THE GREATER TORONTO AREA (GTA): CANADA'S PRIMARY ECONOMIC LOCOMOTIVE IN NEED OF REPAIRS

TD Economics

Special Report

May 22, 2002

TD Bank Financial Group

The Greater Toronto Area (GTA): Canada's Primary Economic Locomotive in Need of Repairs

Executive Summary

In a series of speeches in 2001 and 2002, A. Charles Baillie, TD Bank Financial group Chairman and CEO, put forward a formidable challenge for Canadians – to surpass the U.S. standard of living within 15 years. On April 22, 2002, TD Economics released the study, "A Choice Between Investing in Canada's Cities or Disinvesting in Canada's Future." That study looked at the opportunities and challenges that many of Canada's cities face in common. The present report focuses specifically on the Greater Toronto Area (GTA) and what is required to achieve sustained increases in prosperity for its residents – with all that this implies in the way of positive spin-offs for the rest of the province and the rest of the country.

The GTA is an economic powerhouse

Charles Dickens opened his classic novel, *A Tale of Two Cities*, with the famous phrase, "It was the best of times, it was the worst of times." That line aptly describes the state of the GTA economy, today. The GTA is a powerful economic locomotive, which:

- produces nearly one-fifth of the entire nation's GDP
- has a number of world-league industrial clusters
- is home to roughly 40 per cent of Canada's business head offices
- is one of the most highly diversified economies in the world
- has a well-educated work force with a rich blend of cultures
- is ideally located

As a global heavyweight, which competes with some 300 other global-city regions around the world, the GTA can and should play a leading role in raising the Canadian standard of living, and hence, our overall quality of life.

The GTA economy has fared well on the North American stage…

The GTA has benefited from strong growth in population, output and employment relative to other North American metropolitan areas.

- over the past 10 years, the GTA's population has grown by 1.9 per cent per year, relative to growth of 1.3 and 1.0 per cent in Ontario and Canada, respectively
- since 1992, real GDP growth and job creation have averaged 4.0 and 2.4 per cent per year, respectively, compared to 3.0 per cent and 1.6 per cent in the rest of Canada
- export growth to the United States has been a key driver of growth. Ontario now exports 3 times as much to the United States as to the rest of Canada; 20 years ago, the ratio was 1:1
- over the past 10 years, the GTA posted the third strongest rate of population and job creation growth in North America (behind the Atlanta and Dallas Census Metropolitan Areas), which was nearly double the pace recorded in Chicago and Boston

…but, a number of weaknesses must be addressed

A number of repairs are needed to keep the GTA locomotive running at full steam.

- despite robust population and employment growth, real income per capita in the GTA area has fallen further behind that in the United States, with the shortfall now measuring nearly 30 per cent
- Canada's strong showing in many competitiveness surveys owes a great deal to the weakness of the Canadian dollar. Among provinces and states with more than 6 million people, Ontario placed 13th out of 16 in terms of relative labour productivity, and results for the GTA are likely similar
- although funding has been increasing recently, two decades of reductions in real public spending on post-secondary education in Ontario have compromised the GTA's ability to produce the workers needed in a knowledge-based economy
- the infrastructure to support the GTA's growth is not being put in place. In many areas, proper maintenance is not even being done. On the transportation front, this

increases gridlock on GTA roads and highways, threatens the effectiveness of public transit, cuts into productivity, and limits the pace at which the GTA's exports to the United States and the rest of Canada can grow

- although the hollowing out of the GTA's downtown core does not begin to approach that seen in many U.S. cities a few decades ago, there has been a definite shift in output, employment, incomes and head offices from the City of Toronto to the surrounding municipalities
- worse still, despite some growth in the City of Toronto's economy, deep pools of poverty persist – a problem that is exacerbated by an inadequate supply of social housing

Federal, provincial and local governments all have a role to play

In many respects, the needs of the GTA economy are similar to those of cities across the land. Competitiveness and innovation need to be further bolstered. There must be renewed investment in knowledge and the institutions that foster it. Secure and efficient trading arrangements with the United States are an imperative.

Other needs are more local in nature. Local governments can go some way toward addressing these needs within the parameters of their current authority. But, with their heavy dependence on property taxes and user fees, and, in some cases, their considerable debt loads, they are in no position to meet the bigger challenges they face. In the near term, they will need additional financial support from the federal and provincial governments. Over the longer term, the solution lies in granting local governments more autonomy in how they conduct their business and raise revenues. In all endeavours, cooperation will be required among the three orders of government to ensure the effectiveness of programs and minimize the chance of an overall increase in the tax burden.

i. What the federal and provincial governments need to do together

- focus future tax-cutting efforts on lowering personal marginal income-tax rates and capital taxes to bolster competitiveness and the incentives to work, save and invest
- re-orient strategic spending priorities to emphasize investment in knowledge and the institutions that help create and disseminate it
- in the near term, increase grants and/or revenue transfers to municipalities, in the context of firm, multi-year plans. Rather than launching brand new initiatives every few years, the federal government would do better to commit to a single infrastructure program of 10 years' duration or longer, with at least C$1 billion per year in funding, targeted mainly at municipalities – roughly the amount that has been allocated in the three different programs announced over the last several years
- revisit the entire arrangement on social housing, recognizing that the City of Toronto, in particular, will have difficulty finding the funds to do the job it has been handed
- revisit the funding arrangement for developing Toronto's Waterfront, recognizing that the City of Toronto will have difficulty funding its share of this project, too
- in concert with other provinces, lower federal and provincial excise taxes on gasoline and allow the GTA (and other municipalities) to use the tax room freed up
- fully exempt the sales taxes municipalities pay (both the provincial sales tax and the federal GST)

ii. What needs to be done federally

- allocate a good chunk of the C$600 million border infrastructure program to Ontario, which is home to 8 of Canada's 13 busiest border crossings, where the bulk of the border traffic and congestion occurs
- make use of an external advisory board to guide allocation decisions on infrastructure
- realign immigration settlement funds to achieve a closer match with where immigrants are going

iii. What needs to be done provincially

- build on the additional powers that will be granted to cities under the 2003 Municipal Act – including more scope to create Corporations and use different financing tools – in order to continue to provide GTA municipalities with greater flexibility to conduct their business
- over time, give municipalities the authority to broaden their revenue sources by such means as municipal excise taxes and vehicle registration fees, while simultaneously lowering taxes at the provincial level to provide the municipal tax room

iv. What needs to be done locally

- press on with the realization of savings from amalgamation
- seek more opportunities to transfer service delivery responsibilities to the private sector and to create public-private partnerships
- establish governance arrangements to realize economies of scale and give consideration to the needs of the overall GTA
- continue to address the inequities in the property tax system, including the higher rates on commercial and industrial properties relative to residential properties, and downtown properties relative to suburban properties
- limit urban sprawl and encourage the use of public transit through the promotion of higher densities, particularly in the downtown areas of the City of Toronto and in the vicinity of existing public transit lines
- make additional use of user fees where appropriate, in particular for private automobile use
- appoint an Auditor General to ensure taxpayers are receiving value for their money

A clarion call to Canada's private sector

The private sector must take a greater interest in the affairs of the GTA. Private sector involvement has been instrumental in virtually all of the urban revitalization campaigns that have restored so many U.S. cities to their former glory – yet, it has been in scarce supply here. Indeed, if there is one area in which the GTA lags behind its U.S. counterparts, it is in its ability to draw on the financial resources and strategic expertise of its business leadership. In Canada, governments are just beginning to take steps to increase private sector involvement in municipal initiatives by creating opportunities for businesses to earn commercial rates of return on projects.

Canadian cities are starting to move in the direction of greater private sector involvement. The Toronto Waterfront Revitalization Corporation, which recently firmed-up funding commitments from the federal government and the province of Ontario, is an exciting new example of a public-private partnership in Canada. But, we are still a long way from developing the culture of corporate involvement that has become a fixture on the U.S. landscape. Helping to promote this kind of civic culture is one of the goals of the October 2002 TD Forum on Canada's Standard of Living – the catalyst for this report on the GTA, and the one that preceded it in April, on the outlook for Canada's cities. As TD Chairman and CEO A. Charles Baillie said when he launched the venture in his March 2002 speech to the Canadian Club – entitled "Brave New Canada" – one of the forum's key objectives is to encourage tangible, practical participation by the private sector in the debate on Canada's economic future.

