municipalities used combinations of vote-by-mail and phone voting which had a positive impact on voter turnout.[8] In addition, the 2003 municipal elections were held shortly after the provincial general election which may have had a

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[7] Following the recommendation of Kerry Costello, Acting Clerk for the Town of Smiths Falls, Julia Shiu, an information analysts and researcher with the AMO, was contacted to inquire about the possibility of obtaining a data set for municipal voter turnout. Mrs. Shiu in turn suggested contacting the AMCTO. She was also kind enough to grant temporary access to the AMO on-line database normally restricted to AMO members in order to download voter turnout data for the 2000 elections given to the AMO by the AMCTO. Upon contacting the AMCTO, Andy Koopmans, the executive director, emailed data sets with the 2000 and 2003 voter turnout information covering 298 and 319 municipalities respectively. According to Mr. Koopmans, the AMCTO began collecting voter turnout data starting with the 2000 municipal elections as part of an on-going Post Election Survey which will also be conducted following the 2006 municipal elections. This makes the AMCTO the only organization which collects such data in Ontario on an ongoing basis.
[8] Based on a phone conversation with Andy Koopmans, Executive Director, AMCTO.

negative impact on voter turnout in certain municipalities due to voter fatigue.[9] The 2000 elections on the other hand, were held at a time when several amalgamations and annexations had taken place, likely increasing voter turnout in the affected municipalities due to increased voter interest.[10] Taking an average of the voter turnout over several election cycles compensates for such influences negating the need to include additional control variables. As the close proximity of the mean and median suggest, voter turnout was normally distributed.[11] The average voter turnout was 39.8 percent with a median of 38.7 percent, a mode of 26.7 percent, and a standard deviation of 8.8 percent in the sample of 78 municipalities. Mississauga had the lowest turnout at 22.2 percent while Kenora had the highest at 58.1 percent. The summary statistics are summarized in the table above. Average voter turnout for individual municipalities has also been included in Appendix E.

2.3   Municipal size: Control Variable

The size of each municipality was measured by its population based on 2001 census data obtained from StatCan Community Profiles accessible on the StatCan web site. According to Kushner et al, there are two major streams of thought about the effect municipal size has on voter turnout (1997). On one hand, according to the "mobilization model," it is argued that voter turnout should increase in larger urban areas due to increased political stimuli and opportunities for participation. On the other hand, a second view contends that voter turnout is likely to decrease as the size of the municipality increases due to the more impersonal, complicated, and distant nature of political discourse which leads to less meaningful public participation. In their analysis of municipal size and its effect on voter turnout, Krushner et al confirmed the second view that voter participation in larger urban municipalities tends to be significantly lower than small rural municipalities (1997).

Looking at Ontario's municipal governments in 1994, their analysis showed that voter turnout in municipal elections declined from an average of 54.0 percent in small municipalities to 43.6 percent and 37.0 percent in medium and large municipalities at the 0.01 level of significance. They also obtained identical results for 1982 and 1988. In their analysis, small municipalities were defined as having a population of less than 10,000, medium sized municipalities as having a population between 10,000 and 100,000, and large municipalities as

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[9] Based on a phone conversation with Jason Nelson, Clerk's Office, City of Greater Sudbury.
[10] Ibid.
[11] K-S test results: Sig. $(n_{m=40})$ = 0.200, Sig. $(n_{m=78})$ = 0.200. The null hypothesis that the data is not normally distributed was rejected at the 0.05 level of significance.

having a population exceeding 100,000 people. The same population categories were applied to the 2001 StatCan data with small municipalities coded as a one, medium sized municipalities as a two, and large municipalities as a three. Given this coding scheme, the hypothesized relationship between municipal size and legitimacy at both levels was expected to be negative, meaning that small municipalities are should have higher legitimacy at the systemic and sectoral level.

Table 2.4   Summary statistics: Municipal size – Control variable

Statistic	Municipal Size Population 2001 $n_{m=78}$
Mean	116793
Median	41927
Mode	n/a
Min	3599
Max	2481494
Std. Deviation	300854

Source: StatCan Community Profiles 2001

The average population size for the 78 municipalities included in this study was 116,793 with a median of 41,927 and no natural mode. The smallest municipality had a population of 3,599 (Northern Bruce Peninsula) while Toronto had the largest at nearly 2.5 million. Using the small, medium, and large classification from Kushner et al, 22 (28.2 percent) of the 78 municipalities were categorized as large with populations above 100,000 (coding = 3), 47 (60.3 percent) as medium with populations ranging from 10,000 to 99,999 (coding = 2), and 9 (11.5 percent) as small with populations of less than 10,000 (coding = 1).

2.4   Determining instrument choice

Using the data for sectoral and systemic legitimacy, at this point, it was possible to classify individual municipalities according to most suitable instrument choice according to the procedural instrument model. A cut off value of 60.2 percent was chosen for the distinction between low and high sectoral legitimacy (SME ratings), which represents the national aggregate for municipalities across the country. The cut-off for systemic legitimacy (average voter turnout)

was determined using a simple uni-variate linear regression model with systemic legitimacy as the dependent variable and municipal size as the independent variable. The results of the regression together with a trend line are shown in a scatter plot in Appendix D. Municipalities below the trend line were treated as having low systemic legitimacy while municipalities above the trend line were treated as having high systemic legitimacy.

Figure 2.1   Municipal classification according to systemic and sectoral legitimacy.

		Sectoral legitimacy	
		High > 60.2%	**Low < 60.2%**
Systemic legitimacy	**High (above regression trend line)**	**Information Manipulation** Brantford — Perth Brockton — Peterborough Cobourg — S. Bruce Pen. Kincardine — Stratford Lambton Shores — Strathroy-Caradoc Owen Sound — Vaughan	**Financial Manipulation** Augusta — Niagara Falls Brockville — Norfolk Centre Wellington — North Bay Chatham-Kent — Norwich Elizabethtown Kitley — Ottawa Essex — Sarnia Greater Sudbury — Sault Ste. Marie Guelph — South Frontenac Hamilton — Tecumseh Kawartha Lakes — Thunder Bay Kenora — Timmins Kingston — Toronto Kingsville — Welland Leeds & 1000 Isle. — Windsor London
	Low (below regression trend line)	**Recognition Manipulation** Ajax — Middlesex Centre Brampton — Mississauga Burlington — Oakville Cambridge — Pickering Clarington — Richmond Hill Hanover — Tillsonburg Kitchener — Woolwich Markham	**Institution Manipulation** Aurora — Milton Barrie — N. Bruce Pen. Brant County — Newmarket East Gwillimbury — Oshawa Erin — Rideau Lakes Fort Erie — Smiths Falls Guelph/Eramosa — St. Catharines Haldimand County — W. Stouffville Halton Hills — Waterloo Lincoln — Wellington North Midland — Woodstock

Notes: See Appendix D for regression results.

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As Figure 2.1 shows municipalities vary greatly in terms of recommended instrument use for their particular level of legitimacy. Consequently, a "blanket" approach is not likely to be an effective means of addressing legitimacy concerns in municipal Ontario. Of the 78 municipalities, 22 had low sectoral and systemic legitimacy suggesting some form of institution manipulation would be the most suitable course of action. An additional 29 would be best served by engaging in financial manipulation given that they had high systemic and low sectoral legitimacy. Some form of recognition manipulation, which was the recommended instrument choice given high sectoral and low systemic legitimacy, would be a good choice of instrument for 15 municipalities. The remaining 12 municipalities would be best served by engaging in some form of information manipulation given that they had high sectoral and systemic legitimacy. These municipalities, which were not suffering from legitimacy problems, may nevertheless wish to increase legitimacy to gain additional ground when for example, seeking active rather than passive support for government initiatives. The main policy advice that can be drawn from this analysis is that provincial policy initiatives under the Municipal Act, which represent a blanket approach, are unlikely to be the most suitable course of action. Individual municipal needs will have to be addressed using different policies utilizing different instruments depending on the municipality in question.

2.5   Analytical Framework and Regression Variables

Using the model of procedural instrument choice, four broad categories of policy instruments have been identified and municipalities have been classified according to most suitable instrument use. Out of what amounts to a plethora of specific instrument choices, four specific examples of instrument use for which readily quantifiable data was available were identified and are shown in Figure 2.2. Adapting the model of procedural instrument choice, the specific examples of policy instruments within each category were used to identify factors predicted to influence legitimacy. According to the model, legitimacy is a function of information provision (information manipulation), the level of funding including taxation (financial manipulation), standing in the policy process (recognition manipulation), and institutional design (institution manipulation).

Figure 2.2 Independent variables

Information Manipulation	Financial Manipulation	Recognition Manipulation	Institution Manipulation
Provision of financial and performance information on municipal web sites	Commercial property tax and commercial to residential property tax ratio adjustments	Business Improvement Areas	Municipal amalgamation and consolidation

Notes: The order of the instruments from left to right corresponds to their level of government manipulation and involvement on a spectrum of low to high.

Consistent with the model, the factors (independent variables) included in the analysis are the provision of financial and performance related information, commercial property tax rates, the number of business improvement areas (BIAs), and municipal amalgamation. Systemic and sectoral legitimacy served as the dependent variables. Two linear regression models controlling for the other level of legitimacy as well as municipal size were used to predict the impact of the four factors on each level of legitimacy. The principal finding was that institution manipulation taking the form of de-amalgamation as well as financial manipulation using commercial property tax cuts could have a significant positive impact on legitimacy. The provision of financial and performance information as well as BIAs were found to have no significant impact.

2.5.1 Performance and financial reporting

The provision of performance and financial information in the form of budget, annual financial reports, tax rate information, and Ontario's Municipal Performance Measurement Program (MPMP) on municipal websites falls under the category of information manipulation in the model of procedural policy instruments. The degree, or in other words, amount of information provision, was used as a proxy variable to assess the impact on legitimacy of programs such as the Municipal Performance Measuring Program (MPMP). Under the 2001 Municipal Act, all municipalities in Ontario are required to submit and make publicly available financial and performance measures reports consistent with the guidelines set forward in the Municipal Act (Burke, 2005). To date, no assessment of the actual impact of MPMP and financial reporting on public perception of municipal governments has been undertaken (IPAC, 2004). The evidence that the program is having its intended effect of improving public perception has thus far been anecdotal. According to Burke,

> The MPMP was designed to strengthen accountability by keeping citizens informed about municipal service plans, standards, costs, and value. It was also meant to help municipalities improve local services by stimulating productivity and creativity. [To date] the MPMP has increased awareness and knowledge of municipal performance among citizens, municipalities, and provincial authorities. It has strengthened public accountability by requiring that key performance information be made public. (Burke, 2005).

Based on a Provincial and Territorial Charrette held in 2004 which focused on performance measurement in Canada and elsewhere the following conclusion was reached with respect to effectiveness,

> In terms of accountability, the provincial systems require public reporting of the survey results, which many municipalities do through their web sites...None of the presentations elaborated on the way citizens were making use of the data once they entered the public domain. There is little information on the way the results have influenced public perception of municipal governments (IPAC, 2004).

The ease by which individual municipalities choose to make financial and performance reports accessible is the factor being examined. Although reporting under MPMP is mandatory and the vast majority of municipalities provide MPMP reports on their websites, as the summary statistics on the following page show, municipalities vary greatly with respect to the amount of information they make publicly available using other documents such as financial reports. Documents in addition to MPMP were included to capture reporting differences and assess whether it has an impact on public perception measured in terms of legitimacy. Consistent with the view that provision of information leads to transparency and accountability, both of which are assumed to be positively correlated with legitimacy, as well as the positive relationship between information manipulation and legitimacy implied by the model of procedural instruments, it was hypothesized that the amount of financial and performance related information provided on the internet is positively correlated with legitimacy.

The data was gathered by accessing municipal websites and downloading five key documents.[12] These documents included budget and annual reports, financial statements, and MPMP reports as well as any documents related to property tax rates. In most instances, all of these documents were available through the municipal treasury department web page as PDF files. In instances where a given document was posted in HTML format, it was converted to a PDF file in order to maintain consistency and facilitate coding. Since the CFIB survey was

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[12]All municipal government web sites in Ontario are accessible through a web page maintained by the AMO - http://www.amo.on.ca/YLG/ylg/ontario.html

conducted in 2003, only documents for that year and prior were taken into consideration. The exceptions to this were financial statements, annual reports, and MPMP reports, which are completed and published with a lag, usually within a few months following the financial year they encompass. For example, annual financial statements for the year 2003 would not have been made publicly available until 2004 and hence were not taken into consideration when coding the variable. It was also assumed that any documents posted in 2003 and prior were not subsequently removed from the website. Although there is a possibility that this might be the case for some municipalities, a large number of municipalities had documents going back as far as 1995 indicating that once a document was posted, it remained on line.

Table 2.5   Summary statistics: Document page count – Information manipulation

| Statistic | Information Manipulation Financial and Performance Reporting on the Web |
	Page Count $n_{m=78}$
Mean Median	437 266
Mode	0
Min Max	0 3036
Std. Deviation	602

Source: Municipal web sites.

The variable was measured as the page count of financial and performance related reports accessible on the municipality's website. It was calculated by opening a given document in Adobe PDF, obtaining the number of pages as displayed in the window of the application, repeating this procedure for all other documents that would have been available during the time of the survey, and finally adding them all to obtain the total. The page count of documents for upper tier municipalities was also included at the lower tier level, as both government levels effectively comprise a single entity. The summary statistics for document page counts are shown in Table 2.5. The page count by municipality has also been included in Appendix D for reference purposes. The average page count for documents accessible on-line prior to and including 2003 was 437 with a median of 266 and no natural mode. It varied from a low of 0 to a high of 1762 with a standard deviation of 602 pages. Of the 78 municipalities, 13 (16.7 percent) had a page count of 0 while 12 (15.4 percent) had a count exceeding 1000 pages. Relative to the mean, 19 (24.4 percent) of the 78 had a page count greater than 437

2.5.2 Property tax rates and tax ratios

A critical factor that had to be included in the analysis was taxation. According to the CFIB, high and highly distorted commercial property tax rates are the main source of malcontent among SMEs (Mallett, 2003). One solution put forward by the CFIB has been a proposal for a threshold property tax rate system where the threshold levels of commercial and other property classes are tied to existing residential property tax levels up to a predefined threshold (Mallet, 2005). The threshold would be established using the median residential property value. All properties would then be taxed at the residential property tax rate up to that property value and at the higher tax rate above the median value. The shift to this property tax system would in some instances entail a considerable shift of tax burden from other property classes to residential property classes much the same as an outright tax expenditure or equalization of tax ratios would (Mallet, 2005). The major difference between the threshold proposal and other tax cut proposals is that it would speed up that equalization of tax ratios for small commercial properties and would deliver actual tax rate reductions which the current provincial property tax rate cap does not do (CFO Toronto, 2004).

The existing provincial cap does not necessarily imply a reduction in taxes as it only addresses tax ratios. It is possible for the commercial property tax rate to remain constant, while an increase in the residential tax rate would contribute to the reduction in the distortion as measured by the ratio. In addition, under the cap, increases for "protected" property classes are possible, but have to be below five percent of the increase for residential properties. As such, a rise in commercial property taxes is possible with the cap ensuring that it will be smaller than the rise in residential property taxes leading to a long-run reduction in the distortion between property classes. The inclusion of property tax rates and ratios as factors in the analysis is consistent with financial manipulation in the model of procedural instrument choice.

All financial data were obtained from the FIR web site, which is accessible through the Ministry of Municipal Affairs and Housing (MMAH).[13] The analysis includes two tax variables, the tax rate itself and the commercial to residential property tax ratio for fully occupied properties. Tax information for each municipality is contained in FIR schedules 20 through 26 which can be downloaded as either PDF or EXCEL files from the MMAH web site. The upper-tier tax rate from the regional or county government was also included in calculating the totals for all lower tier municipalities. Additional tax levies, such as special area, utility, transportation, police, and fire levies were also included in the total. In instances where an upper-tier

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[13]FIR website: http://csconramp.mah.gov.on.ca/fir/ViewFIR2003.htm#2400

municipality imposed additional levies, they were also included in the lower tier total. Finally, the tax rates, which are expressed as percentages in the FIR Schedules, were converted into dollar amounts based on a figure of $100,000 of assessed property value rounded to the nearest whole number. Expressing the tax rates in this manner made them easier to interpret given that they amount to a fraction of a percent in the FIR schedules. The tax ratios were calculated as the commercial property tax rate divided by the residential property tax rate rounded to two decimal points.

In terms of the hypothesized relationship to sectoral legitimacy, CFIB reports suggest that high commercial property tax rates and ratios are negatively correlated with SME ratings and hence sectoral legitimacy. In other words, as the commercial property tax rate and ratio increases, one would expect SME ratings of municipal governments to decrease. The relationship to systemic legitimacy was hypothesized to be the inverse. Lower commercial property tax rates and ratios translate into greater tax burden for other property classes such as residential properties likely leading to reduced legitimacy at the systemic level.

Table 2.6   *Summary statistics: Property tax rates and ratios – Financial manipulation*

	Financial Manipulation ($n_{m=78}$) Property Tax Rates and Ratios, 2003	
Statistic	**Tax**	**Ratio**
Mean	$3705	2.56
Median	$3656	2.44
Mode	$2746	2.40
Min	$2605	1.96
Max	$5596	4.65
Standard Deviation	$866	0.43

Source: FIR 2003

The mean and median property tax rate in 2003 was $3705 and $3656 for every $100,000 of assessed property value with a mode of $2746. It varied from $2605 in Kingsville to $5596 in Thunderbay with a standard deviation of $866. Of the 78 municipalities, 39 (50 percent) had a tax rate below the mean. The commercial to residential property tax ratios ranged from 1.96 in Wellington North to 4.65 in Toronto with a mean and median of 2.56 and 2.44 respectively, a mode of 2.40, and a standard deviation of 0.43. A ratio of 1.00 indicates no distortion, meaning that the commercial and residential property tax rates for fully occupied property classes were equal. A ratio of 4.65, on the other hand, indicates a distortion, meaning that the fully occupied commercial property tax rate was 4.65 times higher than the rate for fully occupied residential

properties. Of the 78 municipalities, 48 (61.5 percent) had a commercial to residential ratio below the mean. Strathroy-Caradoc and Wellington North were the only municipalities out of the 78 with commercial to residential property tax ratios that fell below 2.00, this being the bench mark against which CFIB reports assess the severity of distortion with 2.00 representing an equitable commercial to residential property tax differential (Mallett, 2003).

2.5.3 BIAs

A BIA is defined as a geographic area within a municipality set up to provide business improvement and promotion functions (MMAH, 2004). BIAs were the result of a provincial initiative, with the first BIA established in Toronto in 1974, and are part of the 2001 Municipal Act which outlines their establishment and administration at the municipal level in sections 204 to 215. The establishment of a BIA has to be voluntarily initiated by a group of businesses who submit a proposal to a municipal coordinating body or the clerk's office. It is the municipal government's responsibility to review the proposal, ensure that at least two-thirds of affected properties consent to its establishment, and then pass its establishment through a bylaw when all necessary guidelines have been followed.

According to the BIA Handbook provided by the Ministry of Municipal Affairs and Housing (MMAH),

> The main purposes of a BIA are to revitalize and maintain a dynamic local neighbourhood and to promote the area as a business or shopping destination. A concerted effort is also required on the part of the BIA leadership to develop a network of relationships and partnerships among local community groups and institutions. In some cases, leaders of the BIA become a line of communication between the community and the local municipal council. The BIA forum can be used as a vehicle for conveying community concerns to council and, for prompting council to pursue policies and activities that will promote and strengthen the community and its unique identity (MMAH, 2004).

Although the policy intent behind BIAs is not purely procedural, meaning aimed at re-legitimation, BIAs nevertheless have a distinct procedural component consistent with the definition of recognition manipulation. As the quoted policy intent suggests, BIAs can serve as a means of influencing the policy process or else a general means of gaining access to city council.

This is essentially the definition of recognition manipulation, where the establishment of a BIA is analogous to giving standing to actors within the policy process. They also have a positive impact on the community as a whole, not just businesses, and as such are hypothesized to have a positive relationship to sectoral as well as systemic legitimacy.[14] That is, as the number of BIAs increases, legitimacy at both levels is also expected to increase.

Table 2.7   Summary statistics: BIAs – Recognition manipulation

Statistic	BIAs Count, 2004 $n_{m=78}$
Mean	2
Median	1
Mode	1
Min	0
Max	43
Standard Deviation	5

Source: MMAH. (2004). Business Improvement Areas Handbook. Ontario: Ministry of Municipal Affairs and Housing. From http://www.mah.gov.on.ca/userfiles/HTML/nts_1_4543_1.html

The mean and median number of BIAs was two and one respectively with a mode of one and a standard deviation of five. Several municipalities had no BIAs while others, such as Toronto, which represented the maximum at 43, had several. In order to compensate for the effects of outliers such as Toronto, the number of BIAs was recoded into a categorical variable where municipalities with no BIAs were coded as a zero, with one BIA as a one, and two or more BIAs as a two. Of the 78 municipalities, 16 had no BIAs, 36 had one BIA, and 26 had two or more BIAs.

2.5.4   Amalgamation

The final factor included in the analysis was amalgamation serving as a specific example of institution manipulation. According to Kushner et al, the main impetus behind municipal consolidation has been a perceived gain in the efficiency and improved service delivery although they argue that amalgamation has not in fact delivered on its promised policy goals resulting no or negligible efficiency gains (1997). According to a 1999 amalgamation report for the city of Toronto, the policy intent behind amalgamation was directly related to gains in efficiency.

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[14]Based on the BIA Handbook and a phone conversation with Hazel Milsome, the Staff Coordinator of BIAs for the City of Hamilton.

The Province of Ontario's publicly stated goals for the six local governments and the regional government of Toronto into a single city included achieving cost reductions through eliminating duplication, streamlining operations, and improving efficiency in service delivery (CAO, 1999).

Although gains in efficiency and cost reductions are substantive in nature, they also incorporate a procedural element whereby government that is more efficient is perceived to be more legitimate (Shields, 1998). Consistent with the model of procedural policy instruments amalgamation, or in other words institution manipulation, was undertaken not only for efficiency gains, but also for re-legitimation purposes. As the discussion of Toronto's amalgamation experience in Appendix E shows, efficiency gains are in fact negligible. Consistent with Kushner et al, it is therefore hypothesized that amalgamation has a negative impact on legitimacy at the sectoral level given its failure to increase government efficiency. Since amalgamation also entails an increase in municipal size, which as previously discussed has a negative impact on voter turnout, systemic legitimacy is also predicted to be lower in amalgamated municipalities.

Data for municipal amalgamation was obtained from FIR as well as the MMAH. Using both data sources, two measures of amalgamation were constructed. The first amalgamation variable (Amalgamtion$_1$) was constructed from the MMAH Restructuring *Flash*News table which lists all amalgamations and restructuring changes in Ontario and the year they took place (MMAH, 2006). It measures the number of amalgamated municipalities under a given municipal name in 2003 or prior. For example, the Town of Kincardine received a value of four encompassing the Township of Bruce, Village of Tiverton, the Township of Kincardine, and the Town of Kincardine. The City of Toronto received a value of seven based on the amalgamation of the upper tier municipality of Metropolitan Toronto, the former City of Toronto, the City of Etobicoke, the cities of North York and York, Scarborough, and the Borough of East York, which came into effect on January 1, 1998. This amalgamation variable refers to what is called "hard" amalgamation in the analysis because it entails the complete dissolution of municipal governments. The average number of amalgamated municipalities under a given name was six with a median of four, mode of four, and a standard deviation of two. The single tier municipality of Chatham-Kent had the lowest number of total government units with two including itself. Ottawa had the highest number of amalgamated units with twelve. Of the 78 municipalities, 29 (37.2 percent) had undergone amalgamation. In calculating these summary statistics, municipalities that had not been amalgamated were excluded as they all had the same value of one.

Table 2.8   Summary statistics: Amalgamation – Institution manipulation

| Statistic | Institution Manipulation Amalgamation 2003 and prior | |
	Amalgamation$_1$* $n_{m=78}$	Amalgamation$_2$** $n_{m=78}$
Mean	4	9
Median	4	9
Mode	3	9
Min	2	4
Max	12	17
Std. Deviation	2	3

*Source: MMAH. (2003). FIR 2003. Retrieved August 28, 2006, from
http://csconramp.mah.gov.on.ca/fir/ViewFIR2003.htm#2400 and MAH. (2006). Restructuring FlashNews:
Municipal Restructuring Summary Table. Retrieved August 28, 2006, from
http://www.mah.gov.on.ca/userfiles/page_attachments/Library/1/2698837_flashtable.Mar.7_06.pdf
*Based on figures for lower tier municipalities which are part of a regional municipality excluding single
tier municipalities which had a value of one. All values were rounded to the nearest whole number.
**Based on figures for all values greater than one, or in other words all values for amalgamation.*

The second variable (Amalgamtion$_2$), which was based on the classification of

municipalities in FIR 2003, was calculated using the number of lower tier municipalities falling

under the jurisdiction of an upper tier municipality. Single tier municipalities received a value of

one while municipalities that were part of a region or county received a value greater than one

depending on the number of units below the upper tier. For example, the Regional Municipality

of Peel was composed of three lower tier municipalities in 2003; Brampton, Mississauga, and

Caledon. As such, the city of Brampton received a count of four based on the sum of two lower

tier municipalities, itself, and the upper-tier government. This form of amalgamation is also

referred to as "soft" amalgamation in the analysis since no individual governments are dissolved

in the creation two-tier systems. The average number of municipalities under a given upper tier

municipality was nine with a median and mode of nine respectively and a standard deviation of

three. At the upper tier level, the Regional Municipality of Peel had the lowest number of total

government units with four including itself. Simcoe county, which was represented by the Town

of Midland, had the highest number of lower tier units at 17. Of the 78 municipalities, 54 (69.2

percent) fell under the jurisdiction of an upper tier municipality, In calculating these summary

statistics, single tier municipalities were excluded as they all had the same value of one by virtue

of being stand-alone entities.

2.6 Two Models of Legitimacy: Sectoral and Systemic Impacts

Prior to assessing the impacts of the independent variables on legitimacy, an analysis of the aggregate SME ratings itself had to be performed. Although the data was normally distributed, satisfying one of the primary assumptions of a linear model, another important consideration had to be taken into account. If there is random variability in the dependent variable resulting from data issues, a linear model or any other model will not yield accurate results regardless of how well it satisfied the statistical assumptions of a linear model. A model is only as accurate as the data it is based on. If the data itself is suspect, the model's predictions also become suspect. The specific problems with the data for SME ratings (sectoral legitimacy) and the necessity to focus on municipalities with more than 43 survey responses ($n_{nr=40}$) are discussed in detail in Appendix F. A linear regression model treating sectoral legitimacy as the dependent variable using all 78 municipalities produced no significant results due to random variability in the data stemming from low response rates in some municipalities, and as result inaccurate ratings of municipal governments. As such, the model for sectoral legitimacy had to be based on a sub-set of municipalities with more than 43 responses in the CFIB survey, which was a cut-off arrived at using several simple and intuitive tests. The tests are also summarized and discussed in Appendix F.

2.6.1 Sectoral legitimacy

A forced entry block-wise regression was chosen to illustrate the impact of each variable on the model R^2 value. Although the hierarchical ordering of variables should normally be given careful consideration, for the purpose of the present analysis, such considerations were secondary (Field, 2000). The block-wise entry of the instrument variables was performed for illustrative rather than analytical purposes to highlight the contribution of each variable with respect overall explanatory power. Nevertheless, in order to maintain consistency for both models, the variables were entered in following order. Municipal size was entered in block one, followed by either systemic or sectoral legitimacy depending on the model, the count of BIAs, the page count of

documents posted on-line, the tax rate, and finally both amalgamation variables in block six and seven. A forced entry regression where all variables were entered simultaneously was also performed and yielded the same results. The results starting with block three are shown in Table 2.9. Given its inherent link to the commercial property tax rate and the fact that it was insignificant in a partial correlation and regression analysis, the commercial to residential tax ratio was not included as a predictor in the regression model. Doing so would have led to collinearity concerns taking into consideration that the correlation between the tax ratio and tax rate was significant at the 0.01 level with a coefficient of 0.599.

Table 2.9   Model summary for sectoral legitimacy, $n_m=40$

Variable	Block 1 β	Block 2 β	Block 3 β	Block 4 β	Block 5 β	Block 6 β	Block 7 β
Municipal Size (population - S, M, L)	-2.163	-6.151	-6.588	-7.263	-3.305	-3.581	-3.446
Systemic Legitimacy (SME rating)		-0.678**	0.695**	-0.616*	-0.273	-0.047	-0.037
BIA (0, 1, 2+)			0.897	0.794	3.714	4.138	4.245
Information (page count)				0.002	-0.001	0.002	0.002
Tax Rate (total tax)					-0.009**	-0.008**	-0.008**
Amalgamation₁ (units/given name)						-1.565*	-1.552*
Amalgamation₂ (FIR 2003)							0.119
R²	0.009	0.188	0.190	0.204	0.447	0.521	0.522
Adjusted R²	-0.017	0.144	0.123	0.113	0.365	0.433	0.417

Notes:
The results were obtained using $n_m=40$, controlling for systemic legitimacy and municipal size.
*Significant results are shown in bold. *Significant at the 0.05 level. **Significant at the 0.01 level.*
The model assumptions of parametric data (K-S Test Statistic = 0.067, Sig. 0.200), no multicollinearity (VIF<1.9), independent residuals (Durbin Watson test statistic = 2.299), and homoscedasticity were met.
A forced entry regression where all variables were entered simultaneously produced identical results in the final block. The parameters for the final model are highlighted in grey.

As Table 2.9 shows, the R^2 value in the final block of the model was 0.522, meaning that the model can account for 52.2 percent of the variation in sectoral legitimacy.[15] This relatively respectable R^2 value should be interpreted with caution. A model based on forty observations and six independent variables falls short of the minimum number of recommended observations per variable (Field, 2000).[16] Nevertheless, given that the model satisfies the assumptions of parametric data, no multicollinearity, homoscedasticity, and independence of residuals, the results can be treated as accurate.[17] In addition, the inclusion of the BIA count, the second of the amalgamation measures, and information provision did not contribute substantially to the R^2 value indicating that it was not in fact over-inflated as a result of too many independent variables. A regression was also performed by excluding municipal size, the number of BIAs, and the count of municipalities under an upper tier (Amalgamtion$_2$) yielding no change in significant impacts but at the same time bringing the observation to variable count to a more respectable ten. Since no changes were observed and the model parameters satisfied all major assumptions, the model as presented in the table was adopted as the final version in spite of the low observation to variable ratio.

As the change in magnitude in the R^2 value from block one to block two shows, systemic legitimacy had a substantial impact on the model's overall predictive power contributing an additional 17.9 percent in block two despite of being insignificant. The number of BIAs, the amount of information provision, and municipal size did not contribute substantially to the model's predictive power.[18] The tax rate had the single largest impact increasing the model's ability to explain the variation in sectoral legitimacy by 24.3 percent. The model predicts that for every dollar per $100,000 increase in the tax rate sectoral legitimacy will decrease by 0.008 percent, a result consistent with the hypothesized relationship. The number of municipal governments amalgamated under a given name (Amalgamtion$_1$) was the final significant variable in the model raising its predictive power by 7.4 percent in block six. It is predicted that for every additional municipality amalgamated sectoral legitimacy will decrease by 1.57 percent. Again, the result was consistent with the hypothesis.

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[15] Adjusted R^2=0.433

[16] Although there is no consensus, Field recommends a minimum of 15 observations per independent variable. However, he also acknowledges that this is a general guideline with others contending that as few as 5 to 10 observations are sufficient.

[17] The model assumptions of no multicollinearity (VIF<2.2, tolerance 0.461 to 0.762), independent residuals (Durbin Watson test statistic = 2.002), and homoscedasticity were met. As mentioned previously, the null hypothesis that the data is not normally distributed was rejected at the 0.05 level of significance (K-S Test statistic = 0.067, Sig. 0.200).

[18] The number of BIAs was also included in the model as a scale measure without being coded into a categorical variable resulting in no significant changes.

2.6.2 Systemic legitimacy

The analysis of sectoral legitimacy in the previous section had to be carried out using a smaller sub-sample of 40 municipalities with a survey response of more than 43 observations. However, the data for systemic legitimacy, or more precisely voter turnout, did not suffer from similar limitations making it possible to use the entire data set with all 78 municipalities. Following the same guidelines as for sectoral legitimacy, a forced entry block-wise regression was performed to illustrate the impact of each variable on the model's overall explanatory power. With seven independent variables and 78 valid observations, the model met the minimum recommended number of observations per independent variable. It satisfied the assumptions of parametric data, no multicollinearity, homoscedasticity, and independence of residuals, meaning that the explanatory power and predicted impacts of individual variables are accurate.[19] A forced entry regression where all instrument variables and control variables were entered simultaneously produced the same result as the one in block seven. The model parameters are summarized in Table 2.10. The model's overall predictive power, as measured by the R^2 value in the final block, was a reasonable 40.2 percent. As was the case for sectoral legitimacy, the interpretation of the R^2 value has to be qualified. At ten observations per independent variable the model met the minimum recommended number of observations per predictor but nevertheless had a low observation to independent variable ratio. As such, the R^2 value should be interpreted cautiously. There were three significant predictors for systemic legitimacy.