All together, now

Building a more prosperous GTA that will benefit not just local residents, but the country as a whole, will require both public and private sector participation, as well as a higher degree of cooperation among the actors involved. Jurisdictional wrangling has impeded collaborative efforts in the past. But the GTA, with its potential and its challenges, simply looms too large within Ontario and Canada for this to be allowed to continue. The GTA is home to almost one-half of Ontario's residents and almost one-fifth of the Canadian population. Its health and vitality are critical to Canada's ability to bolster its standard of living and compete on the world stage.

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THE GREATER TORONTO AREA (GTA): CANADA'S PRIMARY ECONOMIC LOCOMOTIVE IN NEED OF REPAIRS

Canada's economic future depends on the fate of our cities, and none more so than the Greater Toronto Area (GTA). The GTA occupies a formidable place on the Canadian landscape, by virtue of its size and power – a region that is home to more than 5 million residents, one-fifth of the entire nation's GDP, and roughly 40 per cent of Canada's business head offices.

In spite of its rapid expansion, the GTA has preserved its reputation as a clean, safe and good place to live. Even more important, it has evolved into a truly global city. The region boasts a number of vibrant industrial clusters that are strongly oriented towards international trade, it is rich in culture and the arts, and it displays a degree of economic diversity that would rival that of most nations. *Given the GTA's global stature, the appropriate benchmark against which to measure its position should be not the region's own history or even that of other Canadian cities, but rather, other great world cities*. And for Canada, that means the major U.S. centres. On this score, the results are mixed. While economic growth rates in the GTA have been keeping pace with growth rates seen in U.S. cities in recent years – in some cases, even outpacing them – income levels in the region are falling woefully short. Estimates show that real personal disposable income per capita in the GTA is currently only about 70 per cent that in most large U.S. cities.

POPULATION OF THE GREATER TORONTO AREA (GTA)				
	Population	Population Growth Compound Annual Rates		
	2001	91-96	96-01	91-01
GTA	**5,298,025**	**1.8**	**2.1**	**1.9**
City of Toronto	2,562,235	0.9	0.8	0.9
Durham Region	523,013	2.3	2.0	2.1
York Region	778,292	3.2	4.9	4.1
Peel Region	1,047,097	3.1	3.5	3.3
Halton Region	387,388	1.6	2.0	1.8
Rest of Ontario	**6,576,411**	**0.9**	**0.8**	**0.8**
ONTARIO	**11,874,436**	**1.3**	**1.4**	**1.3**
CANADA	**31,081,887**	**1.1**	**0.9**	**1.0**

Source: Ontario government, Statistics Canada, TD Economics

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GTA's success crucial in raising Canada's standard of living

In a series of speeches in 2001 and early 2002, A. Charles Baillie, TD Bank Financial Group Chairman and CEO, laid down a daunting challenge for Canadians – to surpass the U.S. standard of living (or, the level of real income per person) within 15 years. There is simply no way Canada can achieve this goal if the GTA does not at least close the gap with U.S. cities. However, as things currently stand, the gap appears likely to persist in the years ahead. GTA cities face serious challenges on a number of fronts. The infrastructure necessary to support the region's rapid growth is not being put in place, and in some areas, investment is falling well short of what is needed just to rehabilitate existing infrastructure systems. Increasing numbers of businesses and residents are opting to locate in the suburbs rather than the downtown area. This is weighing on job creation and incomes in the City of Toronto, contributing to a rise in poverty and homelessness – problems that are being exacerbated by a lack of affordable housing. Meanwhile, the GTA's big-city competitors in the United States are moving ahead with ambitious plans to reinvest in their urban economies and improve their residents' quality of life.

The international context is the backdrop of this report. It is what informs our argument that the GTA must look beyond simply maintaining the status quo, to what is required to achieve the dramatic gains in economic, population and per-capita personal income growth that will deliver the higher standard of living we aspire to in the future. We have set the bar very high, but we believe this to be appropriate for a city of the GTA's rank and reputation.

PART I

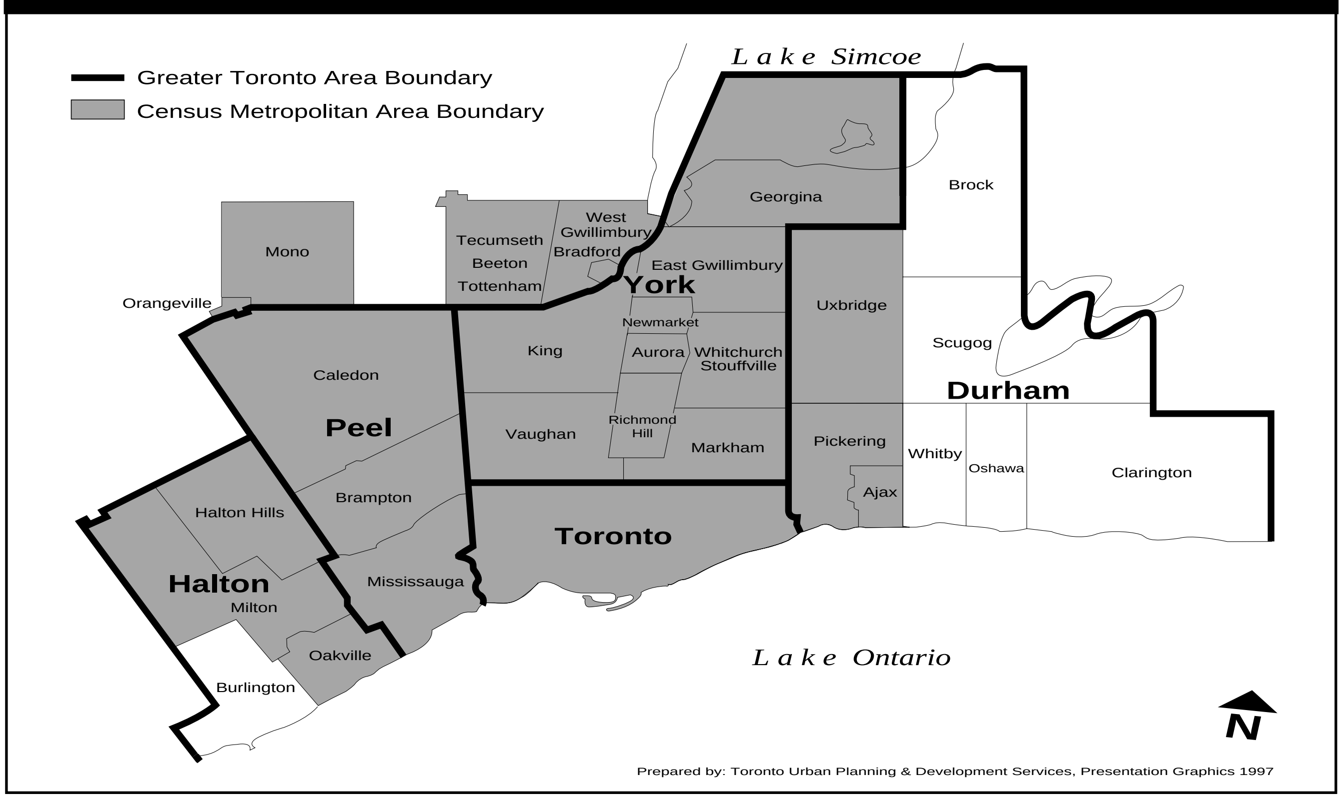
WHAT IS THE GTA?

The GTA is more than just the City of Toronto

The GTA comprises the City of Toronto plus the 24 surrounding municipalities in the regions of Durham, York, Peel and Halton. The City of Toronto, which was formally established in January 1998, when the former regional government of Metropolitan Toronto and its six constituent municipalities – Toronto, Etobicoke, York, East York, North York and Scarborough – were amalgamated, accounts for about half of the GTA's population of 5.3 million people. The other regions have populations ranging from about 400,000 in Halton to 1 million in Peel.

Although the GTA is the regional economic unit Ontarians are most familiar with – and the one we will refer to in this report – much of the data available for Canadian cities are provided by Statistics Canada, which classifies city regions according to labour market and commuting criteria. On the basis of these criteria, Statistics Canada defines the Toronto Census Metropolitan Area (CMA) as having a population of 4.9 million. The Toronto

Greater Toronto Area and Census Metropolitan Area



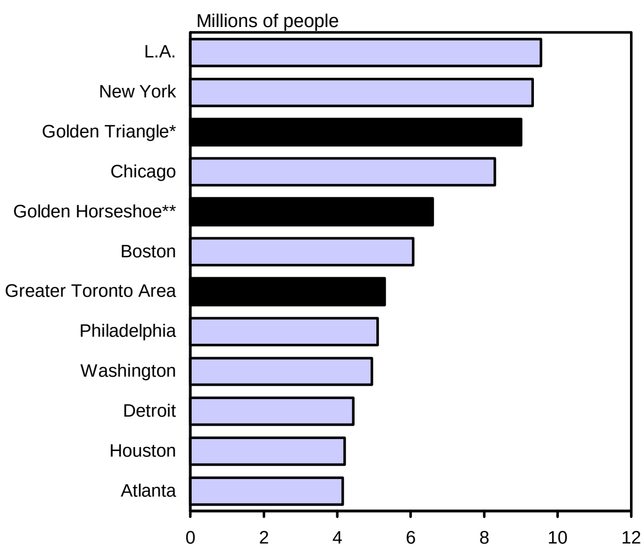
CMA aggregate excludes the GTA municipalities of Oshawa, which belongs to its own, eponymous CMA, and Burlington, which is part of the Hamilton CMA. These cities are sufficiently small that the Toronto CMA data are a good proxy for activity in the GTA.

Our analysis will focus on the GTA, but many would argue – and, rightly so – that the region's deep business linkages stretch far beyond its borders. In fact, Toronto forms the hub of a much bigger and more powerful global-city region, which extends from Oshawa to Niagara and which is often referred to as the Golden Horseshoe. With a population of 6.6 million people, the Golden Horseshoe is the fourth largest city region in North America, behind Los Angeles (9.6 million people) and New York (9.3 million people). Aggregating at an even broader level, the Golden Triangle – the Toronto-Buffalo-Detroit region, which includes the corridor to the mid-west (Toronto to Kitchener-Waterloo, London and Detroit/Windsor) – places third, with 9.0 million people.[1]

The GTA is becoming even more important

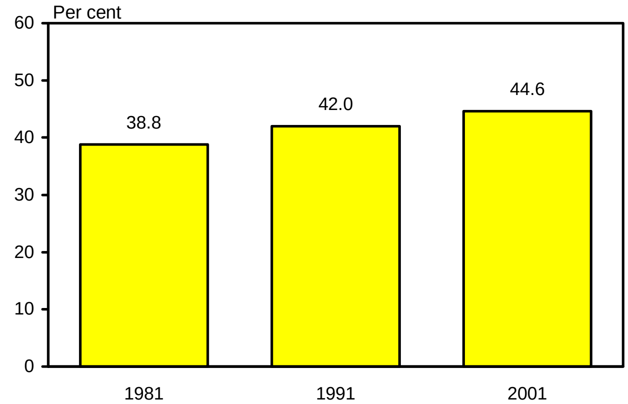
The GTA's clout within both Ontario and Canada has grown considerably in recent decades. Over the past 10 years, the population of the GTA grew by a brisk 1.9 per cent per year, far outpacing the rates of 1.3 per cent and 1.0 per cent growth registered in Ontario and Canada, respectively. As a result, the GTA's share of the Ontario population increased from 39 per cent in 1981 to 45 per cent in 2001, while its share of the Canadian population rose from 14 per cent to 18 per cent over the same period. The main engine of population growth in the GTA has been international immigration. With almost half of total immigrants to Canada in the 1996-2001 period arriving in the GTA, net international immigration accounted for about two-thirds of the population gains over the period. The remainder of the increase was attributable to modest natural increases in the population (*i.e.*, births less deaths) and net inter-provincial migration (*i.e.*, from other provinces). Conversely, the GTA lost people to other parts of Ontario over the 1996-2001 period.

POPULATION IN NORTH AMERICA'S LARGEST CMAs^



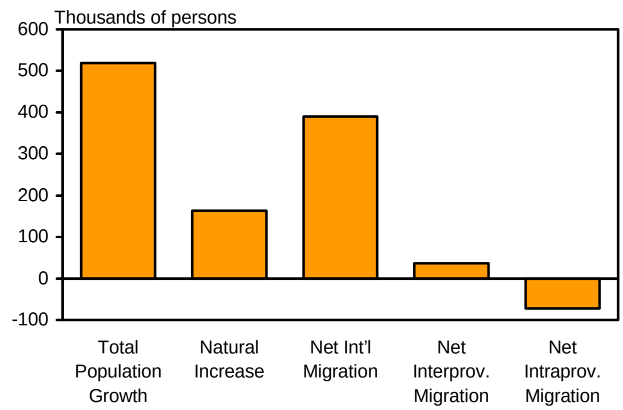
^ Census Metropolitan Area; * includes corridor to mid-west (GTA to Kitchener-Waterloo, across to London and down to Detroit/Windsor); ** extends from Oshawa to Niagara; Source: Statistics Canada, U.S. Bureau of Economic Analysis, TD Economics