Municipal size was the first of the significant predictor variables. Together with the constant, it could account for 15.4 percent of the variation in systemic legitimacy and was significant at the 0.01 level. The model predicts that for every interval increase in municipal size, where one was small, two was medium, and three was large, systemic legitimacy increases by 6.421 percent. This result is consistent with the hypothesized relationship between municipal size and voter turnout predicted by Kushner et al (1997). The next significant predictor was the control for sectoral legitimacy. It could account for an additional 10.9 percent of the variation in systemic legitimacy as measured by the difference in R^2 values between step one and two and was significant at the 0.05 level.

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[19]The model assumptions of no multicollinearity (VIF<2.6), independent residuals (Durbin Watson test statistic = 1.822), and homoscedasticity were met. As mentioned previously, the null hypothesis that the data is not normally distributed was rejected at the 0.05 level of significance (K-S Test statistic = 0.073, Sig. 0.200).

Table 2.10   Model summary for systemic legitimacy, $n_m=78$

Variable	Block 1 β	Block 2 β	Block 3 β	Block 4 β	Block 5 β	Block 6 β	Block 7 β
Municipal Size (population)	-5.628**	-5.563**	-5.947**	-5.118**	-5.897**	-5.652**	-6.421**
Sectoral Legitimacy (SME rating)		-0.214**	-0.214**	-0.201**	-0.156*	-0.136*	-0.156*
BIA (0, 1, 2+)			0.772	0.990	0.020	0.000	0.177
Information (page count)				-0.003	0.001	-0.002	-0.002
Tax Rate (total tax)					0.002	0.002	0.001
Amalgamation₁ (units/given name)						0.738	0.536
Amalgamation₂ (FIR 2003)							-0.505*
R²	0.154	0.263	0.267	0.297	0.333	0.362	0.402
Adjusted R²	0.143	0.243	0.237	0.259	0.286	0.308	0.342

Notes:
The results were obtained using $n_m=78$ controlling for sectoral legitimacy and municipal size. Significant results are shown in bold letters. *Significant at the 0.05 level. **Significant at the 0.01 level. The model assumptions of parametric data (K-S Test statistic = 0.073, Sig. 0.200), no multicollinearity (VIF < 2.2), independent residuals (Durbin Watson test statistic = 1.874), and homoscedasticity were met. A forced entry regression where all variables were entered simultaneously produced identical results in the final block. Parameters for the final model are highlighted in grey.

The model predicts that for every one percent increase in sectoral legitimacy, systemic legitimacy decreases by 0.156 percent. The result illustrates there is a trade off between sectoral and systemic legitimacy at the systemic level. The final significant predictor was the measure of the number of municipalities falling under the jurisdiction of an upper tier government (Amlagamtion₂). The addition of this variable in block seven increased the overall predictive power of the model from 36.2 to 40.2 percent, a difference of 4.0 percent significant at the 0.05 level. The model predicts that for every additional government belonging to an upper tier municipality, the level of systemic legitimacy decreases by 0.505 percent. This result was also consistent with the hypothesized relationship predicted by Kushner et al (1997). The remaining predictor variables, namely the tax rate, the document page count, and number of BIAs, as well as the number of amalgamated governments under a given name had no significant impact at the 0.05 level.[20]

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[20] The number of BIAs was also included in the model as a scale measure without coding resulting in no significant changes.

2.7   Summary and discussion of results: Comparing impacts

The impacts of the significant predictors have been discussed in conjunction with the results for each model. There are also several observations that should be stated with respect to the insignificant predictors. Inconsistent with CFIB reports, the analysis showed that the commercial to residential tax ratio, which measured inequity across property classes, did not have an impact on legitimacy. Based on the results of the models, SMEs do not take into consideration property tax inequalities in their assessment of municipal governments. More importantly, it was the tax rate itself which was shown to have a significant impact. Considering these results, it would appear that equity issues are not as much of a concern as the actual taxes paid. In other words, irrespective of what property taxes amount to for other property classes, SME concern primarily rests with how much they have to pay, not how much they have to pay relative to, for example, homeowners. The same was also found to be the case with respect to systemic legitimacy, where the commercial to residential property tax ratio was also insignificant.

The insignificance of the number of BIAs, especially at the sectoral level, also has important policy implications. Other policy instruments classified as recognition manipulation will have to be identified and tested in order to complete the model and provide for a full array of policy options. The same observation applies to the provision of financial and performance related information, which was the remaining insignificant variable. It also warrants some additional discussion. Ottawa was an outlier with over 3000 pages of documents.[21] Because Ottawa had a large number of responses in the CFIB survey and as such was one among a small number of good data points, treating it as an outlier was not warranted for the sake of a single variable, especially one that was insignificant. Nevertheless, separate regressions excluding Ottawa from the analysis were performed. Without Ottawa, the results for both regression models did not change substantially.[22] All variables found to be significant or insignificant when Ottawa was included in the analysis remained that way when it was treated as an outlier.

A final observation is related to the trade-off between sectoral and systemic legitimacy found in the second regression model with systemic legitimacy as the dependent variable. Though it is impossible to state why there is a trade-off between the two levels of legitimacy based on the results of the models, one possible, albeit hypothetical explanation, is that municipalities which

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[21] The next highest page count was 1762 for Oakville. With a mean page count of 437, Ottawa was nearly 7 standard deviations above the mean.

[22] There was a slight increase in the R^2 value for both models. The model R^2 with sectoral legitimacy as the dependent variable increases by 0.01 to 0.523, with systemic legitimacy as the dependent it increased to 0.xx. All other model parameters remained virtually unchanged with minor differences in the β coefficients and significance levels.

have been or are perceived to have been captured by their business sector are seen negatively by other sectors. In other words, municipalities with high sectoral legitimacy have been or are perceived to have been captured by businesses and as a result suffer from de-legitimation at the systemic level within the population at large. Lacking any data to test this hypothesis, it remains an intuitive explanation. In terms of policy implications it is important to note that it does in fact exist and has to be taken into account when implementing policies to raise legitimacy.

2.8   Conclusion

As a conclusion to this chapter, an answer to the why question posed in the introduction can now be provided. The question was "Why is legitimacy lower for some municipal governments in Ontario than others?" By looking at four factors predicted to have a significant impact by the model of procedural policy instruments, the general answer is that some municipalities have pursued or been forced to pursue policies which are not conducive to high legitimacy. For example, municipal governments that have undertaken amalgamation have been shown to have significantly lower legitimacy at the sectoral level and the systemic level depending on whether the amalgamation took a "hard" or "soft" form. In addition, municipal governments which pursued policies leading to high commercial property taxes have also been shown to experience significantly lower legitimacy at the sectoral level. There is also an indication, based on the trade-off effect between the two levels of legitimacy that some governments may simply have chosen to focus on other sectors within the population at large in order to secure a high level of legitimacy at the systemic level with the net result being lower legitimacy at the sectoral level. Policies of high commercial property taxation would be the primary method of increasing legitimacy at the systemic level, presumably because doing so would secure lower taxes for other property classes. The consequence of doing so would be a reduction in legitimacy at the sectoral level. The analysis also served as a preliminary test assessing the impact of performance and financial reporting on public perceptions of municipal governments. As the 2004 Provincial and Territorial Charrette on MPMP stated, no such evaluation had previously been performed (IPAC, 2004). The models show programs such as the MPMP are ineffective at the sectoral and systemic level. Although ineffective in terms of procedural intent, the result cannot be interpreted as a suggestion that MPMP and other similar reporting initiatives should be abandoned entirely. The substantive outcome of policies must also be taken into consideration in addition to their stated procedural intent and is incorporated into the analysis of policy alternatives in the remaining chapter of this report.

3   Addressing Low Legitimacy: Policy Responses

The evaluation of the policies was performed relative to their impact on both levels of legitimacy. In addition, cost and policy intent with respect to objectives other than re-legitimation, or in other words substantive policy intent, were also taken into account. The three criteria of effectiveness, cost, and alternate policy intent served as a basis for the evaluation of the policy alternatives. The first step in the analysis was an application of the model of procedural instrument choice to individual municipalities in the Chapter 1 of the report. The analysis suggested which municipalities should engage in institution manipulation, recognition manipulation, financial manipulation, or information manipulation essentially leading to one conclusion: A blanket approach might not be the most sensible course of action. Following this, factors, which correspond to policies within in instrument category, were evaluated in terms of impact on legitimacy indicating predicted policy effectiveness.

In this chapter of the report, the findings with respect to impact on legitimacy from the regression models are applied in terms of effectiveness in an assessment of policy alternatives that can be used to increase legitimacy. One common thread linking the four policies being evaluated and their corresponding use of a procedural instrument was their emphasis on increasing accountability and transparency. Their policy intent directly addresses issues related to legitimacy and government credibility pointing to their procedural nature. In the procedural context, tangible policy outcomes, such as provision of goods and services, which takes place at the substantive level of governance, become secondary with the primary focus being the re-adjustment of government policy focus to address legitimacy concerns.

Figure 3.1   Policies and Instruments

MPMP and financial reporting	Threshold Property Tax System/Tax Cuts	BIAs	De-amalgamation 1 & 2
Information Manipulation	Financial Manipulation	Recognition Manipulation	Institution Manipulation
Page count of documents posted on municipal web pages	Tax rates and tax ratios	Number of BIAs	Amalgamated governments under a given name and number of governments in two-tier systems

Notes: The policies are shown in increasing order of state manipulation and direct state involvement. The distinctions between the four instrument categories are discussed in Section 4.2.

The individual policies have been identified in Figure 3.1 together with the category of procedural instrument and the quantified factors (independent variables) used in the regression models. They are shown in increasing order of direct government involvement and manipulation (Howlett, 2000). The order also corresponds to the amount of state capacity required in the implementation of the policy at the substantive level, or in other words the resource requirement of each policy (Howlett, 2000). Their placement in this order suggests a preliminary indicator of cost, which is discussed in the next section. Policies utilizing institution manipulation are likely to be the most burdensome in terms of cost, followed by recognition manipulation, financial manipulation, and information manipulation.

3.1   Identifying and defining criteria

In assessing the effectiveness of the policies with respect to achieving their stated goals, alternate policy intent had to be taken into consideration. Although the policy intent might have been re-legitimation (procedural intent), policies rarely fulfil a single function. The discussion in the previous chapters has been silent with respect to other policy intent and goals. The regression analysis was limited to the impacts of four factors on legitimacy without considering other impacts. Based on existing indicators of effectiveness with respect to alternate policy intent an attempt was made to suggest which policies are meeting those goals and which are not serving as an additional criterion in the evaluation. Cost of individual policies was also taken into account as a primary criterion that needs to be considered given the fiscal environment municipal governments are facing. Together with effectiveness, cost and alternate policy intent were used as the basis on which policies were compared and evaluated.

3.2   Cost: Dollars and cents

Given the strained fiscal situation many municipalities face cost had to be of primary concern in the evaluation. A look at Toronto serves as an example of the fiscal strain some municipal governments in Ontario are under. According to the city's 2005 Annual Financial Report, total revenue was $7.879 billion while expenditures amounted to $8.111 billion, a deficit of $232 million before long term financing (CFO Toronto, 2006). The city's total long-term debt increased by $285 million dollars, up from $1.681 billion in 2004 to $1.965 billion in 2005. Toronto is not the only city facing difficult financial constraints. Other metropolitan centres in Ontario and across Canada face similar difficulties (Layton, 2004). As such, policies which put a heavy strain on government resources but achieve negligible results cannot be considered as viable and prudent policy alternatives.

3.2.1   De-amalgamation costs

In terms of de-amalgamation, the overall cost of reversing the consolidation of governments was difficult to assess. Based on Toronto's 2001 Amalgamation Report, the only city for which such a report was found, the annual cost of reversing the process, or in other words de-amalgamating, would have a net present value of $1.32 billion between 2007 and 2048 at a discount rate of 8 percent (CAO Toronto, 2001). This represents a fifty-year period from Toronto's original amalgamation in 1998. The figure was calculated by adding the average annual one-time consolidation costs, financing of those of costs, and the foregone consolidation savings and subtracting the on-going annual costs of amalgamation. The calculations have been summarized in Appendix E together with the net present value of amalgamation, which came to $1.07 billion at a discount rate of 8 percent over a fifty-year period starting in 1998. Given that Toronto is the largest city in the country, these figures represent extremes. Lacking other comparable information for smaller amalgamated municipalities, it was used in the present assessment as an overall indicator of de-amalgamation costs. The cost of de-amalgamating from the "soft" version of amalgamation, or in other words dissolving regional governments into stand-alone single-tier units was assumed the same as that for de-amalgamation from Toronto's "hard" consolidation.

3.2.2 BIA costs

The costs incurred by municipal governments from establishing BIAs are likely to vary across municipalities and individual BIAs within a given municipality. The City of Hamilton has a BIA coordination office which currently overseas 12 individual BIAs. The BIA coordination office was contacted to inquire about the costs associated with the administration of the city's BIAs incurred by the municipality providing an approximate cost assessment.[23] It should be noted that BIAs are ostensibly self supporting in that municipal governments levy an additional tax on commercial and industrial areas which belong to the BIA to pay for any additional services provided within the BIA. However, the municipality also incurs administrative costs not recovered from the additional tax levy. In the City of Hamilton, these costs come to approximately $217,000 in annual current expenditures with an additional $250,000 in annual capital expenditures for the staffing of the BIA coordination office as well administrative services related to the BIAs. As such, the approximate average annual cost per BIA in the City of Hamilton is $39,000 with a total cost of $467,000. This figure represents the annual on-going costs incurred by the municipality. It was not possible to obtain the initial start-up cost incurred by a municipality when a BIA proposal is received. These costs would include, for example, an evaluation and review of a given proposal, public meetings, and the cost of passing a new bylaw to establish the BIA in terms of city council deliberations. As such, the average annual cost based on figures from the City of Hamilton was used in the evaluation with the understanding that it represents an underestimate once start-up costs are also taken into account.

3.2.3 Threshold taxation costs

Looking at the cost impact of adopting a threshold tax system, an accurate estimate is also difficult to obtain. The impact on municipal revenue serves as a reasonable assessment of the cost expressed in terms of either foregone revenue or tax burden transfer. At the same time, the impact will vary from one municipality to another depending on its total commercial property assessment, the existing tax rates across property classes, and the median value of residential properties (Mallet, 2005). Given that the actual impact on tax revenue would vary from municipality to municipality, the figure for Toronto was used to indicate what is likely to be a maximum. In the CFIB report proposing the move to a threshold system, it was estimated that for Toronto, with a $330,000 median residential property value, the total transfer of tax load from

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[23] Hazel Milsome, the Staff Coordinator of BIAs for the City of Hamilton who was kind enough to take the time to provide the cost information presented above.

multi-residential, commercial, and industrial properties to residential properties would come to approximately $140 million, or 12 percent of total residential class taxation (Mallet, 2005). The figure for Ottawa, with a $230,000 median value of residential properties, would come to $12 million, or three percent of total residential class taxation.

Assuming that such a transfer is not politically feasible, an alternative to transferring tax burden would be to forgo that amount of tax revenue. Doing so would be equivalent to a straight tax cut, or in other words tax expenditure. This was the approach taken when considering the cost with respect to the proposal for the threshold system. Using FIR 2005 data, the present value of a $140 million tax cut was estimated to be $1.45 billion at an 8 percent discount rate starting in 2007 up to and including 2048. The figure was calculated by taking into consideration that property assessment in Toronto has been increasing on average by 6.7 percent annually between 1998 and 2006. The calculations for the present value of the tax cut were included in Appendix F.

3.2.4 MPMP and financial reporting costs

The cost of the MPMP program, which according to the MMAH website falls under the core business of "local government," received an operating budget of $32 million with a staff of 165 in 2003.[24] This budget allocation encompasses the collection of annual financial information from municipalities through FIR, which is also used to collect the necessary statistics for MPMP, and support staff to train and help municipal clerks in collecting and submitting the data. Keeping in mind annual financial documents such as budgets and reports would have to be generated on a yearly basis regardless of whether they are posted on-line or not, the costs of doing so on the internet are negligible.[25] However, in addition to the $32 million spent at the provincial level, individual municipalities undoubtedly incur costs related to the mandatory dissemination of performance and financial reporting information when doing so by means other than the internet. There are administrative costs incurred at the municipal level related to the collection of information, submission of information, and finally printing and publication of reports. These costs could not be assessed and likely vary from one municipality to the next but should also be taken into consideration. Lacking information to assess these costs, the figure of $32 million is likely to be a gross underestimate of the total cost of MPMP and financial reporting incurred at the provincial and municipal level of government.

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[24] Ministry of Municipal Affairs and Housing website. Accessed on September 20, 2006. http://www.mah.gov.on.ca/userfiles/HTML/nts_1_7688_1.html
[25] The associated costs would essentially be based on the amount of work and time it would take to upload the documents to the municipal website.