GREATER TORONTO AREA SHARE OF ONTARIO POPULATION

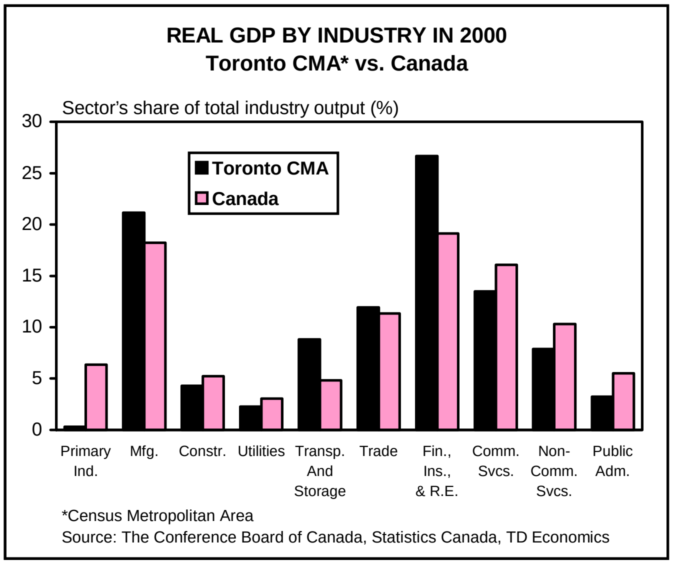


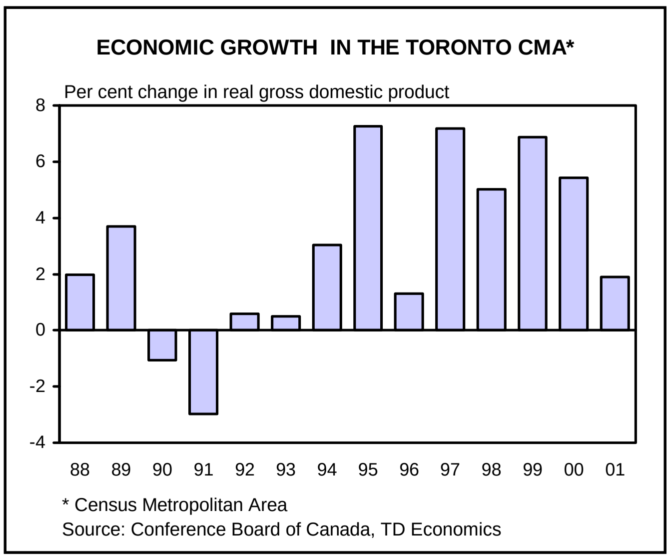
Source: Statistics Canada, TD Economics

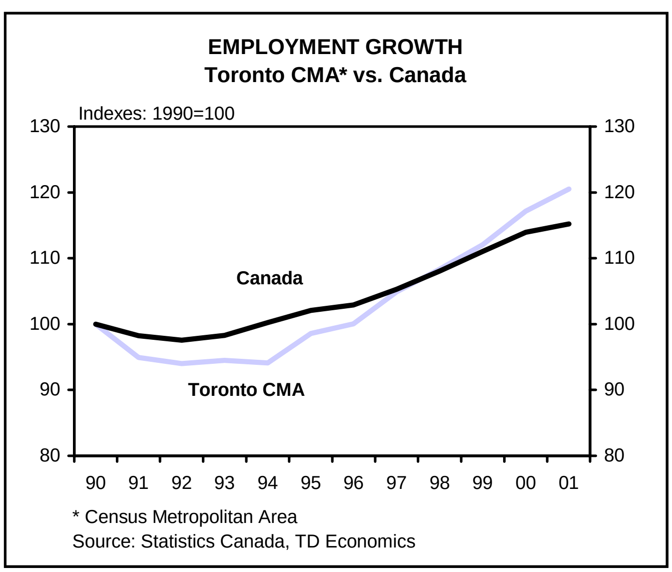
COMPONENTS OF POPULATION GROWTH IN THE GREATER TORONTO AREA: 1996-2001



Source: Province of Ontario, Statistics Canada, TD Economics



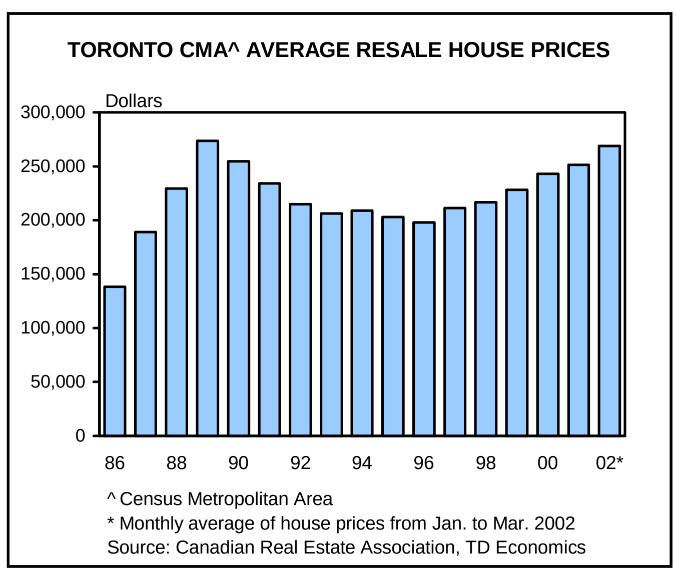


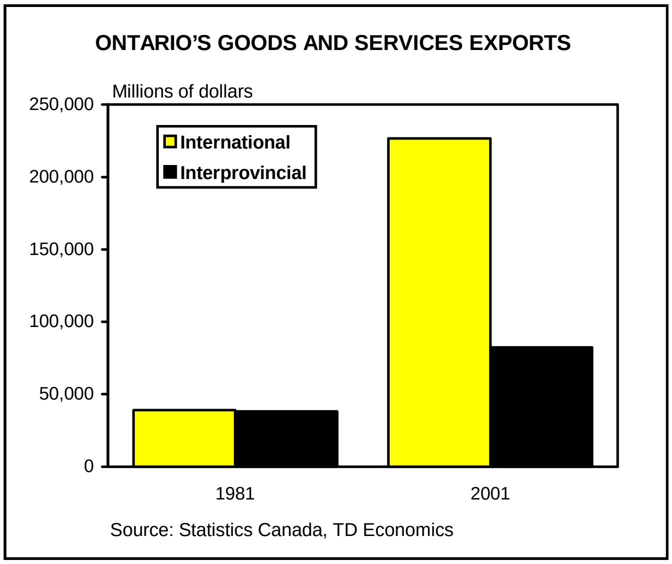


The GTA economy is well diversified

The GTA is home to an impressive blend of both goods-producing and service-producing industries, although the service sector generates the bulk (72 per cent) of economic activity in the region. Financial services is the region's most important industry, accounting for an estimated 25 per cent of GDP, followed by business and professional services (15 per cent), automotive (10 per cent), and tourism (10 per cent). The food products, biotechnology, aerospace, entertainment, and clothing and textiles sectors are also major contributors to the GTA economy. Compared to the Canadian economy as a whole, the GTA is less reliant on primary industries and public services.

The GTA economy has prospered throughout much of the past decade. Since 1992, the region has recorded brisk average rates of real GDP growth and job creation of about 4.0 per cent and 2.4 per cent per year, respectively, compared with 3.0 per cent and 1.6 per cent in the rest of Canada. The GTA's solid performance was tallied in spite of a rocky start to the decade, when a downturn in the U.S. economy and the implosion of a real estate bubble dealt the region a blow that reverberated for several years to come. However, since the mid-1990s, the GTA economy has turned in a stellar performance, surpassed only by Calgary among the major Canadian urban areas. Even in 2001, when both the U.S. and Ontario economies teetered on the brink of recession, the GTA is estimated to have expanded by nearly 2 per cent. Last year, the region's housing market turned in its best year since the end of the 1980s boom, with resale prices, on average, nearly regaining their 1989 record level of about C$275,000.





What has been the secret behind the GTA's economic success over the past ten years? One of the main factors has been the region's increasingly successful penetration of U.S. markets since the implementation of the Canada-U.S. Free Trade Agreement in 1989. In the ensuing years, the swing in the flow of trade from east-west to north-south has been staggering. While data are not available for the GTA specifically, the provincial data are striking. Ontario's exports to the United States were roughly equivalent to its exports to Canada in the early 1980s. Today, the ratio is 3-to-1 in favour of exports to the United States. The GTA region has established particularly strong trade links with city-regions in Michigan, Ohio, New York, Illinois, Indiana, and California.

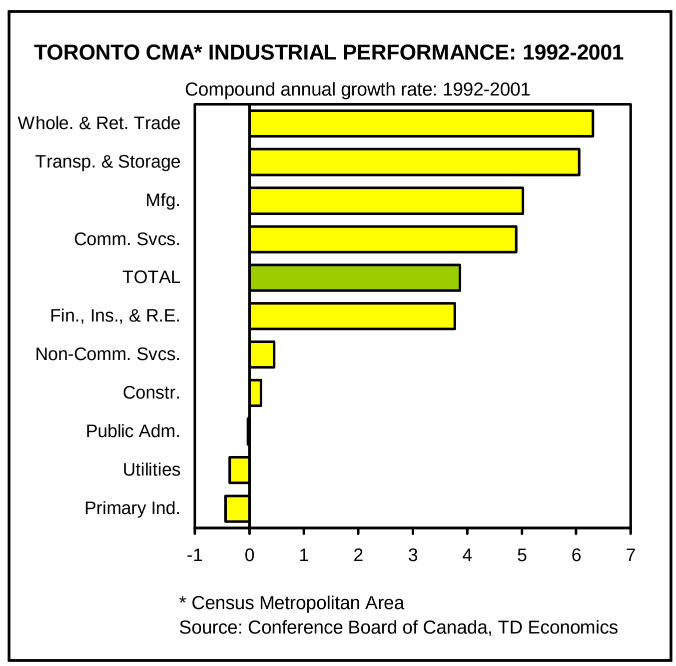
Location, location, location

The low value of the Canadian dollar has undeniably been a key contributing factor to the rapid growth of activity in the GTA's export-oriented industries. But, even more important has been the region's easy access to the vast U.S. market, which has helped to foster deeply integrated production systems and a surge in two-way trade between the region and adjacent U.S. states. The GTA is only a 24-hour drive from 40 per cent of the U.S. population, and a pool of disposable income exceeding US$2 trillion. The accessibility of the U.S. market is enhanced by numerous Canada-U.S. border crossings, a large and modern airport (Pearson International), several smaller airports serving business and corporate travellers, seven major freeways, two national railways (Canadian Pacific and Canadian National), and two ports (Toronto and Hamilton, both of which handle international sea cargo via the Great Lakes and the St. Lawrence Seaway connection to the Atlantic Ocean.)[2] The GTA also has one of the most developed communications infrastructures in the world, including expansive networks of fibre optic cable.

If the GTA's location in North America has contributed to its success as an exporting powerhouse, so, too, has its predominant position within Canada. In his article, "Responding to the NAFTA Challenge," Thomas Courchene notes that one of the key differences between Toronto and cities like New York, Los Angeles and Chicago is that the GTA is a home base for a very substantial range of "national" commercial and cultural enterprises, which have no real parallel in the United States.[3] "Indeed," he writes, "its potential economic dynamism in the emerging north-south geo-economy emerges, to a considerable degree, from this role as a dominant pan-Canadian player in the provision of these national goods and services."

GTA is Canada's hub in the global knowledge economy

While an expanding volume of international trade in goods helped to sustain healthy growth in the GTA economy's goods sector over the past decade, the region's service sector was an even bigger engine of growth. This strength in services was partly attributable to growth in a number of "high-order" industries that comprise the "knowledge economy". In particular, the wholesale trade and commercial services industries, which benefited from a surge in domestic demand for computers, software and telecommunications equipment, posted growth rates well



COMPARING LABOUR FORCES

		Toronto CMA^	Rest of Ontario	Rest of Canada
Per cent with post-secondary degree or diploma	2002*	43.8	39.7	39.7
Per cent of total population of international immigrants	1996	40.3	14.2	12.7

^ Census Metropolitan Area
* Forecast by FP Markets Canadian Demographics, 2002
Source: FP Markets Canadian Demographics, Statistics Canada, TD Economics

above the regional average during the past 10-year period. Part of the reason is the GTA's talented labour pool, which has lured many new high technology and information- and communications-based start-ups. The GTA is home to one of the best-educated workforces in the OECD, with almost half of the population holding a post secondary degree or diploma, as well as one of the most diverse, with more than 100 ethnic groups represented.

PART II

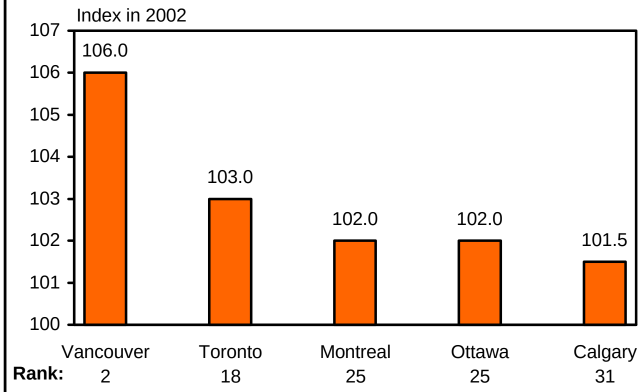
THE GTA – A GLOBAL PLAYER

At the dawn of the new millennium, the GTA has emerged as a global heavyweight, competing with some 300 global-city regions, and in particular, with large urban centres south of the 49th parallel. International surveys continue to confirm the GTA offers a high quality of life.

- William H. Mercer ranked Toronto 18th of 215 international cities in terms of quality of life in its 2002 survey, up a notch from the 2001 survey's 19th place ranking.[4]
- Toronto was ranked the 7th best place to live in North America by *Places Rated Almanac* (354 cities surveyed) based on cost of living, job outlook, transportation, education, health care, the arts, etcetera. The same publication also ranked Toronto the safest of its large North American metropolitan counterparts.[5]
- Toronto is the third largest English language theatre centre in the world after New York and London, and has the third largest number of live music venues in North America.[6]

This high quality of life has helped the GTA attract the businesses and the highly-skilled labour force needed to support the region's role as an economic powerhouse. Increasingly, the core of that economic strength is located in

WORLD-WIDE QUALITY OF LIFE SURVEY*



* Cities are ranked against New York as the base city, which scores 100
Survey covering 215 cities around the world
Source: William M. Mercer, TD Economics

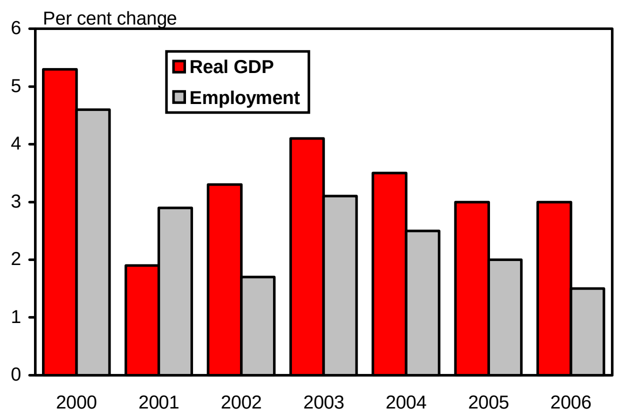
a number of clusters or networks of related industries, which are among the largest and most competitive globally. The following ten clusters have earned a place on the list:[7]

1. **Financial Services** – the third largest concentration of financial services in North America after New York and San Francisco.
2. **Automotive** – the second largest automotive manufacturing sector in North America, after Detroit.
3. **Biomedical and Biotechnology** – the largest of its kind in North America, and the fourth largest medical community in North America.
4. **Entertainment** – the fourth largest media cluster in North America, and the third largest film production and English-language theatre centres.
5. **Food and Beverage Manufacturing** – the second largest concentration of food and beverage processing operations in North America, after Chicago.
6. **Aerospace** – the fifth largest in the world, and the second largest in Canada, after Montreal.
7. **Business and Professional Services** – one of the largest in North America, comparable to those of New York, Chicago and Washington, D.C.
8. **Tourism** – Canada's number one tourist destination, with two-thirds more visitors than the country's second and third top destinations (Niagara region and Montreal).
9. **Information and Communications Technology (ICT)** – the largest in Canada.
10. **Clothing and Textiles** – Canada's largest and fastest-growing commercial fashion industry.

Outlook for the GTA's key industries, 2002-06

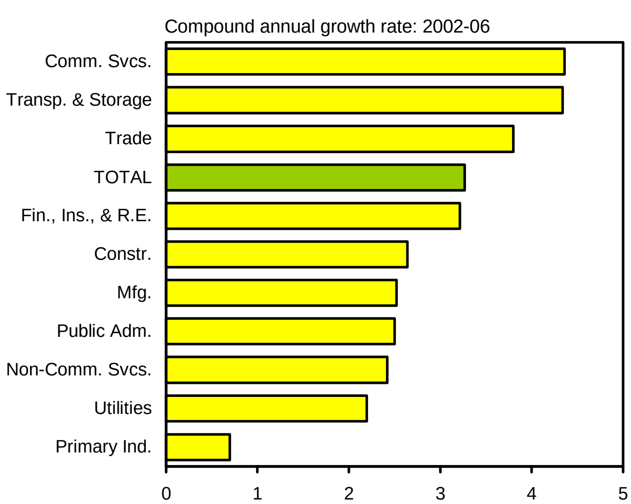
After last year's brief slowdown, the economy of the GTA appears to be heating up again, lead by a pickup in U.S. demand for the region's manufacturing goods. With the recovery in the factory sector likely to continue through 2003, real GDP growth in the Toronto CMA is forecast to reach 3.3 per cent this year and just over 4.0 per cent in 2003. Employment growth is likely to average 2.5 per cent per year this year and next, and the region's jobless rate, which has climbed from a low of just over 5.0 per cent in mid-2000 to about 7.0 per cent so far this year, is likely to fall back to about 6.0 per cent by the end of 2003.

TORONTO CMA* OUTPUT & EMPLOYMENT GROWTH FORECAST



* Census Metropolitan Area; Forecast by TD Economics as at May 2002
Source: Statistics Canada, TD Economics

GDP FORECAST FOR TORONTO CMA* BY INDUSTRY



* Census Metropolitan Area
Forecast by TD Economics as at May 2002
Source: Conference Board of Canada, TD Economics

Prospects for the 2004-06 period remain fairly bright, supported by a continued healthy increase in the GTA's population base. The economy of the region is expected to grow by 3.2 per cent per year, just above the long-term average of 3.0 per cent. At a projected 3.7 per cent per year, the service sector will shine, led by sizzling growth in commercial services (4.8 per cent annually), transportation and storage (4.2 per cent), wholesale and retail trade (3.9 per cent) and financial services (3.3 per cent). Fuelled by moderate growth in both manufacturing and construction activity, the goods-producing sector is projected to expand at 2.5-3.0 per cent per year in 2004-06.

Above-average (above 3.5% growth per year)

1. **Biotechnology** – this sector has been a growth leader in recent years, supported by an ageing population. At the same time, the development of the Medical and Related Sciences (MARS) Discovery District will help to promote the growth of small technology companies and the commercialization of academic research. MARS will bring together scientists, business and support services in a commercial cluster located adjacent to the University of Toronto and many of Toronto's world-class research hospitals, all in the heart of the city's biotechnology district. It will also incorporate the Toronto Biotechnology Commercialization Centre, a biotech incubator, as part of the complex.
2. **Information and Communications Technology (ICT)** – although ICT equipment manufacturers have been pummelled by the implosion of the high tech investment bubble in late 2000, ICT service industries (including software development) have continued to expand at a healthy clip. Demand for ICT equipment is expected to begin to recover sometime in 2003, as the structural shift towards adoption of information technology and Internet-related products reasserts itself. Within the ICT sector, the new media industry enjoys some of the brightest prospects, supported by a deep pool of talent nurtured by numerous educational facilities (the University of Toronto, York University, Ryerson University, Sheridan College, George Brown College, Centennial College, Seneca College, Humber College and the Ontario College of Arts).
3. **Entertainment** – the media industry, which continues to adjust to the dramatic trend towards convergence of telecommunications and broadcasting players, was

rocked last year by a slowdown in advertising revenue. However, it should begin to turn the corner this year, helped by a strengthening in overall Canadian economic activity. The ongoing efforts by the City of Toronto and the Ontario government to promote the region as "Hollywood North" should underpin growth in the film industry over the long run. Two new film studios are also planned for Toronto's port lands.