3.3 Effectiveness: Summary of impacts

The measures of effectiveness of individual policies were obtained using regression models discussed in the preceding chapter. They are the expected percentage change in sectoral and systemic legitimacy, or in other words the predicted percentage change in aggregate SME ratings and average voter turnout. Effectiveness was incorporated in the evaluation of individual policies by taking into account the predicted impacts on both levels of legitimacy. The resulting net impacts are summarized in Table 3.1. The net impact of amalgamating governments into single units is a 1.56 percent reduction in sectoral legitimacy for every additional amalgamated government. The alternative to outright amalgamation would be the establishment of a two-tier system of government. However, this "soft" version of amalgamation also comes with a net negative impact on systemic legitimacy of 0.51 percent for every additional government included under an upper-tier. The inverse of these relationships suggests that de-amalgamation could raise sectoral and systemic legitimacy.

Table 3.1   Summary of the impacts of four factors on sectoral and systemic legitimacy

Level of Legitimacy	Amalgamation₁	Amalgamation₂	BIAs	Taxes	MPMP
Sectoral	-1.552%	0.000%	0.000%	-0.008%	0.000%
Systemic	0.000%	-0.505%	0.000%	0.000%	0.000%
Net Impact	**-1.552%**	**-0.505%**	**0.000%**	**-0.008%**	**0.000%**

Notes: Based on the results of the analysis in Chapter 2.

An increase in the commercial property tax rate has a negative impact on sectoral legitimacy of 0.008 percent for every one dollar per $100,000 of assessed property value. The inverse of this relationship suggests that a reduction in the tax rate would carry a net increase in legitimacy of 0.008 percent making the reduction of commercial property tax rates an effective policy. However, it also has to be kept in mind that a one percent increase in sectoral legitimacy was predicted to result in a 0.16 percent decrease in systemic legitimacy due to the trade-off effect. Performance and financial reporting were not predicted to have a significant impact meaning that they are ineffective policies in addressing legitimacy issues at either the sectoral or the systemic level.

3.4   Substantive policy intent: Considerations other than legitimacy

The intent behind each of the four policies being evaluated with respect to goals other than re-legitimation deserves careful consideration. If a policy is found to be ineffective in terms of increasing legitimacy (procedural policy intent), without taking alternate policy goals into consideration, that policy might mistakenly be rejected as a "bad" policy. If the policy achieves results elsewhere, doing so would be detrimental. As such, substantive policy goals and outcomes were also included in the evaluation whenever it was possible to say something meaningful about them based on existing literature and reports.

3.4.1   Substantive policy intent of amalgamation

One of the substantive policy goals of amalgamation has been the improvement of efficiency, reduction of costs, and increase in the quality of service delivery (CAO Toronto, 1999). As has been suggested in other research, amalgamation may not in fact be yielding the efficiency gains it has been assumed to generate (Kushner et al, 1997; Bish, 1996). Bish for example argues that the main drive behind amalgamation to achieve economies of scale does not necessarily apply to all services provided at the local level where there are in fact dis-economies of scale (Bish, 1996). The production costs of some local services actually rise as the scale on which they are produced increases. According to a regression analysis of municipal expenditures in Ontario based on 28 non-regional single –tier and 10 regional two-tier municipalities, Kushner found that,

> The cost of providing municipal services is unaffected by the form of municipal organization and only marginally effected by the size of the municipality. It would appear, therefore, there are no simple structural formulas for the containment of municipal expenditures. The policy implication is that from an expenditure viewpoint regionalization makes no difference; thus the question of regionalization becomes a political one (Kushner, 1996).

Although these generalizations may not hold in all cases where municipalities have been amalgamated, using Toronto as a specific example certainly indicates that Kushner and Bish are correct in their assessment. According to Toronto's 2001 Amalgamation Report, none of the expected efficiency gains, which were estimated to range from $148 million to $252 million annually, had been realized at the time of the report's publication (CAO Toronto, 2001). There were consolidation savings, and even then it was unclear whether they could have bee realized had the city not amalgamated into a single-tier.

The consolidation savings were mostly derived from staff reductions. The report neglected to mention how much of the consolidation savings were attributable to staff reductions only stating that the work force was reduced by 1935 FTE positions and that this accounted for the "majority" of the savings (CAO, 2001). The staff reductions were also accompanied by service reductions. This begs the question. If staff reductions of 1935 FTE positions could have been achieved without amalgamation into a single tier by cutting services, then what exactly were the consolidation savings and overall amalgamation savings given that there were no efficiency gains? Furthermore, if staff reductions could also be achieved using a system of regional organization not based on the traditional two-tier approach, what are the gains from the "soft" version of amalgamation given that municipal government costs do not appear to be related to municipal organization?

According to Sancton, consolidation is wrought with "sketchy references," and "confused," "inconsistent" analysis (1996). A study prepared for the municipalities within the Peel Region and Ottawa-Carleton Region stated that "complete consolidation within the area would increase costs because "the efficient, low-cost operational approach of the smaller municipalities would be lost and would not be compensated for by any significant economies of scale" (Sancton, 1996). Bish reaches a similar conclusion in his analysis of municipalities in British Columbia (2000). Based on an assessment of available figures, one conclusion with respect to amalgamation and efficiency as well as cost savings is that it does not fulfil is stated substantive policy intent. However, there is also indication that amalgamation, and more generally regional organization, is necessary to achieve other policy goals not related to efficiency, cost savings, or legitimacy concerns.

Other policy goals of amalgamation may include, for example, provincial initiatives to gain greater control over municipal government policy or increase regional policy coordination (Stewart, 2006). The principal reason for moving from several stand-alone single-tier municipalities to one large amalgamated municipality ("hard" amalgamation) is a need to over-come collective action problems faced by independent municipal governments with respect to regional planning and regional policy concerns. Two-tier systems are created for the same reason. An additional argument provided by Stewart is that provincial governments will restructure municipal governments consistent with their own political ambitions by creating municipal systems favourable to their own electoral success while dividing or weakening potential political opposition. This is the primary reason cited for the amalgamation of Toronto (Stewart, 2006).

The need for regional policy coordination has also been suggested as a necessity in order to address environmental protection concerns, urban sprawl, and inner-city decay, as well as increase the competitiveness of urban centres in the global economy (Swanstrom, 2001). Although Swantsrom states that the economic efficiency and competitiveness argument for regionalization has merit it is not as strong as one would suppose. At the same time, the counter-argument for greater fragmentation and competition at the local level is also weak. He suggests that the economic efficiency and competitiveness arguments for regionalization are not wrong, but rather incomplete and that political considerations have to be taken into account (Swanstrom, 2001). In terms of political values, for example, regionalization, he argues, increases equality while highly fragmented regional governments strengthen economic and racial segregation and inequality potentially increasing intolerance among different groups within the citizenry (2001). Consistent with Swanstrom's observations, there may not have been any cost savings from the amalgamation of Toronto and other Ontario municipalities, but there have been other benefits such as service level equalization, improved economic and infrastructure development, and fairer sharing of the property tax base between municipalities (Slack, 2000).

As the brief discussion of the advantages and disadvantages of regional organization at the local level of government illustrates, it is difficult to ascertain whether policies of amalgamation into single-tier municipalities or a two-tier systems are effective in delivering on their substantive policy intent. Although amalgamation does not appear to make good on its promise of substantial efficiency gains and cost reductions, it may nevertheless be fulfilling important substantive policy outcomes not related to arguments of economic efficiency or cost savings. Based on a short review of literature dealing with the pros and cons of amalgamation, in terms of meeting its substantive policy intent, this study treats the effectiveness of amalgamation as inconclusive with respect to substantive policy outcome.

3.4.2   Substantive policy intent of BIAs

According to the MMAH 2005 BIA Handbook, the main purpose of a BIA is "to maintain a dynamic local neighbourhood and to promote an area as a business or shopping destination" (MMAH, 2004). In addition to beautification and promotion of an area, a BIA is also aims to develop a network of relationships and partnerships among local community groups. Both of these goals serve as the primary policy intent behind BIAs with secondary procedural considerations of re-legitimation using recognition manipulation. Based on a conversation with the BIA Coordinator for the City of Hamilton, BIAs are seen as a highly positive and effective means of achieving these objectives and make a positive contribution in terms of economic development, improvements to the business environment, and creation of sustainable communities.[26] All of these goals are substantive in nature. Based on this information, it would appear that BIAs are in fact fulfilling their substantive policy intent, meaning that they are effective in terms of meeting policy goals not related to re-legitimation.

3.4.3   Substantive policy intent of threshold taxation

The substantive aspects of the capping policy, and for that matter any policies aiming to correct tax rate inequities across property classes such as the proposal for a threshold system, relate to arguments of economic efficiency and competitiveness (CFO Toronto, 2004; Mallet, 2005). The primary substantive outcome being sought is the transition of small business to the commercial property class and encouraging an expansion of the non-residential property tax base while creating a competitive tax rate regime relative to other jurisdictions (CFO Toronto, 2004). An additional argument at the substantive level has also been made by the CFIB by suggesting the existence of multiplier effects at the local level. According to the CFIB report on threshold taxation,

> Money in the hands of local small business owners would more likely be recirculated within the community in the form of investment, earnings, and wages. The same money, which is now in the hands of consumers (residential property owners), also recirculates but not as effectively...(Mallet, 2005).

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[26] Based on a phone conversation with Hazel Milsome, the Staff Coordinator of BIAs for the City of Hamilton.

The economic benefits of putting money back in the hands of small business owners rather than residents serve as a potential substantive policy outcome of a threshold tax system. Equity concerns and matters related to notions of giving small business enterprises a "break" are related to the procedural aspect of the policy. Since no concrete evidence has thus far been presented to suggest that a multiplier effect does in fact exist at the local level, and what the economic gains of such a multiplier would be, the substantive policy goals of a threshold property tax system were treated as unknown.

3.4.4 Substantive policy intent of performance and financial reporting

According to Burke, the MPMP remains a work in progress, but based on "preliminary" indicators, has had some positive policy outcomes (Burke, 2005). In addition to the stated policy intent of raising public awareness and fostering government accountability, MPMP is seen as an effective means of informing municipal budget deliberations, promoting efficiency, and establishing financial and administrative best practices (Burke, 2005). It was introduced as a management tool aimed at improving the use of government resources (IPAC, 2004). Actual policy outcomes and the effects of performance and financial reporting, however, remain untested and unverified though it is suggested that it is beneficial (IPAC, 2004). As such, the substantive outcomes of MPMP and financial reporting may be positive but remain unknown.

3.5 Tying it all together: Evaluation of alternatives

The evaluation of the policies was based on their assessment relative to cost, the measures of effectiveness (impacts on legitimacy), and the ability of each policy to meet its alternate substantive policy intent. It was performed by looking at a specific municipality and drawing generalizations on the basis of that example which can be loosely applied to other municipal governments depending on their particular legitimacy needs. The municipality chosen as an example was Toronto. There were two reasons for this choice. Cost figures for de-amalgamation and the proposal for a threshold tax system were only available for Toronto. In addition, Toronto by virtue of being the largest city in Ontario and Canada, likely represents an extreme case illustrating maximum cost impacts which were ultimately the deciding factor in the recommendations.

Municipalities that have not undergone amalgamation in the "hard" or "soft" form obviously would not benefit from policies recommending de-amalgamation. For these municipalities, the threshold-hold tax system or a similar policy would appear to be the only potential option given that information and recognition manipulation as defined in the analysis had no significant impact on either level of legitimacy. Since BIAs and performance and financial reporting had no significant impact they were eliminated as viable policy alternatives aiming to increase legitimacy. Tax ratios were also found to be insignificant indicating that the provincial capping policy has no impact on legitimacy. This does not mean that the policies should altogether be abandoned.

It would appear BIAs for example, are meeting their substantive policy intent. The capping policy was a direct response to the move to a Current Value Assessment (CVA) and an attempt to rectify property tax rate distortions resulting from structural changes rather than inequities making continued adherence to the capping policy necessary for reasons not related to legitimacy concerns (CFO Toronto, 2004). Although MPMP may or may not be meeting its substantive policy intent, insufficient data and information was available to make statements with respect to anything other than its procedural intent. Public perception in terms of sectoral and systemic legitimacy does not appear to be affected by the provision of performance and financial reporting information. It should also be noted that the analysis included only two examples of instruments defined as information or recognition manipulation. It is plausible, and in fact likely, that other instruments which would be classified as information or recognition manipulation could be utilized to effectively address low legitimacy. Further research and analysis is required in this area.

Table 3.2 summarizes the costs, impacts on legitimacy (procedural intent), and effectiveness with respect to alternate policy goals (substantive intent) of the four policies. To enable comparison the present value of the costs for policies with significant impacts were calculated at a discount rate of 8 percent over a fifty-year period. The measures of effectiveness remained unchanged. The sign for amalgamation was changed given that the policy option being evaluated was de-amalgamation. Each policy's ability to meet its other substantive policy intent was classified as effective, ineffective, or inconclusive based on the discussion in Section 3.4. De-amalgamation$_1$ refers to a reversal of "hard" amalgamation to "soft" amalgamation, or in other words the splitting up of an amalgamated single tier municipality into a two-tier system. De-amalgamtion$_2$ refers to the dissolution of existing two-tier systems into stand-alone municipalities, or in other words a move from "soft" amalgamation to no amalgamation.

Table 3.2   Policy alternatives matrix – Cost, effectiveness, alternate policy intent.

Criteria	De-amalgamtion₁	De-amalgamation₂	BIAs**	Threshold Tax*	MPMP**
Cost					
Cost (up to 2048)	$1.305 billion	$1.305 billion	$467,000*	$1.455 billion	$32 Million*
Per Capita Cost	$525.89	$525.89	$0.95	$586.34	$2.81
Effectiveness					
Sectoral	1.552%	0.000%	0.000%	0.008%	0.000%
Systemic	-0.505%	0.505%	0.000%	0.000%	0.000%
Other Policy Intent	Inconclusive	Inconclusive	Effective	Unknown	Unknown

Notes: The measures for effectiveness were obtained from Section 4. All other figures are based on previous sub-sections
*Based on a $140 million tax reduction.
**These figures were not discounted given that the policies were ineffective in raising legitimacy, and thus were not considered in the evaluation of alternatives.
Population: Toronto 2,481,494 (2001), Hamilton 490,268 (2001), Ontario 11,410,046 (2001)

The initial placement of municipalities within the policy instrument matrix predicted that individual municipalities would have to follow customized policies utilizing different policy instruments. An additional caveat was revealed in the regression models which showed a trade off between sectoral and systemic legitimacy. The trade-off adds complexity to the analysis in that any policy aiming to raise legitimacy at the sectoral level would result in loss of legitimacy at the systemic level. The loss in systemic legitimacy was predicted to be approximately 0.16 percent for a one percent gain in sectoral legitimacy.[27] As such, any potential gains in sectoral legitimacy will have to be weighed against losses at the systemic level by individual municipal governments.

3.5.1   De-amalgamation₁: Reverting from "hard" to "soft" amalgamation

As Table 3.2 shows, the net present value of de-amalgamation was estimated to be a cost of $1.305 billion discounted at 8 percent over a fifty-year period starting in 1998. Given that this figure was based on Toronto's amalgamation costs, it likely represents a maximum. In terms of substantive policy intent, previous research strongly indicates that the "hard" version of amalgamation is not delivering its promise of substantial efficiency gains. As a procedural policy instrument aiming to improve legitimacy, amalgamation has been shown to have the exact opposite effect. As such, de-amalgamation is a viable policy alternative which is predicted to have positive impacts on legitimacy at the sectoral level. The caveat is of course the trade-off effect as well as the difference between amalgamation impacts at the sectoral and systemic level.

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[27] The β coefficient for sectoral legitimacy in the model of systemic legitimacy as the dependent variable was 0.156, or rounded up to the second decimal 0.16.

A municipality that has been consolidated using the "hard" version of amalgamation could de-amalgamate to the equivalent of "soft" amalgamation or in other words a two-tier system. There would be a direct positive impact on sectoral legitimacy by doing so. However, there would also be a negative impact on systemic legitimacy from the establishment of a two-tier system in addition to the trade-off effect between the two levels. The regression models predicted that reverting from "hard" amalgamation to "soft" amalgamation would raise sectoral legitimacy by 1.56 percent for every de-amalgamated government. This would reduce systemic legitimacy by 0.51 percent for every government added to a two-tier system in addition to a loss of systemic legitimacy of 0.16 percent for every one percent gain in sectoral legitimacy.

Assuming that municipal governments attach the same value to legitimacy at the sectoral and systemic level, this policy option would produce net benefits given that the increase in sectoral legitimacy would outweigh the decrease in systemic legitimacy. However, if the weight attached to systemic legitimacy is higher than sectoral legitimacy, depending on their valuation by individual governments, a policy increasing sectoral legitimacy and at the same time decreasing systemic legitimacy might not be desirable. Ultimately, the valuations of gains in legitimacy at the sectoral level and losses at the systemic level have to be weighed by individual governments to assess whether the trade-off is acceptable. Working under the assumption that sectoral and systemic legitimacy are valued equally, de-amalgamation to a two-tier system would yield a desirable outcome. This scenario represents the first of the de-amalgamation alternatives and is potentially applicable to all municipalities that have undergone "hard" amalgamation. The next de-amalgamation alternative is applicable to these municipalities as well as municipalities currently part of a two-tier system.