<u>Average (3.0-3.5% growth per year)</u>

4. **Financial Services** – with their position in the highly competitive Canadian market secure, major Canadian banks are seeking opportunities abroad, especially south of the border, to expand their operations. This trend promises to deliver great benefits to Canada as a whole, and to the GTA in particular, because many of the jobs and much of the income and taxes generated from operations abroad come back to Canada. However, the relatively small size of Canadian banks on a global scale (in 1980, three Canadian banks were among the 50 largest in the world by assets; today, none are) and their reduced purchasing power as a result of the weak Canadian dollar, are formidable challenges to expansion outside Canada.
5. **Automotive Assembly and Parts** – Although automotive output appears to be on the recovery track, following a protracted 18-month slump, the industry faces significant threats in the form of over-capacity and competition from Mexico. To alleviate the capacity overhang, closures are planned at Ford's light truck assembly plant in Oakville, at Daimler-Chrysler's light truck plant in Windsor, and at GM's car assembly plant in St. Therese, which will have an adverse impact on the GTA's large parts industry. While the largest parts companies are flourishing, as auto producers offload an increasing number of responsibilities to them, small- and medium-size suppliers are struggling. With respect to competition from Mexico, Canada's auto parts industry has already lost a great deal of ground in the U.S. market. Since 1990, the U.S. has been importing more parts from Mexico than from Canada, attracted by Mexico's low labour costs. If Canadian auto parts producers are to regain, or even just preserve, market share, they will need to specialize in capital-intensive production.
6. **Business and Professional Services (BPS)** – the BPS sector has enjoyed steady growth in recent years, supported by access to the GTA's well-educated workforce and the ongoing trend towards the contracting out of services in both the public and private sectors. Within Canada, the prestige of the Toronto address will continue to underpin strength in professional services. However, the relatively high cost of doing business in the GTA vis-à-vis other centres in Canada will pose a challenge for growth in low-order business service industries such as call centres.
7. **Food and Beverage Manufacturing** – this manufacturing industry has enjoyed healthy growth in recent years. Although the sector's employment performance has been soft, the industry has benefited from strong productivity gains, which in turn were boosted by a combination of innovation and modernization within the food and beverage industry. For the longer term, the growing emphasis on food safety is likely to be the industry's biggest challenge.

WORLD RANKING OF CANADIAN BANKS BY SIZE OF ASSETS

	2000	1990	1980
ROYAL BANK	53	51	23
CIBC	58	58	36
TD BANK	59	113	71
SCOTIABANK	62	81	55
BANK OF MONTREAL	63	76	50

Source: The Banker Magazine, Canadian Bankers' Association, TD Economics

NORTH AMERICAN LIGHT VEHICLE PRODUCTION

	Avg. Annual Growth Rate 1990-2001 Per cent	Per cent Share	
		1990	2001
North America	1.6	100.0	100.0
United States	0.7	77.9	72.1
Canada	2.5	15.6	16.2
Mexico	10.0	6.6	11.7

Source: Ward's Automotive Reports, TD Economics

Below-average (less than 3.0% growth)

8. **Tourism** – Although tourist flows from the United States dropped off sharply in the immediate wake of September 11th, activity in the sector has already recovered, helped by the low value of the Canadian dollar. Looking further down the road, however, the GTA's tourism sector faces a number of challenges, including a declining position relative to its key competitors. On a brighter note, there are several projects in the pipeline that could boost the sector over the medium to long term. These include the completion of the first stage of expansion of Pearson Airport (scheduled for 2004), the development of the Dundas-Yonge shopping area, and the additions to the Royal Ontario Museum (ROM) and the Art Gallery of Ontario (AGO), which are being designed by world-renowned architects Daniel Liebeskind (the ROM) and Frank Gehry (the AGO). And, although plans are still in the early stages, discussion continues about construction of a new opera house downtown.

Tourism in the GTA

Tourism brings money and jobs to cities, and the events, destinations and facilities that attract tourists also make a city a better place to live for its residents. A good example of the drawing power of a cultural attraction is the two major live musical theatre productions – *Mamma Mia!* and *The Lion King* – currently running in Toronto. According to Mirvish Productions, in the course of one year, half of the audience comes from the United States.

Tourism is one of the largest employers of all the GTA industry clusters. But, the sector's position is eroding. The number of tourists coming to Toronto has been falling for the past five years – from 16.6 million people in 1996 to 16 million last year – resulting in the loss of several thousand jobs in the tourist industries.[1] This, in spite of a 15 per cent appreciation in the value of the U.S. dollar.

If clean, safe and cheap won't do it, what will? Tourism is every bit as competitive an industry as any other. The decline in the number of tourists coming to the GTA is partly due to a perception that the region's tourist attractions have become stale and tired, but it also reflects the reality that funding for destination marketing activities in the GTA is lower than in comparable jurisdictions elsewhere. The promotion of tourism must become a priority for the GTA.[2] Stronger destination sites could give a powerful boost to tourist inflows. Expansions of the Royal Ontario Museum, the Art Gallery of Ontario and other cultural sites, including the possibility of a new opera house, are promising in this regard – particularly if, in addition to landmark architecture, the sites feature exhibitions that will be drawing cards for tourists from around the world. The Guggenheim Museum in Bilbao, Spain is a prime example of this virtuous circle. Located in the country's Basque region, a former industrial shipbuilding centre with almost no tourism base, the waterfront museum was designed by Frank Gehry and houses three Guggenheim art collections. The Guggenheim Bilbao attracted more than 1,300,000 visitors before its first anniversary, and – according to a 1998 study by KPMG – increased the province's total GDP by 0.5 per cent.[3]

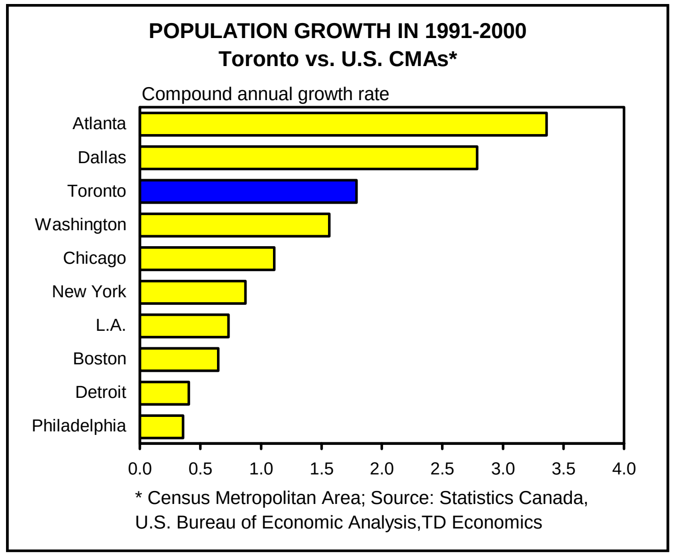
The GTA is already the top tourist site in Canada, which means the region needs to look elsewhere to identify potential new sources of growth. Toronto got only half as many visitors as Chicago in 2000 (32.2 million) and less than half as many as New York (38.4 million). More worrisome still, none of North America's other major tourist sites has experienced the decline in visits that has hit Toronto. If tourism to Toronto had matched the 5 per cent annual growth rate seen in other North American centres since 1996, the city would have welcomed 21 million visitors last year instead of just 16 million.

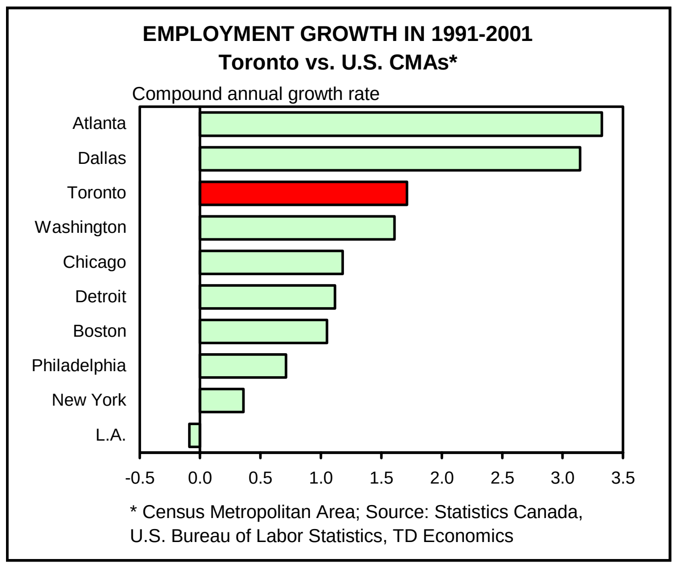
Shooting for 20 million tourists per year in Toronto is a realistic interim target, en route to a still higher figure. At a conservative estimate of C$850 of expenditure per tourist,[4] this would bring in an additional C$3.4 billion a year to the GTA economy – which, in turn, could add the equivalent of another 85,000 full-time jobs, directly and indirectly associated with the tourism business. Governments would benefit as well, with the revenue coffers of all levels of government combined likely to surge by almost C$1 billion a year.