3.5.2 De-amalgamation₂: Reverting to stand-alone municipalities

The second de-amalgamation alternative involves reverting from "hard" or "soft" amalgamation to stand-alone municipalities with some form of regional organization which is not as institutionalized as that of a two-tier system. The cost for this option was assumed to be the same as the cost associated with the first de-amalgamation alternative. Two-tier systems, although argued to be better than single tier amalgamated systems, have also been shown to yield little or no efficiency gains relative to other less traditional forms of regional organization (Bish, 2000, 1996). Since there is indication that two-tier systems do not meet their substantive policy intent of increased efficiency, "complete" de-amalgamation is also a plausible policy alternative.

This option could, for example, entail the establishment of a system of local government based on the one currently in place in the Greater Vancouver area which has a regional structure that is far less institutionalized than that of a traditional two-tier system (Bish, 2000, 1996). The Greater Vancouver Regional District (GVRD) provides shared services for 21 separate municipalities attempting to capture economies of scale and the benefits of regional planning which are more easily realized in (amalgamated) single- and two-tier systems (Bish, 1996). At the same time, its 21 member municipalities and one electoral district remain independent stand-alone units forming a "complex multi-organizational system" that cannot be described in terms of tiers (Bish, 2000, 1996). The key difference between the system in place in the GVRD and a two-tier system is that the member municipalities of the district are not integrated under an upper level of government. They maintain "complete" autonomy with some regional organization to capture economies of scale in areas where they have been shown to exist, such as transportation and utilities (Bish, 1996).

The second de-amalgamation scenario represents the better of the two options when looking at impacts on legitimacy. Municipalities consolidated using the "hard" form of amalgamation could de-amalgamate completely to a system of stand-alone entities with some type of organization at the regional level. Doing so would result in legitimacy gains at the sectoral and systemic level. The trade-off would become a non-factor given that that the gains in systemic legitimacy were predicted to be 0.51 percent for every separated lower-tier municipality overcoming the decrease of 0.16 percent resulting from a rise in sectoral legitimacy. As such, the move from "hard" amalgamation to stand-alone municipalities should result in a slight increase in systemic legitimacy in addition to the predicted increase in sectoral legitimacy.

Similarly, by de-amalgamating to stand-alone municipalities, existing two tier systems would also benefit, albeit only at the systemic level. In the regression models, two-tier systems were not predicted to have a significant impact at the sectoral level of legitimacy. In addition, the trade-off effect only applied to systemic legitimacy. As such, there would be no impact at the sectoral level from the dissolution of existing two-tier systems into loosely organized stand-alone municipalities. If lower-tier municipal governments also want to raise legitimacy at the sectoral level, they will have to implement policies utilizing other instruments in addition to institution manipulation, such as for example, property tax rate reductions.

The two de-amalgamation alternatives apply to municipalities that have undergone institutional manipulation in the past, which as has been shown using the regression models, has had a detrimental effect on legitimacy. Municipalities which have not undergone amalgamation would have to rely on other procedural instruments. Two examples of information and recognition manipulation, which according to the model of procedural instruments could be utilized to increase legitimacy, were found to be ineffective. Other policies using these instrument categories have to be identified. At this time, based on the regression models, financial manipulation in the form of property tax rate reductions was predicted to be the only other potential policy alternative with a significant impact on legitimacy.

3.5.3 Threshold property tax system or similar property tax reductions

The cost of a threshold tax system with a $140 million tax cut was estimated to be roughly $1.45 billion at an 8 percent discount rate, or approximately $586 per capita working under the assumption that the policy would have to be funded through a tax expenditure rather than a tax burden shift. Again, Toronto represented the high cost scenario. The regression models predicted that for every one dollar reduction in the tax rate per $100,000 of assessed property value sectoral legitimacy would increase by 0.008 percent. Keeping the trade-off between sectoral and systemic legitimacy in mind, a one percent increase in sectoral legitimacy would be accompanied by a 0.16 percent decrease in systemic legitimacy. In addition, there might be economic gains related to the multiplier effect, although no concrete evidence based on empirical research is available to confirm this. Thus, alternate policy goals were classified as unknown and could not be included in the cost assessment.

The calculation of the impacts of a threshold tax system was based on figures for Toronto and summarized in Appendix F. Based on those figures, the net impact of a $140 million tax expenditure on legitimacy would be approximately 4 percent, or in other words far smaller than that obtained from de-amalgamation. Assuming that a tax burden transfer to residential property classes is not feasible, the cost of the threshold system at $140 million annually would be slightly higher than the cost of de-amalgamation. In order for a tax cut to have the same effect as de-amalgamation, the City of Toronto, for example, would have to spend approximately $325 million per year in tax expenditures, which is equivalent to nearly 60 percent of the total tax revenue collected from fully occupied commercial properties. The present value of an annual $325 million tax expenditure in place until 2048 comes to approximately $3.37 billion at an 8 percent discount rate, or approximately $1359 per capita. A tax expenditure of this magnitude is

not likely to be sustainable in the current fiscal environment. In addition, individual municipal governments would have to weigh gains at the sectoral level against the losses at systemic level. If sectoral and systemic legitimacy are weighed tax expenditures would yield a net positive outcome given that the decline in systemic legitimacy would be smaller than the gain in sectoral legitimacy. If the two levels of legitimacy are not weighed equally, the trade-off could render any policies adjusting the commercial property tax rate ineffective or even counter-productive.

3.5.4   Policy Alternative Matrix

The parameters of the each policy alternative are summarized in Table 3.2. The status quo represents the current situation in Toronto and varies from one municipality to another. However, it can also be applied to 29 of the 78 municipalities which have been amalgamated with at least one other municipal government. The highest number of consolidated governments using "hard" amalgamation was in Ottawa where the consolidation encompassed 12 municipalities. The status quo for Toronto also applies to 54 of the 78 municipalities which are currently part of a two-tier system, albeit to a lesser extent. It does not apply to 14 of the 78 municipalities which had not been amalgamated using the "hard" form or "soft" form and as of 2003 were stand-alone municipal governments.

Figure 3.2   Policy alternative matrix

Criteria	Status Quo	De-amalgamtion$_1$	De-amalgamation$_2$	Threshold Tax ($325 million tax cut)
Cost				
Cost (benefit)	($1.067 billion)	$1.305 billion	$1.305 billion	$3.373 billion**
Per Capita	($429.98)	$525.89	$525.89	$1359.26**
Effectiveness				
Sectoral	56.8%	+10.9%	+10.9%	+10.9%**
Systemic*	40.0%	-5.2%*	+1.8%*	-1.7%**
Other Policy Intent	-	Inconclusive	Inconclusive	Inconclusive

Notes:
All costs were calculated net of benefits (net of cost for the status quo)
*Includes a trade-off effect where a one percent rise in sectoral legitimacy is predicted to reduce systemic legitimacy by 0.16 percent. The loss in legitimacy at the systemic level from becoming a two-tier municipality would be 3.5 percent (7x0.505%).
**The equivalent figures for a $140 million tax cut were a gain in sectoral legitimacy of 4.7 percent and a loss in systemic legitimacy of 0.75 percent, with a present value of -$1.455 billion ($586 per capita).

Under the status quo Toronto has a level of sectoral legitimacy of 56.8 percent, or in other words 3.4 percent shy of the national aggregate, and a level of systemic legitimacy of 40.0 percent, or in other words 3.2 percent shy of the provincial average. Based on the analysis in Chapter 2, where individual municipalities were placed within the procedural instrument matrix, the amalgamated City of Toronto was classified as having high systemic and low sectoral legitimacy calling for some form of financial manipulation. Based on available amalgamation figures, under the status quo, Toronto is realizing consolidation savings of approximately $1.067 billion discounted at 8 percent over a fifty-year period ending in 2048.

Under the first de-amalgamation scenario, if Toronto were to de-amalgamate into a two-tier system, or in other words its pre-amalgamation status quo, there would be a gain in sectoral legitimacy of approximately 11 percent accompanied by a loss in systemic legitimacy of approximately 5 percent, or a net benefit of 6 percent. The net present value of de-amalgamation would be $1.305 billion in incurred costs up to and including 2048. Relative to the second de-amalgamation scenario, which would involve going to stand-alone municipalities with less formalized regional organization than in a traditional two-tier system, the first de-amalgamation alternative would cost the same but yield lower benefits in terms of legitimacy. Under the second de-amalgamation scenario, there would be no loss in systemic legitimacy with a net benefit of 12.8 percent. The gains in sectoral and systemic legitimacy would be roughly 11 percent and 1.8 percent respectively

Consistent with the model of instrument choice, the use of financial manipulation taking the form of tax expenditures would be another potential policy alternative for Toronto. In order to achieve gains of 11 percent in sectoral legitimacy, an annual property tax cut of approximately $325 million with a present value cost of roughly $3.37 billion discounted at 8 percent would be needed. Due to the trade-off between the two levels of legitimacy, there would be a loss in legitimacy at the systemic level of 1.7 percent. The net gain in legitimacy would be 9.2 percent at a cost nearly three times that of de-amalgamating under either de-amalgamation scenario. A $140 million tax cut would have a present value of $1.46 billion, a gain in sectoral legitimacy of 4.7 percent, and a loss in systemic legitimacy of 0.75 percent for a net gain of approximately four percent.

Based on these figures, the implementation of the threshold system or similar tax expenditure is the least desirable of the three alternatives if increasing legitimacy is the primary intended policy outcome. In fact, in Toronto's case, given the substantial costs of all three alternatives and the current fiscal situation, none appear to be feasible at this time. The recommended course of action for Toronto is to maintain the status quo. At the same time, Toronto represents an extreme case. In smaller amalgamated municipalities, the costs of de-amalgamation might be substantially lower. For example, the cost of de-amalgamating Hamilton, which has a population one-fifth of Toronto's, the costs would likely be smaller while the benefits of de-amalgamating the six consolidated governments would approximately be the same.

Furthermore, it is not entirely clear based on Toronto's amalgamation example whether equivalent savings to those derived from consolidation could have been achieved without amalgamating. If they could, then the costs of de-amalgamation would be substantially lower due to no foregone consolidation savings. Assuming that the consolidation savings could not have been achieved without amalgamation, the case for altering the status quo in Toronto is weak and as such cannot be recommended. Should this assumption not hold, meaning that similar savings could be realized in a system of stand-alone governments loosely organized at the regional level, the figures presented above would change substantially making de-amalgamation less costly as a potential policy alternative. The same applies to all other amalgamated municipalities.

3.6   Policy Recommendations

The policy recommendations are general in nature. Specific recommendations for individual municipalities could not be made given information constraints for tax expenditure impacts on individual municipal budgets and inconclusive substantive policy outcomes with respect to amalgamation. Using the information available for Toronto, maintaining the status quo remains the over-arching policy recommendation for all municipalities. However, specific policy options have been illustrated in a matrix showing individual municipal governments and their level of sectoral and systemic legitimacy. They are discussed following the general recommendations and illustrate that individual municipal governments must be given a choice to determine the best course of action for their given legitimacy needs and that a "blanket" approach is unlikely to be a suitable approach to re-legitimization. In order for these options to translate into actual policy recommendations more data and in-depth analysis for individual municipalities is required with respect to amalgamation benefits and property tax expenditure impacts.

3.6.1 General recommendations

The first of the general recommendations is to avoid policies taking a "blanket" approach to solving municipal legitimacy issues. The analysis showed that a blanket approach would not be an effective means of addressing low legitimacy in municipal Ontario. Individual municipalities have different re-legitimation needs and will have to follow different strategies in order to address low legitimacy at the sectoral and systemic level. In addition, due to the trade-off between the two levels of legitimacy, the valuation of each level by individual governments will also have an impact on the choice of policy. If a blanket approach were applied to address legitimacy issues, municipal governments would be unable to choose a policy best suited to their particular preferences and needs.

A second recommendation is also general in nature and aimed at municipal governments which have not been amalgamated and are not part of a two-tier system. These municipalities should resist provincial amalgamation initiatives. Based on existing literature, there is ample suggestion that amalgamation taking the "hard" or "soft" form has not proven effective in its substantive policy intent while the present analysis has shown that it has a negative impact on sectoral legitimacy in the "hard" form and a negative impact on systemic legitimacy in the "soft" form. In conjunction with this recommendation, municipal governments facing amalgamation would be well served by distancing themselves from provincial amalgamation initiatives and diverting "blame" to the provincial level of government.

The final of the general recommendations pertains to information and recognition manipulation. The regression analysis showed that performance and financial reporting, as well as BIAs, did not have a significant impact on either level of legitimacy. BIAs appear to have positive impacts in terms of other substantive policy goals, but their ineffectiveness as a procedural instrument aiming to increase legitimacy would suggest that another policy making use of recognition manipulation has to be identified and evaluated. The MPMP program and similar reporting initiatives have also been shown to have no significant impact on legitimacy. Alternate policies using information manipulation will also have to be identified and evaluated. In addition, it was unclear whether MPMP was meeting its substantive policy intent. If it is not, the entire program will have to be re-evaluated.

3.6.2 Specific policy options

Specific policy options are addressed in sequential order corresponding to municipalities with high legitimacy at the sectoral and systemic level (upper left quadrant) to municipalities with low legitimacy at both levels (lower right quadrant). The matrix only includes those municipalities whose aggregate SME rating (sectoral legitimacy) was based on 43 or more responses. All other municipalities were excluded due to data issues with SME ratings stemming from low response rates within the municipality. Although the status quo remains the recommended course of action, should municipal governments decide that re-legitimation is a pressing concern in need of a policy response, the options presented below are currently the only policies which have been shown to have a definite and measurable impact on legitimacy.

Figure 3.3 Policy option matrix for individual municipalities

		Sectoral legitimacy			
		High > 60.2%		**Low < 60.2%**	
Systemic legitimacy	**High (above trend line)**	**Status Quo – no change**		**De-amalgamation or tax expenditure**	
		Brantford	Peterborough	Centre Wellington	Greater Sudbury
		Brockton	Lambton Shores	Chatham-Kent	Toronto
		Owen Sound	Vaughan	Ottawa	Hamilton
				Kingston	Norfolk
				Sarnia	
				Tax Expenditure	
				Brockville	Thunder Bay
				Guelph	Sault Ste. Marie
				London	Windsor
				North Bay	
	Low (below trend line)	**De-amalgamation / No tax expenditure**		**De-amalgamation / No tax expenditure**	
		Brampton	Markham	Brant County	Haldimand County
		Burlington	Mississauga		
		Cambridge	Oakville	**De-amalgamation / No tax manipulation**	
		Clarington	Richmond Hill	Aurora	Waterloo
		Kitchener	Woolwich	Newmarket	Woodstock
				St. Catharines	
				Status Quo – no change	
				Barrie	

Notes
Municipalities which have been consolidated using the "hard" form of amalgamation are shown in green. Municipalities which are part of a two-tier system are shown in blue. Municipalities which have not been amalgamated and would benefit from property tax expenditures are shown in red. Municipalities shown in black have not been amalgamated and could only undertake re-legitimation through tax expenditure.

Municipalities having been consolidated using the "hard" form of amalgamation are shown in green. The policy option for these municipalities takes the form of de-amalgamation to stand-alone governments with some type of regional body which is not as institutionalized as a two-tier system. De-amalgamation to a two-tier system is not recommended given that this policy would have a negative impact on systemic legitimacy. The same observation applies to municipalities shown in blue, currently part of a two-tier system, which could de-amalgamate to stand-alone governments with some form of regional organization. Municipalities that could engage in tax manipulation taking the form of a threshold tax system or similar tax expenditure are shown in red. Municipalities shown in black can either afford to do nothing or else have not been amalgamated but at the same time cannot use tax expenditure to raise legitimacy. They would not benefit from tax expenditure due to the trade-off between sectoral and systemic legitimacy where an increase in sectoral legitimacy is accompanied by a decrease in systemic legitimacy.

Municipalities located in first quadrant, or in other words those with high legitimacy at the sectoral and systemic level, do not have to formulate a policy response. Re-legitimation making use of either institution manipulation (de-amalgamation) or financial manipulation (e.g. threshold tax system) carries a substantial monetary cost. Given that these municipalities are not experiencing legitimacy problems to begin with, no policy response is necessary. However, it should be noted that de-amalgamation would have a positive impact on Brockton, Lambton Shores, and Owen Sound. According to the model of procedural policy instruments discussed in the previous chapters, these municipalities were recommended to engage in information manipulation, which was found to be ineffective in terms of impact on legitimacy in the form of performance and financial reporting.