1. 2001 Facts, Toronto Convention and Visitors Association Research's Publication.
2. The City of Toronto has recommended that a room levy be established, or that the 5-per-cent provincial tax on hotel stays be harmonized with the 8-per-cent sales tax rate and that the revenue from either option be dedicated to tourism promotion.
3. KPMG, *Impact of the Activities of the Fundacion del Museo Guggenheim Bilbao on the Basque Country*, October 1998.
4. Average Canadian tourism revenue per international visitor was C$832 in 2001.

9. **Aerospace Products** – in the GTA, production has tended to be geared towards commercial rather than military aircraft, which has stood the industry in good stead, given the strong growth in demand the commercial side has experienced in recent years.[8] However, in the near term, the recent boost in U.S. defence spending, coupled with the high fleet capacity of commercial airlines, suggests the prospects are brighter for military than commercial aircraft. Another problem the GTA faces is the lack of a major company headquarters – the hallmark of a truly dominant aerospace cluster.

10. **Clothing and Textiles** – one of the sectors hardest hit by free trade in the early 1990s, the clothing and textiles sector now appears to be in recovery mode. The recent revival has been fostered by the increasing specialization of products in the higher value-added segment of the market, such as fashion design and high-end manufacturing.[9] However, the ongoing progress toward freer trade will remain the primary challenge for this cluster, as jobs continue to head to lower wage countries. Key areas in which the GTA could boost its competitiveness are skills – over half the industry's work force has not graduated from high school – and the level of capital investment.





PART III

CHALLENGES FOR THE GTA

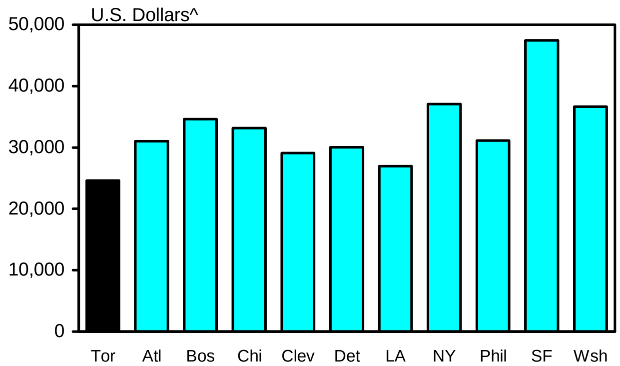
How does the GTA stack up against U.S. global cities?

While the Canadian economy as a whole has underperformed the U.S. economy over the last decade, the GTA has fared comparatively well. Despite lagging behind in the first part of the decade, the Toronto area scored a very respectable third place in terms of population growth and job creation over the past 10-year period, behind the Atlanta and Dallas CMAs. At 2 per cent per year, annual increases in population and employment in the GTA were about 50 per cent stronger than those posted in Chicago and Boston.

However, the GTA did not fare as well where it really counts – in gains in real after-tax income per person, which is considered a good proxy for living standards. Despite the recent robust pace of job creation, real wage gains in the GTA have been held back by a relatively weak productivity performance compared to competitor cities in the United States. In fact, a recent study by Toronto's Institute for Competitiveness and Prosperity revealed that, among provinces and states with more than 6 million people, Ontario placed 13th out of 16 in terms of relative labour productivity.[10] (New York and Massachusetts, two of Ontario's key competitors, recorded labour productivity well above that of Ontario.) As a result, the gap in real income per person between the GTA and major U.S. cities has widened in the past 10-year period, leaving the level in the Toronto area (US$25,000 per person) well below the average level of roughly US$35,000 recorded south of the border.

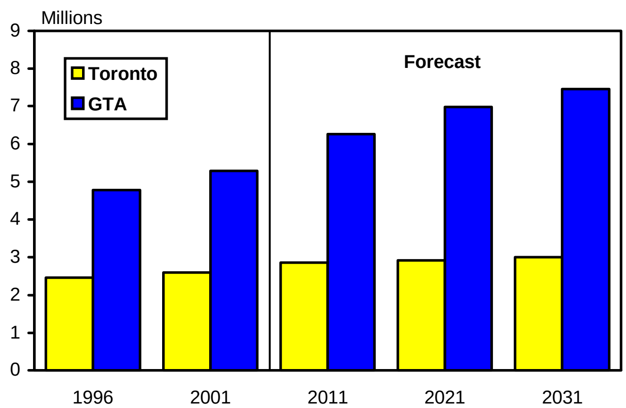
Although the outlook for the GTA economy over the next five years is favourable, the rate of real GDP growth projected – just over 3.0 per cent – will allow the region, at

REAL PERSONAL INCOME PER CAPITA IN 1999
Toronto vs. U.S. CMAs*



* Census Metropolitan Area; ^ U.S. dollars calculated at purchasing power parity (C$1.17=U.S.$1.00); Source: Statistics Canada, U.S. Bureau of Economic Analysis, TD Economics

GREATER TORONTO AREA (GTA)
LONG-TERM POPULATION FORECAST



Source: UDS Research and Information, OGTA, Statistics Canada, TD Economics

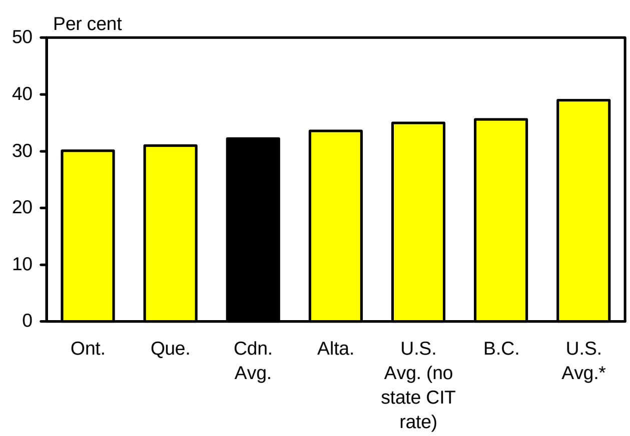
best, to keep pace with most of its North American competitors. Accordingly, the gap in living standards between the GTA and U.S. cities is likely to remain sizeable over the next few years. Closing this gap – which is critical to sustaining and improving on the already high quality of life GTA residents enjoy – will be a longer-term exercise, the success or failure of which will hinge on how successfully policy-makers and the private sector address a number of key challenges. They will confront these challenges against the backdrop of continued rapid growth in the GTA's population base. By 2031, the population of the GTA is expected to reach 7.5 million, meaning that a city the size of Toronto is expected to be added to the GTA over the next three decades.[11] This has important implications for infrastructure needs, land planning and service delivery.

(1) Competitiveness

On the surface, the GTA more than measures up to its peers on the cost competitiveness front. The KPMG's 2002 international cost comparison survey indicated that the cost of doing business in Toronto is lower than in all major U.S. cities.[12] The GTA offers advantages in labour, construction, office leasing, corporate taxation, electricity and transportation costs – though, KPMG notes the city still has the second highest commercial property tax rates in North America, surpassed only by New York. A number of studies have also ranked Toronto as an attractive location for high-tech start-ups, including those by Dr. Richard Florida and Gary Gates, as well as by John Boyd and Associates.[13] *However, the GTA's cost edge vis-à-vis U.S. jurisdictions rests on a shaky foundation, because so much of it is the direct result of the low Canadian dollar.*

Canada's federal government and Ontario's provincial government have made great strides in improving the business climate in the GTA in recent years. Both levels of government have eliminated their once-massive deficits, reduced debt burdens, and cut taxes. The Ontario government has been a leader among the provinces in reducing tax rates over the past half-decade. The Province is midway through a plan to chop its corporate income-tax (CIT) rate in half, to 8.0 per cent. Together with the tax cuts delivered by the federal government, Ontario's combined CIT rate will fall to 30.1 per cent by 2005. This is lower than the current combined federal/provincial rate in any other Canadian province and lower than the 35-per-cent federal-only rate in the United States (state taxes add an additional 4 per cent, on average). The Ontario govern-

CORPORATE INCOME-TAX (CIT) RATE IN 2005



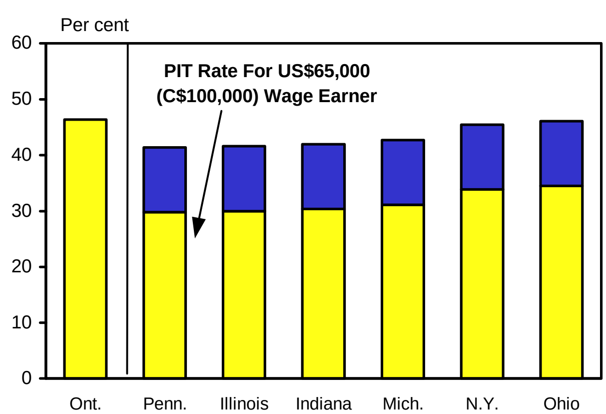
Data as at May 2002; * Includes average state corporate income tax rate
Source: Federal and provincial governments, TD Economics

ment's plan to slash the small business income-tax rate to 4.0 per cent will also place this tax at competitive levels compared to those of other provinces, and far below U.S. levels. On the property tax side, the Province has also taken steps to reduce provinial residential and business education property tax rates by C$500 million by 2003 and 2004, respectively. Lastly, there has been progress at both the federal and provincial levels in reducing capital gains taxes, by lowering the inclusion rate of capital gains in income for tax purposes from three-quarters to one-half.