Municipalities in the second quadrant (low sectoral / high systemic legitimacy) were subdivided into two categories. The first category includes municipalities that could de-amalgamate. This would be the preferable option relative to tax expenditure given that de-amalgamation would have a positive impact on sectoral and systemic legitimacy while tax expenditure reducing commercial property taxes would raise sectoral legitimacy but reduce systemic legitimacy.

At the same time, given that these municipalities have high systemic legitimacy, if municipal governments deem the trade-off as acceptable, tax expenditure taking the form of a threshold system or similar policy might be a viable course of action. The same applies to municipalities shown in red. As these municipalities have not been amalgamated, they would only be able to engage in some form of tax expenditure. Municipalities located in this quadrant were also recommended to engage in financial manipulation according to the model of procedural instruments.

Municipalities in the third quadrant (high sectoral / low systemic legitimacy) were part of a two-tier system having undergone "soft" amalgamation. If these municipalities could de-amalgamate, there would be a positive impact on systemic legitimacy. There would be no impact at the sectoral level which should not raise issues given their sectoral legitimacy is already high. Once again, tax expenditure is not a recommended course of action if the possibility to de-amalgamate should present itself. Although tax expenditures would raise sectoral legitimacy, which is already high, they would have a negative impact at the systemic level where in these particular cases legitimacy is low. In addition, tax expenditures have a relatively small impact at the sectoral level while carrying a high monetary cost or substantial and likely undesirable tax burden transfer to other property classes. The municipalities in this quadrant were initially recommended to engage in recognition manipulation in the model of procedural instruments, which found to have no impact on legitimacy when taking the form of BIAs.

Looking at the fourth quadrant (low sectoral and systemic legitimacy), there is one municipality which had not undergone amalgamation. The only policy option available to municipalities falling under this category would be tax expenditure. However, such a policy is not recommended given that it would have a detrimental effect on systemic legitimacy, which is already low. Municipalities in this category face the least desirable situation possible with respect to legitimacy concerns. Having low legitimacy at the sectoral and systemic level to begin with, the only potential policy option would be to engage in costly tax expenditure raising sectoral legitimacy while reducing systemic legitimacy. Facing a no-win situation, the status quo remains the only potential policy option for these municipalities. Municipalities located in this quadrant which have undergone consolidation could de-amalgamate, which would once again be preferable to tax expenditure.

3.7   Conclusion

A model of procedural instrument choice guided the analysis and recommendations addressing low legitimacy in municipal Ontario. The model served as the analytical framework for the identification and empirical evaluation of several factors predicted to have an impact on legitimacy. The factors corresponded to procedural instruments which were classified as information, financial, recognition, and institution manipulation providing a measure of effectiveness for four policies making use of instruments within each category. The effectiveness of the instruments was included as one of three criteria in the evaluation of policy alternatives which could be implemented to address low legitimacy in municipal Ontario. Cost and other substantive policy considerations were the other two criteria in the evaluation. The recommendations stemming from the analysis aim at increasing legitimacy at the sectoral level, which was measured using SME ratings of municipal governments, and the systemic level, which was measured using voter turnout. The principal problem identified and examined in the study was why some but not other municipal governments in Ontario suffer from low legitimacy at the sectoral and systemic level. The general conclusion reached as a result of an empirical assessment of available data is that some municipal governments have pursued or been forced to pursue policies which are not conducive to high legitimacy. Existing policies of high commercial property taxation and amalgamation have a negative impact on legitimacy. Furthermore, policies of recognition manipulation taking the form of BIAs and performance and financial reporting through programs such as the MPMP, which aim to improve municipal legitimacy, have no significant impact.

Appendices

Appendix A: SME ratings of municipal governments in Canada

Table 3.3   SME ratings of municipal governments in Canada, 2003, reasonable property tax levels.

How do you rate your local government on the following business issues?
Reasonable Property Tax Levels

Province	Good/Fair/Don't know (%)	Good (%)	Fair (%)	Poor (%)	Don't know (%)	(n)
Newfoundland	80.0	1.0	73.9	20.0	5.1	295
PEI	73.4	2.9	62.4	26.6	8.0	274
Yukon	70.2	13.5	39.4	29.8	17.3	104
Alberta	66.9	10.8	46.7	33.1	9.4	1836
NWT	62.9	12.9	47.1	37.1	2.9	70
Quebec	62.3	14.3	38.5	37.7	9.5	4329
Nova Scotia	61.3	3.1	52.9	38.7	5.3	1036
British Columbia	61.0	6.0	39.4	39.0	15.6	1849
Saskatchewan	56.9	12.4	39.7	43.1	4.9	923
New Brunswick	55.6	5.8	34.1	44.4	15.7	930
Ontario	*50.3*	*5.9*	*33.5*	*49.7*	*10.9*	*7885*
Manitoba	42.5	9.5	27.7	57.5	5.3	1000
Canada	**56.9**	**8.4**	**38.3**	**43.1**	**10.2**	**20531**

Source: CFIB OMO Survey # 53. January to December 2003.

Table 3.4   SME ratings of municipal governments in Canada, 2003, value-for-money of public services.

How do you rate your local government on the following business issues?
Value-for-money of Public Services

Province	Good/Fair/Don't know (%)	Good (%)	Fair (%)	Poor (%)	Don't know (%)	(n)
Newfoundland	78.4	1.4	70.0	21.6	7.0	287
New Brunswick	71.1	11.6	50.1	28.9	9.5	899
Prince Edward Island	70.3	2.9	63.0	29.7	4.4	273
Nova Scotia	66.2	5.3	55.4	33.8	5.4	978
British Columbia	62.1	9.5	43.0	37.9	9.7	1843
Saskatchewan	62.0	13.9	45.3	38.0	2.8	914
Alberta	61.0	12.8	44.2	39.0	3.9	1829
Quebec	61.0	15.5	38.7	39.0	6.8	4336
Ontario	*53.6*	*9.6*	*37.0*	*46.4*	*7.0*	*7763*
North West Territories	50.0	12.9	34.3	50.0	2.9	70
Manitoba	47.2	12.1	29.9	52.8	5.2	990
Yukon	42.3	7.7	33.7	57.7	1.0	104
Canada	**58.6**	**11.1**	**40.9**	**41.4**	**6.6**	**20286**

Source: CFIB OMO Survey # 53. January to December 2003.

Table 3.5   SME ratings of municipal governments in Canada, 2003, control of government wage levels.

How do you rate your local government on the following business issues?
Control of Government Wage Levels

Province	Good/Fair/Don't know (%)	Good (%)	Fair (%)	Poor (%)	Don't know (%)	(n)
Newfoundland	83.2	1.8	67.5	16.8	13.9	280
New Brunswick	80.6	4.6	34.0	19.4	42.1	863
Nova Scotia	80.3	1.9	38.3	19.7	40.0	947
Prince Edward Island	70.0	1.9	51.3	30.0	16.9	267
Saskatchewan	68.6	9.5	28.5	31.4	30.6	882
British Columbia	67.0	3.4	22.1	33.0	41.4	1811
Alberta	61.8	5.2	25.9	38.2	30.7	1813
Ontario	*61.1*	*4.1*	*19.6*	*38.9*	*37.3*	*7265*
Quebec	60.8	7.8	14.9	39.2	38.1	3448
North West Territories	60.3	4.4	23.5	39.7	32.4	68
Manitoba	50.7	13.0	17.5	49.3	20.2	965
Yukon	20.0	0.0	12.0	80.0	8.0	100
Canada	**63.6**	**5.4**	**22.7**	**36.4**	**35.6**	**18709**

Source: CFIB OMO Survey # 53. January to December 2003.

Table 3.6   SME ratings of municipal governments in Canada, 2003, fairness of bylaws and regulations.

How do you rate your local government on the following business issues?
Fairness of Bylaws and Regulation

Province	Good/Fair/Don't know (%)	Good (%)	Fair (%)	Poor (%)	Don't know (%)	(n)
Saskatchewan	81.9	18.8	57.6	18.1	5.5	894
Prince Edward Island	80.1	4.4	71.3	19.9	4.4	272
Newfoundland	77.9	3.2	68.2	22.1	6.4	280
New Brunswick	72.6	10.3	53.2	27.4	9.1	886
Nova Scotia	70.8	4.9	56.6	29.2	9.3	998
Alberta	70.5	13.1	50.1	29.5	7.2	1808
Ontario	*69.5*	*11.5*	*44.5*	*30.5*	*13.6*	*7630*
Quebec	68.6	11.7	36.6	31.4	20.3	4103
British Columbia	65.9	11.0	45.7	34.1	9.2	1843
North West Territories	64.3	14.3	47.1	35.7	2.9	70
Manitoba	63.9	18.7	33.7	36.1	11.5	969
Yukon	42.7	5.8	34.0	57.3	2.9	103
Canada	**69.7**	**11.7**	**45.2**	**30.3**	**12.8**	**19856**

Source: CFIB OMO Survey # 53. January to December 2003.

Table 3.7   SME ratings of municipal governments in Canada, 2003, overall awareness of SME sector.

How do you rate your local government on the following business issues?
Overall Awareness of Small Business Sector

Province	Good/Fair/Don't know (%)	Good (%)	Fair (%)	Poor (%)	Don't know (%)	(n)
New Brunswick	64.2	9.8	47.3	35.8	7.2	891
Saskatchewan	59.8	21.2	35.7	40.2	2.9	900
Prince Edward Island	56.1	3.3	52.0	43.9	0.7	269
British Columbia	55.9	14.4	31.8	44.1	9.7	1842
Alberta	55.9	15.2	34.5	44.1	6.2	1845
Newfoundland	54.1	1.4	47.7	45.9	5.0	279
Nova Scotia	52.4	3.1	43.6	47.6	5.6	997
Quebec	52.3	15.5	24.4	47.7	12.5	3707
Ontario	*49.8*	*13.0*	*28.4*	*50.2*	*8.4*	*7742*
North West Territories	47.1	20.0	27.1	52.9	0.0	70
Manitoba	46.3	14.9	25.5	53.7	5.9	967
Yukon	26.2	6.8	18.4	73.8	1.0	103
Canada	**52.5**	**13.3**	**30.9**	**47.5**	**8.3**	**19612**

Source: CFIB OMO Survey # 53. January to December 2003.

Appendix B: SME ratings of municipal governments in Ontario

Table 3.8   SME ratings of municipal governments in Ontario, 2003, aggregate ratings, by municipality.

Municipality	Aggregate Rating Good/Fair Don't know (%)	Poor (%)	(n)	Municipality	Aggregate Rating Good/Fair Don't know (%)	Poor (%)	(n)
Mississauga	79.3	20.7	254.2	W. Stouffville	54.8	45.2	24.8
Clarington	77.1	22.9	55.0	Norwich*	54.5	45.5	22.0
Burlington	75.9	24.1	96.4	Halton Hills	54.3	45.7	39.8
Brampton	75.5	24.5	141.4	Wellington North	53.9	46.1	23.0
Hanover	74.5	25.5	31.4	Guelph	53.8	46.2	125.2
Vaughan	73.8	26.2	120.0	Woodstock	53.7	46.3	45.4
Markham	73.3	26.7	75.6	Milton	53.4	46.6	23.6
Cobourg	72.2	27.8	39.6	Kawartha Lakes	53.3	46.7	24.4
Oakville	70.4	29.6	131.6	Northen Bruce Pen.	53.3	34.1	27.6
Peterborough	69.2	30.8	83.0	Essex	52.0	48.0	25.0
Strathroy-Caradoc	68.9	31.1	35.4	North Bay	51.2	48.8	58.6
Perth	67.1	32.9	28.0	Lincoln	51.1	48.9	27.8
Kincardine	67.0	33.0	41.8	Sault Ste. Marie	50.7	49.3	67.0
Woolwich	66.8	33.2	78.8	Kingsville	50.0	50.0	22.0
Brockton	66.3	33.7	61.2	Brant	50.0	50.0	43.2
Lambton Shores	66.0	34.0	47.0	Thunder Bay	49.7	50.3	133.2
South Bruce Pen.	65.3	34.7	35.2	Rideau Lakes	49.7	50.3	28.6
Pickering	65.1	34.9	33.8	London	49.3	50.7	291.0
Richmond Hill	65.0	35.0	64.6	Kenora	48.6	51.4	29.2
Kitchener	64.5	35.5	197.2	Chatham-Kent	47.8	52.2	92.8
Middlesex Centre	62.9	37.1	24.8	Guelph/Eramosa	46.3	53.7	29.8
Brantford	62.5	37.5	51.8	Leeds & 1000 Isl.	46.1	53.9	23.0
Ajax	62.0	38.0	31.6	Hamilton	43.6	56.4	285.8
Cambridge	61.9	38.1	69.8	Fort Erie	43.3	56.7	24.0
Tillsonburg	61.5	38.5	27.0	South Frontenac	43.1	56.9	21.8
Stratford	60.3	39.7	38.8	Tecumseh	42.4	57.6	34.4
Owen Sound	60.0	40.0	79.0	Erin	41.5	58.5	24.6
Newmarket	59.8	40.2	51.2	Windsor	40.3	59.7	119.0
Smiths Falls	59.4	40.6	25.6	Greater Sudbury	40.3	59.7	95.8
Norfolk	59.0	41.0	78.0	Kingston	39.7	60.3	43.8
Oshawa	58.7	41.3	27.6	Niagara Falls	39.3	60.7	42.2
Sarnia	58.5	41.5	66.0	Elizabeth. Kitley	39.1	60.9	23.0
East Gwillimbury	58.1	41.9	35.8	Ottawa	37.9	62.1	273.4
Barrie	57.8	42.2	55.0	Brockville	32.7	67.3	56.8
Waterloo	57.1	42.9	173.8	Augusta	31.9	68.1	23.8
Toronto	56.8	43.2	714.6	St. Catharines	31.3	68.7	99.8
Centre Wellington	56.1	43.9	51.0	Midland	27.7	72.3	22.4
Aurora	55.4	44.6	59.6	Welland	26.7	73.3	24.0
Haldimand County	55.1	44.9	52.6	Timmins	2.2	97.8	36.8

Source: CFIB OMO Survey # 53, January to December, 2003. The national aggregate (60.2%), the provincial aggregate (56.7%), and a simple majority (50%) are highlighted in grey.

Calculation of aggregate ratings

The aggregate ratings were obtained by adding the total number of cases for each of the four possible responses (good, fair, poor, don't know) within each municipality and dividing by the sum of the total number of responses across all five criteria. An example of the calculation is shown in Table 3.9. Consistent with Fraser's validation of performance ratings as a measure of legitimacy, the "don't know" responses, or in other words undecided cases, were included in the calculation (Fraser, 1974). Inclusion of the undecided cases also made sense on an intuitive level. The idea that a high positive aggregate rating (good/fair) indicates high legitimacy while a high negative rating (poor) indicates a lack there of should not raise conceptual issues. Undecided (don't know) responses were not as clear cut. They did not indicate either legitimacy (good or fair) or a lack there of. At the same time, by virtue of not being decided, they were not indicative of low legitimacy (poor rating). Since undecided responses could not be part of the "poor" category, they had to be included in the other category or otherwise be excluded from the analysis altogether. Given that the number of responses for some municipalities in the CFIB survey was already low, undecided responses were kept in the analysis as an indicator of something other than low legitimacy rather than being treated as missing cases. In other words, they were included in the good and fair category when calculating the aggregate ratings for each municipality.

Table 3.9   Calculating aggregate ratings: An example

How do you rate your local government on the following business issues?*						
City of Vaughan	**Good, Fair, Don't know**	**Good**	**Fair**	**Poor**	**Don't know**	**Total**
Criterion 1 (Tax)	88	16	59	50	13	138
Criterion 2 (Value)	88	24	52	50	12	138
Criterion 3 (Wages)	44	1	14	15	29	59
Criterion 4 (Bylaws)	112	58	27	22	27	134
Criterion 5 (Awareness)	111	71	27	20	13	131
Total (n_r)	443	170	179	157	82	600
Aggregate rating (%)	73.8%	38.3%	29.8%	26.2%	13.7%	100.0%
Straight average (%)	74.1%	25.6%	29.0%	25.9%	19.5%	100.0%

Source: CFIB OMO 53, December to January 2003.
* Criterion refers to one of the five "issues" on which local governments were rated. The survey question was "How do you rate your local government on the following business issues? Reasonable property tax levels / Value for money of public services / Control of government wage levels / Fairness of bylaws and regulations / Overall awareness of the small business sector." A straight average was obtained by calculating the percentage of good, fair, poor, and don't know responses for each criterion, adding the five values and then dividing by five.

A straight average across all five survey criteria could also have been used, but would have produced ratings which weighed all five criteria equally. This would not have been a problem were it not for the variability in responses across the five criteria. Taking into consideration that the number of responses varied from 7265 observations to 7885 observations, it seemed prudent to use an aggregate rating which attached a weight to each criterion based on the number of valid responses. Table 3.2 illustrates this by looking at Vaughan which serves as an example of an extreme case of variability in the number of observations across the five CFIB survey criteria. The example also shows that the difference between a straight average and the aggregate rating was not substantial. Nevertheless, the aggregate was used so that the ratings for a criterion with a low response rate did not have the same impact on the overall rating as those with a high response rate.

# Appendix C: Average voter turnout in Ontario in 2000 and 2003

Table 3.10   Average voter turnout in Ontario's municipal elections, 1997 to 2003, by municipality.

| | Average Voter Turnout | | | Average Voter Turnout | |
Municipality	Turnout (%)	Source	Municipality	Turnout (%)	Source
Mississauga	22.2	Clerk's Office	W. Stouffville*	36.1	AMCTO
Clarington	34.8	Clerk's Office	Norwich***	44.0	AMCTO
Burlington	24.7	Clerk's Office	Halton Hills	36.1	AMCTO/TCF
Brampton	26.7	Clerk's Office	Wellington North*	33.1	AMCTO
Hanover*	34.7	Clerk's Office	Guelph*	39.7	AMCTO
Vaughan**	38.8	AMCTO/TCF	Woodstock*	33.9	AMCTO
Markham	28.6	Clerk's Office	Milton*	36.9	AMCTO
Cobourg	47.8	Clerk's Office	Kawartha Lakes***	47.7	AMCTO
Oakville	29.4	Clerk's Office	N. Bruce Pen.***	39.0	AMCTO
Peterborough***	48.9	AMCTO	Essex*	44.7	AMCTO
Strathroy Caradoc*	50.6	AMCTO	North Bay***	41.0	AMCTO
Perth*	46.4	AMCTO	Lincoln*	36.3	AMCTO
Kincardine*	45.2	AMCTO	Sault Ste. Marie	53.7	Clerk's Office
Woolwich	33.3	Clerk's Office	Kingsville*	47.5	AMCTO
Brockton	47.0	AMCTO	Brant County*	33.4	Clerk's Office
Lambton Shores*	55.4	AMCTO	Thunder Bay	51.6	Clerk's Office
S. Bruce Pen.*	56.0	Clerk's Office	Rideau Lakes***	33.5	AMCTO
Pickering	32.1	Clerk's Office	London	37.3	Clerk's Office
Richmond Hill	24.5	AMCTO/TCF	Kenora*	58.1	AMCTO
Kitchener	26.4	Clerk's Office	Chatham-Kent***	51.7	AMCTO
Middlesex Centre*	26.7	AMCTO	Guelph/Eramosa*	29.8	AMCTO
Brantford	42.9	Clerk's Office	Leeds & 1000 Isl.*	50.8	AMCTO
Ajax*	29.6	AMCTO	Hamilton	38.6	Clerk's Office
Cambridge	27.7	Clerk's Office	Fort Erie	31.5	AMCTO
Tillsonburg***	38.3	AMCTO	South Frontenac*	50.1	AMCTO
Stratford*	51.0	AMCTO	Tecumseh*	49.8	AMCTO
Owen Sound	45.4	Clerk's Office	Erin***	35.9	AMCTO
Newmarket	33.7	Clerk's Office	Windsor	38.6	Clerk's Office
Smiths Falls	43.2	Clerk's Office	Greater Sudbury	43.2	Clerk's Office
Norfolk*	41.8	Clerk's Office	Kingston	41.7	Clerk's Office
Oshawa*	27.6	AMCTO	Niagara Falls	42.0	Clerk's Office
Sarnia	42.7	Clerk's Office	Elizabeth. Kitley*	47.1	AMCTO
East Gwillimbury	37.8	Clerk's Office	Ottawa	37.1	Clerk's Office
Barrie	32.9	Clerk's Office	Brockville*	43.3	AMCTO
Waterloo	31.4	Clerk's Office	Augusta***	55.0	AMCTO
Toronto	40.0	Clerk's Office	St. Catharines	31.5	Clerk's Office
Cen. Wellington*	45.0	Clerk's Office	Midland*	32.0	AMCTO
Aurora	35.9	Clerk's Office	Welland*	49.9	AMCTO
Haldimand Coun.***	36.5	Clerk's Office	Timmins	57.0	Clerk's Office

*Sources: AMCTO Post Election Survey 2000 & 2003, Individual Municipal Clerk's Offices, and a report by the Toronto Community Foundation looking at voter turnout in the GTA {TCF, 2001 #35}. The municipalities were left in the same order as in Appendix C for ease of reference with respect to establishing a given level of sectoral de-legitimation and a corresponding level of systemic de-legitimation. *Average based on 2000, and 2003 voter turnout. **Average based on 1997 and 2000 voter turnout. *** 2000 or 2003 voter turnout.*

Appendix D: Regression trend line for systemic legitimacy

Figure 3.4   Scatter plot and regression curve: Average voter turnout by municipal size

Average Voter Turnout by Municipal Size
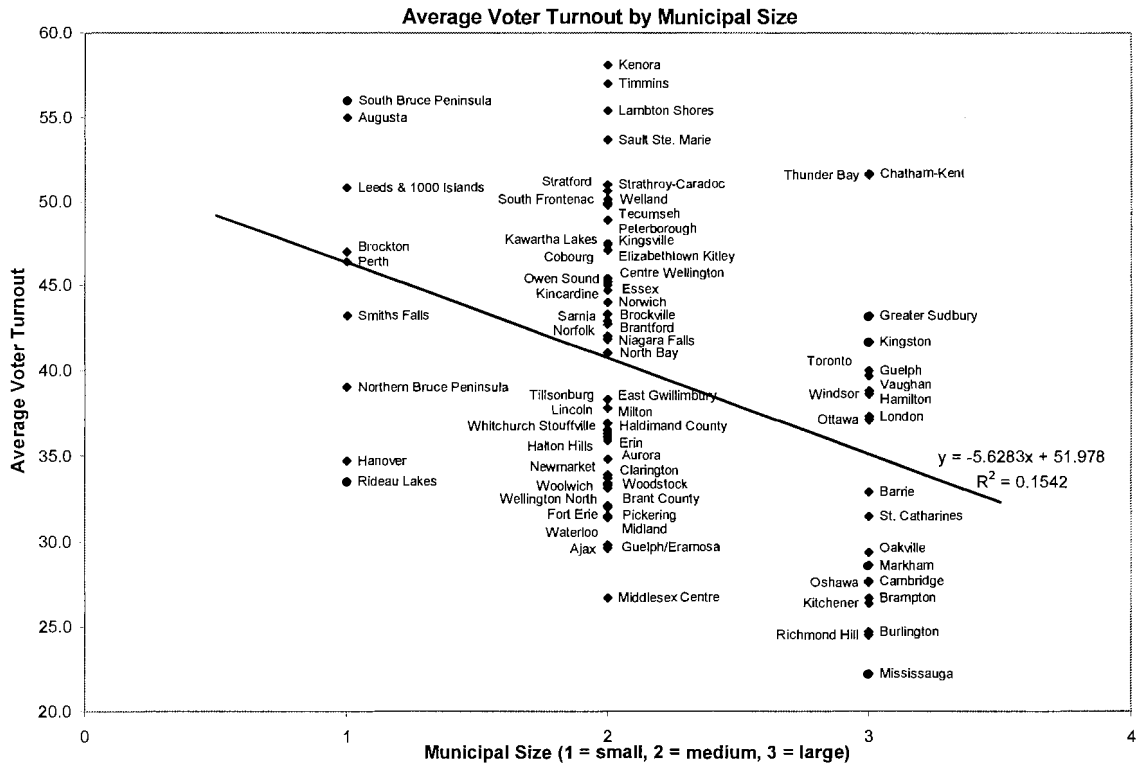
Notes:

Appendix E: Performance and financial reporting information

Table 3.11 Performance and financial reporting information posted on-line, 2003 and prior, page counts and number of documents, by municipality.

Municipality	Documents 2003 and prior		Municipality	Documents 2003 and prior	
	Document Count	Page Count		Document Count	Page Count
Ajax	11	408	Midland	0	0
Augusta	4	284	Milton	20	1629
Aurora	18	953	Mississauga	4	1287
Barrie	6	71	Newmarket	16	897
Brampton	8	1726	Niagara Falls	13	380
Brant	0	0	Norfolk	3	49
Brantford	6	8	North Bay	3	167
Brockton	5	43	Northern Bruce P.	1	6
Brockville	3	15	Norwich	2	0
Burlington	14	1593	Oakville	16	1762
Cambridge	15	306	Oshawa	15	407
Centre Wellington	14	98	Ottawa	8	1242
Chatham-Kent	4	21	Owen Sound	5	107
Clarington	8	401	Perth	0	0
Cobourg	3	72	Peterborough	1	2
East Gwillimbury	13	846	Pickering	8	401
Elizabethtown Kitley	3	281	Richmond Hill	18	891
Erin	9	93	Rideau Lakes	3	281
Essex	23	1479	Sarnia	1	1
Fort Erie	9	315	Sault Ste. Marie	1	2
Greater Sudbury	2	324	Smiths Falls	0	0
Guelph	0	0	South Bruce P.	5	25
Guelph/Eramosa	9	93	South Frontenac	3	28
Haldimand County	8	1098	St. Catharines	11	353
Halton Hills	17	1518	Stratford	0	0
Hamilton	16	310	Strathroy Caradoc	2	19
Hanover	1	1	Tecumseh	28	1472
Kawartha Lakes	2	9	Thunder Bay	0	0
Kenora	0	0	Tillsonburg	1	0
Kincardine	1	6	Timmins	0	0
Kingston	12	365	Toronto	14	1616
Kingsville	21	1409	Vaughan	15	878
Kitchener	3	266	Waterloo	12	334
Lambton Shores	8	83	Welland	11	315
Leeds & 1000 Isl.	3	281	Wellington North	11	118
Lincoln	12	360	W. Stouffville	18	919
London	0	0	Windsor	9	279
Markham	20	966	Woodstock	1	0
Middlesex Centre	4	25	Woolwich	3	266

Source: Municipal web sites.

Notes: Document count and page count based on all MPMP, budget, financial, annual, and tax reports posted on municipal websites in 2003 or prior. Financial Reports and Annual Reports for 2003 were excluded from the count given that they would not have been made publicly available after the CFIB survey, likely sometime during the first quarter of 2004.

Appendix F: The cost of de-amalgamation in Toronto

Metro Toronto, a two-tier municipality, was amalgamated into a single –tier government with the changes coming into effect on January 1, 1998. The amalgamation encompassed a total of seven governments, the regional upper tier government, and six lower-tier governments (MMAH, 2006). Using Toronto's 2001 Amalgamation Report the cost of de-amalgamation would come to an estimated $1.30 billion with a 8 percent discount rate up to an including the year 2048, which represents a 50 year period from the original amalgamation date (CAO Toronto, 2001). The total was calculated by including a one-time cost of de-amalgamation, which was assumed to be the same as the one-time cost of amalgamation, and the foregone consolidation savings resulting from amalgamation net of the on-going annual costs of amalgamation which would be averted if the process were to be reversed.

Based on 2001 figures, the one-time cost of amalgamation in the city of Toronto came to approximately $275 million not counting annual on-going costs such as the financing of the one time amalgamation cost or other incurred costs which could not be measured accurately when the report was published. The figure of $275 million was taken as an approximate value for a one-time de-amalgamation cost. It is a reasonable assumption that if it cost $275 million to amalgamate, it would also cost $275 million to reverse the process when de-amalgamating. Assuming that this amount would have to spent over the first three years, the average figure over a three year period would be $91.7 million.

The on-going annual costs of amalgamation were estimated to be annual debt payments of $29 million over 10 years incurred as a result of capital borrowing to finance the $275 million one time amalgamation cost, and annual service harmonization costs which amounted to $17.8 million. In addition, wage harmonization costs resulting from amalgamation were estimated to be $3 million per year although that figure was uncertain and likely to be an underestimate. Adding the annual debt payments, service harmonization costs, and wage harmonization costs brought the on-going annual cost of amalgamation to $ 49.8 million per year for the first ten years and $20.8 million after that. This figure represents the annual expenditure which would be avoided as a result of de-amalgamation, or in other words the benefit of de-amalgamating.

> **Averted annual consolidation costs (benefit):**
> $17.8 million + $3 million = $ 20.8 million

The cumulative cost reductions from amalgamation, or in other words consolidation savings amounted to $136.2 million in 2000, $120.4 million in 1999, and $48.2 million in 1998. In addition, $17.3 million in rate supported operations for water and waste-water were realized in 2000 bringing the total annual cost reduction to $153.5 million for that year. The initial amalgamation projections predicted annual efficiency gains of $148 million to $252 million of which none ($0) were realized up to and including 2000 (CAO Toronto, 2001). Treating these savings as costs, or in other words foregone savings from de-amalgamation, would result in a cost of $48.2 million in year one and $120.4 million in year two. Working under the assumption that the annual consolidation savings would continue to accrue at $153.5 million annually, would mean that the annual cost of de-amalgamation for year three and onwards would come to $153.5 million plus debt payments for the "one-time" de-amalgamation cost which would come to $29 million per year for ten years.

Annual foregone amalgamation savings & new debt (costs):
Year 1: $48.2 million + $29 million = 77.2 million
Year 2: $120.4 million +$29 million = $149.4 million
Year 3 to 10: $153.5 million +$29 million = $182.5 million
Year 10 to 2048: $153.5 million

Performing a net present value calculation based on these figures, the net cost of de-amalgamation up to an including 2048 would come to $1.44 billion with a 6 percent discount rate, $1.31 billion with an 8 percent discount rate, and $1.19 billion with a 10 percent discount rate. Following the same steps but in reverse order produced an approximate net present value of amalgamation up to and including 2048.

Net present value of de-amalgamation up to 2048:
Discount rate   6%: -$1.442 billion
Discount rate   8%: -$1.305 billion
Discount rate 10%: -$1.187 billion

Net present value of amalgamation up to 2048:
Discount rate   6%: $1.504 billion
Discount rate   8%: $1.067 billion
Discount rate 10%: $786 million

Appendix G: Calculation of the impact of a threshold property tax

In order to assess the approximate impact on sectoral legitimacy, and the resulting impact on systemic legitimacy from the implementation of a threshold property tax system, it was necessary to calculate the effect of such a policy on the commercial property tax rate. A problem arose from the fact that the threshold tax system would apply two property tax rates to commercial properties; the residential property tax rate up to the threshold, and the regular tax rate above and beyond the threshold. Without having actual property values, it was impossible to calculate the overall effect on the tax rate expressed in terms of dollars per $100,000 of assessed property value which was the measure used in the regression model. As such, the anticipated cost of $140 million was applied as a tax cut for all fully occupied commercial properties regardless of the threshold to obtain the reduction in the commercial property tax rate.

All data for these calculations was obtained from FIR 2005 for Toronto. This served as an approximation of the overall effect of a $140 million tax cut on the commercial property tax rate, which in turn, could be used to assess the impact of the policy on sectoral and systemic legitimacy. According to FIR 2005 data, the fully occupied commercial property tax rate in Toronto was $4509 per $100,000 of assessed property value. The taxable property assessment was $23.836 billion dollars with 1.074 billion in total collected taxes.[28] Based on these figures, a $140 million reduction in commercial property taxes would be the equivalent of a reduction of approximately $587 per $100,000 of assessed property value in the tax rate. The impact on sectoral legitimacy would be approximately 4.7 percent at a cost of $140 million annually in tax rate expenditures. The accompanying reduction in systemic legitimacy would come to 0.75 percent. The present value calculations of the costs were carried out up to and including the year 2048, or in other words a 50-year period from amalgamation in 1998.

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[28] The exact figures were $ 23,836,345,293 in taxable assessment and 1,074,769,487 in total taxes collected with $546,637,357 going to the municipality and $528,132,130 going to the province in the form of the provincial education tax.
Source: FIR 2005 from http://csconramp.mah.gov.on.ca/fir/View/FI051999%20Copy.pdf.

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Impact of a $140 million tax cut on the commercial property tax rate:
($1.074 billion - $140 million) / $23.836 Billion = 0.03922
= $3922 / $100,000 of assessed property value

Total reduction in the commercial property tax rate:
$4509 - $3922 = $587 / $100,000 of assessed property value

Impact on sectoral legitimacy:
$587 x 0.008 = 4.696 %

Impact on systemic legitimacy:
4.996 percent x -0.16 = -0.752 %
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The $140 million represents roughly 13 percent of the total commercial property tax collected from the fully occupied commercial property class. Netting out the provincial education tax, $140 million per year would be equivalent to 25.6 percent in tax expenditures of total municipal property taxes collected from fully occupied commercial properties. Given the fiscal situation faced by the City of Toronto and other municipalities, an annual tax expenditure of this magnitude is not likely to be feasible.

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Impact of de-amalgamation on sectoral legitimacy:
7 government units x 1.56 % = 10.92 %

Tax rate reduction needed to raise sectoral legitimacy by 10.92 %:
10.92 % / 0.008 = $1365 / $100,000 of assessed property value

Total tax revenue with a $1365 tax rate reduction:
($4509 - $1365) / $100,000 x $23.836 Billion = $749.4 million

Change in total tax revenue:
$1.074 billion - $749.4 million = $324.6 million
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Furthermore, in order for a tax cut to have the same effect on legitimacy as de-amalgamation, the City of Toronto would have to spend approximately $325 million per year in tax expenditures to maintain an increase of 10.9 percent in sectoral legitimacy. This figure is equivalent to 59.5 percent of total municipal property taxes collected for fully occupied commercial properties and not likely to be sustainable.

In order to perform a present value calculation of these amounts, an additional factor had to be taken into account. Property assessment, or in other words real estate values, tend to increase over time. Based on the City of Toronto 2006 Annual Financial Report, the average rise in total property assessment from 1998 to 2006 has been 6.67 percent per year (CFO, 2006). In order to maintain the commercial property tax rate reduction at $587 per $100,000 of assessed property value, the increase in property assessment had to be included. For example, in year two of the tax cut, the amount of the cut would have to increase by 6.67 percent to $149.4 million, the following year to $159.3 million and so on.

Cost of a $140 million annual tax cut up to 2048:
Discount rate 6%: $1.642 billion
Discount rate 8%: $1.455 billion
Discount rate 10%: $1.297 billion

Cost of a $324.6 million annual tax cut up to 2048:
Discount rate 6%: $3.806 billion
Discount rate 8%: $3.373 billion
Discount rate 10%: $3.008 billion

Based on these figures, a $140 million annual tax cut until 2048 would have a present value cost of $1.64 billion with a 6 percent discount rate, $1.45 billion with an 8 percent discount rate, and $1.30 billion with a discount rate of 10 percent. A $325 million annual tax cut would have a present value of $3.80 billion at 6 percent, $3.37 billion at 8 percent, and 3.00 billion at 10 percent.

Appendix H: A closer look at SME ratings and sub-sample choice

Although regression models can yield strong results with measurable indicators of the impact independent variables have on the outcome variable, in order for those results to hold it is recommended that the model incorporate a minimum of 10 to 15 observations per independent variable (Field, 2000). Using this analytical framework to asses the effectiveness of the four possible instrument choices required a sufficiently large number of observations at the municipal level (n_m). With four major procedural instrument categories, the minimum number of observations required was 40 to 60. Based on the model of procedural policy instrument choice, an additional variable had to be incorporated into the regression for control purposes; systemic legitimacy. In addition to this control variable, municipal size also be taken into consideration based on previous research looking at municipal voter turnout (Kushner, 1997). Taking the four test variables and these requisite control variables brought the total to six independent variables which equates to a minimum number of 60 to 90 observations. A model based on 78 municipalities, or in other words observations, met this minimum standard without controlling for any other factors which might constitute significant predictors of sectoral and systemic legitimacy.

Looking at the ratings of municipal governments with respect to the number of respondents within a given municipality, of the 307 municipalities covered by the CFIB survey, only 13 had a rating based on 100 or more responses, which would be considered a reasonable number of observations for analysis purposes (Field, 2000). However, at thirteen cases, an analysis using a linear regression model, or even simple correlations, would not yield reliable results or allow for adequate control of other factors that might influence sectoral legitimacy. In order to obtain a sufficiently large number of municipalities to make an analysis feasible, lower response rates within individual municipalities had to be accepted.

Selection of the number of municipalities for inclusion in the analysis

Keeping in mind that a lower response rate within municipalities might lead to unrepresentative aggregate ratings and hence unreliable results regardless of their significance in the regression model, a specific target of 70 municipalities, which put the number of observations at the minimum recommended, was chosen for several reasons. The collection of data for the independent test variables was exceedingly time consuming and labour intensive. In addition, attempting to include 90 or more municipalities would have meant accepting SME ratings based on responses from 20 or fewer businesses. Weighing both of these factors led to a decision to include a slightly higher number of municipalities than the bare minimum needed to perform the analysis based on seven independent variables.

Arranging municipalities in a descending order of average responses across all five criteria and counting down from the City of Toronto, which had the highest average number of responses at 714.6; Wellington North was the 75th municipality with 23 responses effectively establishing a cut-off threshold for inclusion in the analysis. In order to obtain an additional small reserve of municipalities in case of gaps in the data collection process, this cut off value was lowered by a count of one response to 22. Hence, the total number of municipalities was increased to 78. South Frontenac represented the lowest number of responses for a municipality included in the analysis with 21.8, or 22 when rounded to the nearest whole number. Wilmot was the next municipality on the list, or in other words the 79th, with an average of 21.4 responses.

The problem of low responses at the municipal level

The issues with respect to SME ratings, aggregate or otherwise, stem from low response counts at the municipal level (n_r). The CFIB data set had 23,260 observations across Canada and 8,360 in Ontario including missing cases. Given the large number of responses, the aggregate ratings for Canada and Ontario are likely to be representative of the population of SMEs at the national and provincial level.[29] Admittedly, it is difficult to substantiate this statement without knowing more about individual SMEs which participated in the CFIB survey, or having comparable ratings of municipal governments from non-CFIB members.[30]

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[29] The valid case count for Canada, based on an average across all five CFIB survey criteria, including undecided cases, was 19802. In Ontario that figures was 7657. In n_m=78 it was 5841.

[30] One of the conditions set forward in the data sharing agreement reached with the CFIB was that no profiling of CFIB members would be undertaken.

However, breaking the data down to the municipal level was problematic. At the municipal level, the average number of valid responses ranged from a minimum of 0.8 (Alberton) to 714.6 (Toronto) in Ontario. The vast majority of municipalities had less than 20 valid responses.[31] Following a general rule of thumb that 100 or more observations are acceptable, with 300 or more leading to stable and representative results, only 13 of the 307 municipalities in the data set can be considered as having a sufficiently large number of observations for analysis purposes (Field, 2000). An additional four municipalities came close with 90 to 99 observations. With 17 municipalities, analysis at the municipal level would have been highly constrained making it impossible to perform regressions and hence measure the controlled impact of particular instruments. In addition, a count of 17 municipalities represents a sample of only 4.9 percent of the 446 municipalities in Ontario in 2003. This makes extrapolation to the population as a whole untenable. In order to obtain a sufficiently large number of observations at the municipal level for analysis purposes, the 100-observation cut-off had to be relaxed leading to the inclusion of municipalities with substantially fewer observations than the recommended 100.

Of the 78 municipalities for which data was gathered, the inclusion of 61 with $n_r < 90$ ran the risk of obtaining variation in the dependent variable (SME ratings) not representative of the population at large and quite possibly random. This in turn would have reduced the explanatory power of the regression model yielding insignificant results or otherwise significant but questionable results.[32] In short, the validity of a model based on $n_m=78$ for sectoral legitimacy as the dependent variable would have been statistically weak due to data concerns. Since 17 municipalities was an insufficient number for analysis, it was necessary to include municipalities with fewer than 90 responses in the CFIB data set. Using two fairly simple and intuitive tests, a cut off value for the minimum number of "acceptable" responses was established at $n_r=43$ bringing the number of municipalities which could be included for analysis purposes using sectoral legitimacy as the dependent variable to $n_m=40$. The two tests are discussed below.

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[31] Out of 307 municipalities, 243 (79%) had fewer than 25 responses, 271 (88%) had fewer than 50 responses, 285 (93%) had fewer than 75 responses.

[32] The city of Timmins was used as an example illustrating the potential of obtaining skewed aggregate ratings as the number of responses decreases.

Survey responses and population size

The problem with aggregate SME ratings (sectoral legitimacy) amounted to sampling size issues and what would constitute a reasonable number of observations at the municipal level for them have been accurate. Lacking data such as the population standard deviation or the number of businesses within individual municipalities (population), it was not possible to calculate appropriate sample sizes which could have been used for comparison to the actual number of observations in the CFIB data set (Levine, 1999). Such a comparison would have served as a reliable means of assessing which municipalities were likely to be problematic cases for the regression analysis. A different means of evaluating the data had to be found. Based on an intuitive hypothesised relationship between cases counts (n_r) and municipal size, it was possible to roughly assess at what point the number of responses within a given municipality was likely to become problematic. It stands to reason as municipal size increases, the expected number of responses within the municipality (n_r) should also increase. In fact, one would expect a highly significant positive correlation. In terms of a testable hypothesis, the expected relationship was that as municipal size increases, the number of responses should also increase suggesting that the aggregate rating was useable.

Using the K-S test for normality, the number of responses and municipal size were not normally distributed meaning that non-parametric tests for correlation had to be used.[33] The correlation between the number of observations and municipal size for the entire set of 78 showed there was a positive relationship significant at the one percent level.[34] However, as Figure 5.1 shows, the correlation was likely to be strong given that there were several outliers or influential cases. Toronto and Ottawa, for example, had 714.6 and 273.4 responses respectively. Hamilton (285.8) and London (291.0) also had close to 300 while Brampton came in at roughly 250 (254.2). These municipalities represent 1819 (31 percent) of the 5841 valid responses in n_m=78. Several other municipalities also had close to 200 responses undoubtedly contributing to the positive relationship between the two variables.

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[33] K-S Test for normality: The null hypothesis that the data is not normally distributed is accepted at the 0.05 level with a significance and test statistic of 0.000 and 0.284 respectively.
[34] Kendall Tau_b Correlation Coefficient = 0.559 (Sig. = 0.000, one-tailed)

Figure 3.5   Average case count and municipal size, $n_{r \leq 714.6}$

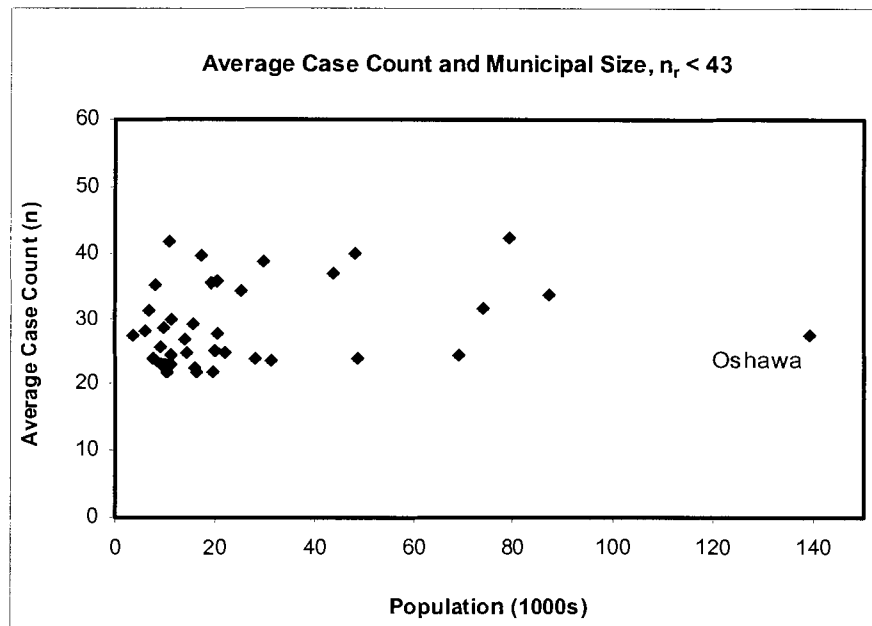**Average Case Count and Municipal Size, $n_r < 715$**
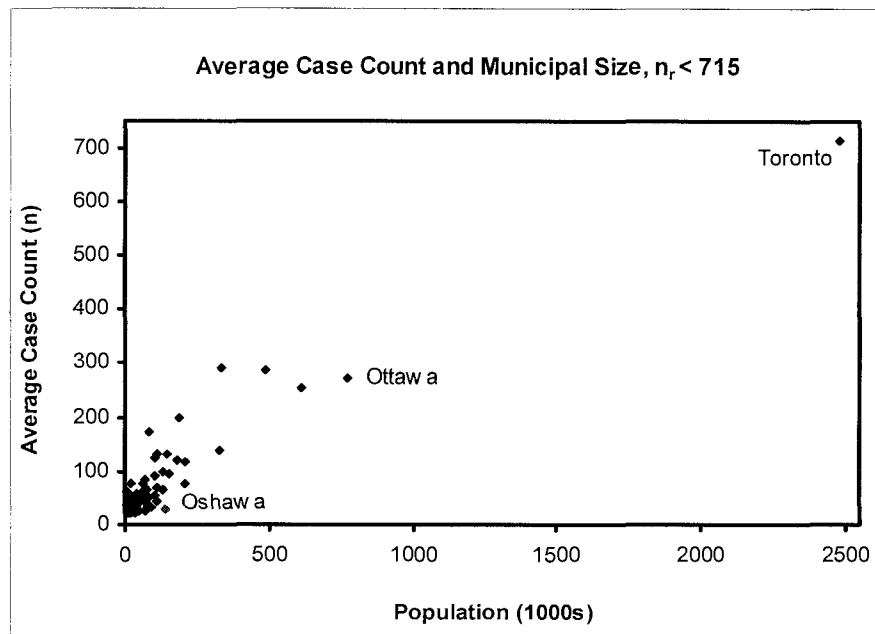
Source: CFIB OMO Survey # 53, January to December 2003; StatCan Community Profiles 2001. Oshawa has been marked in red to serve as a reference point for Figure 5.2.

The main area of concern was with municipalities which had a low number of responses. Looking at Figure 5.1, these were the municipalities densely clustered around the origin. Performing a series of correlations starting with municipalities that had low responses and gradually filtering in municipalities according to ascending response count revealed that for $n_r < 43$ the correlation was insignificant at the five percent level.[35] It was based on 38 municipalities with responses ranging from a low of $n_r = 21.8$ (South Frontenac) to $n_r = 42.2$ (Niagara Falls). When Brant and Kingston were added, which had 43.2 and 43.8 responses respectively ($n_r < 44$), the correlation became significant at the five percent level showing the expected positive relationship.[36]

[35] Kendall Tau_b Correlation Coefficient = 0.151 (Sig. 0.095, one-tailed) Oshawa was treated as an outlier. The number of municipalities with fewer than 43 responses was 38.

[36] Kendall Tau_b Correlation Coefficient = 0.208 (Sig. 0.029, one-tailed)

Figure 3.6   Average case count and municipal size, $n_{r<43}$

Source: CFIB OMO Survey #53, January to December 2003; StatCan Community Profiles 2001.

Consistent with this result, Figure 5.2 shows that as the average case count fell below 43 it varied randomly with municipal size. In other words, the hypothesized relationship between case counts and municipal size broke down. The null hypothesis that the data was useable was rejected at the 0.05 level indicating that fewer than 43 responses within a given municipality was likely to cause problems in the regression analysis leading to insignificant or significant but questionable results. The expected positive relationship held when looking at municipalities with a case count of 43 or more.[37] In other words, the null hypothesis that the data was useable was accepted at 0.01 level suggesting that the inclusion of municipalities with 43 or more responses would not adversely effect the regression analysis.

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[37] Kendall Tau_b Correlation Coefficient = 0.555 (Sig. 0.000, one-tailed)

Survey responses and aggregate ratings

Another indicator of the point at which municipalities with low responses would become problematic was the relationship between the number of responses and the ratings themselves. There is no reason why a positive or negative correlation between them should exist. In fact, if aggregate ratings were to be considered representative of the average within a given municipality, by definition no such relationship could exist. If a positive or negative relationship between the number of responses and ratings did exist, the validity of those ratings should be treated as highly questionable. In terms of a null hypothesis, this simply meant that if there was a significant positive or negative correlation, the aggregate ratings were not representative of the population within a municipality and could not be used.

This was precisely the case with respect to nm=78. At the one percent level of significance, the number of responses was positively correlated with ratings.[38] The same relationship held for the 38 municipalities with a case count below 43.[39] Excluding these municipalities, or in other words looking at municipalities with a case count of $n_{r>43}$ ($n_{m=40}$), the correlation between case counts and aggregate ratings broke down, which was consistent with what one would expect.[40] In other words, for $n_{r<43}$ the null hypothesis that aggregate ratings were not representative was accepted. Consistent with these results, the analysis for *sectoral legitimacy* was based on $n_{m=40}$, or in other words all municipalities with 43 or more responses. Since no similar data issues were faced with respect to systemic legitimacy, the analysis used the complete data set with all 78 municipalities.

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[38] Kendall Tau_b Correlation Coefficient = 0.179 (Sig. 0.010, one-tailed)
[39] Kendall Tau_b Correlation Coefficient = 0.283 (Sig. 0.006, one-tailed)
[40] Kendall Tau_b Correlation Coefficient = 0.039 (Sig. 0.363, one-tailed)

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