However, there are other areas where significant further progress is needed. Although the federal and provincial governments have lowered personal income-tax (PIT) rates, the top marginal PIT rate in Ontario – at 46.4 per cent – remains relatively high compared to top rates in U.S. states. And, it kicks in at a considerably lower threshold (C$100,000 for a single wage earner compared with US$307,050). In fact, using a state income threshold level of US$65,000 for comparative purposes (roughly C$100,000 at current exchange rates), the gap between Ontario's top marginal PIT rate and that of many U.S. states rises to a striking 13 percentage points. In Ontario, marginal rates can jump as high as 60 per cent in the C$25,000-35,000 income range, if the loss of income-tested benefits as income rises is taken into account.[14]

On the business side, notwithstanding KPMG's favourable assessment of Ontario's business cost environment overall, the study highlights the need for more competitive commercial property tax rates in the GTA. And, while the Ontario government made a commitment in its 2000 budget to eliminate the capital tax, there has been little progress in implementing this promise to date. Canada is unique in directly and heavily taxing capital, which, along with productivity, is the prime engine of growth.

TOP MARGINAL PERSONAL INCOME-TAX (PIT) RATES IN 2002
For Ontario and Selected U.S. States



Income threshold for top marginal rate is C$100,000 for Ontario and US$307,000 for U.S. states; At the U.S. $65,000 income threshold (C$100,000), marginal rates for U.S. states would be 11.6 percentage points lower than respective top rates due to a lower federal rate; marginal tax rates include fed. and prov./state taxes and credits, and are calculated for a single wage-earner with no dependents; Source: Fed. and prov. governments, U.S. Congressional Budget Office, TD Economics

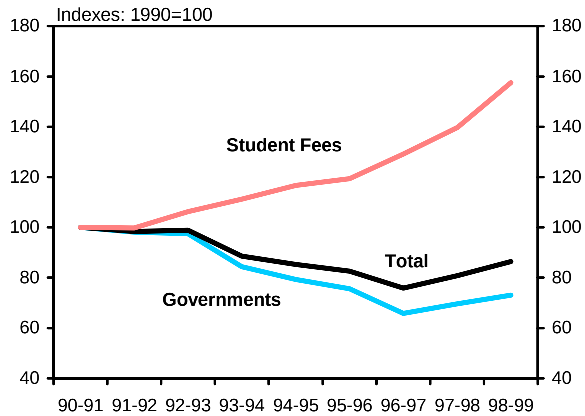
Research and development (R&D) is another area of vulnerability. The bulk of R&D spending in Canada is still funded by the federal and provincial governments, especially in areas such as biotechnology. Meanwhile, private-sector R&D remains relatively low. Industries must work to distinguish themselves as centres for innovation and research in order to fend off competition from lower-cost countries, particularly in the area of manufacturing. The Canadian automotive sector is a case in point. It risks losing increasing market share to Mexico unless it can develop a research niche.

Finally, with the GTA's heavy reliance on export-oriented industries, the border issue is an enduring concern with respect to Canada's competitiveness. Commercial and tourist traffic tie-ups at busy Canada-U.S. border crossings were already a serious problem prior to September 11th, and the increased preoccupation with security since then threatens to slow the flow of trade further. Although the latest federal budget earmarked a total of C$1.8 billion for border security and infrastructure, to help speed up the flow of traffic, the ultimate test will be whether these funds are deployed efficiently and effectively. Ontario should get the lion's share of the allocation, since it has 8 of the 13 busiest border crossings. Canadian governments must also continue to seek a comprehensive deal with the U.S. government to improve co-operation along the border.

(2) Education cutbacks

The GTA's ability to be successful in the global knowledge economy will depend largely on the quality of the region's education system, and its ability to churn out talented graduates at the post-secondary level. With ageing baby boomers likely to leave the workforce in growing numbers in the years ahead, increasing educational attainment among younger Canadians is vital if employers are to have a deep pool of labour to draw from. Ironically, the post-secondary education system itself faces an acute talent shortage. According to Statistics Canada, there are 11 per cent fewer Ontario Ph.D. students today than there were in 1992, while fully one-half of the members of university faculties across the country will retire this decade.

ONTARIO'S TOTAL EXPENDITURES ON POST-SECONDARY EDUCATION BY SOURCE PER STUDENT



Source: Statistics Canada, TD Economics

After a period of significant cutbacks, the Ontario government has begun to boost investment in education and training, but many in the profession argue that funding remains far too low and class sizes too large. At the primary and secondary levels, school boards are grappling with the relatively low literacy levels of new immigrants to the GTA – a challenge that will become more pronounced in the coming years, with an ever-larger share of the region's population expected to consist of international immigrants. At the post-secondary level, Ontario universities have been raising tuition fees, but the increases have only partially offset cuts in grants, leaving total funding down by some 15 per cent from the levels recorded in the early 1990s.

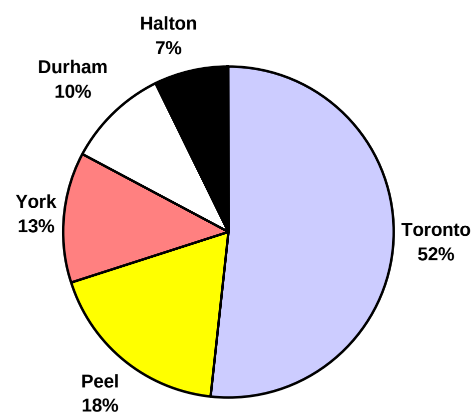
In the near term, the biggest challenge facing the education system in Ontario will be the upcoming double cohort – the phenomenon of two full grades graduating at the same time – which will occur when Grade 13 is eliminated in the province in mid-2003. Once again, the Ontario government has been ramping up spending in anticipation of this development, especially on the capital side, to help the universities cope with the deluge of some 78,000 new students that are expected to enter the university system over the next five years – an increase of 21 per cent. But, there are concerns that post-secondary institutions, still reeling from two decades of cutbacks, will not be in a position to meet medium-term growth targets for their respective student bodies. Estimates have been bandied about that as many as one in four qualified applicants could be turned away from universities and colleges in 2003 because of funding shortfalls.[15]

(3) Urban sprawl

Urban sprawl is a growing problem in the GTA. In recent years, bedroom communities and businesses have expanded rapidly, first in the suburbs, and then on into rural areas. The 2001 Census underscored the uneven distribution of growth in the GTA. In the 1997-2001 period, the population of the 416 area code (the new City of Toronto) grew by only 0.8 per cent per year, while the 905 area code's population grew by 3.4 per cent. York and Peel regions led the way, recording average annual growth rates of 4.9 per cent and 3.5 per cent, respectively.

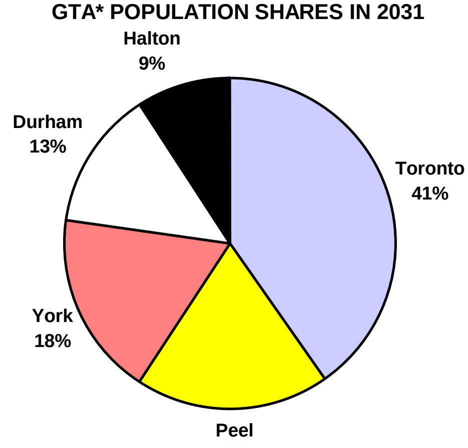
Data from the Financial Post's FP 500 – a list of the 500 largest companies in Canada – reveal an increasing number of head offices locating in the suburbs. Between 1986 and 2001, the head office count in Toronto shrank from 171 to 136, while in other areas of the GTA, it rose

GTA* POPULATION SHARES IN 1996



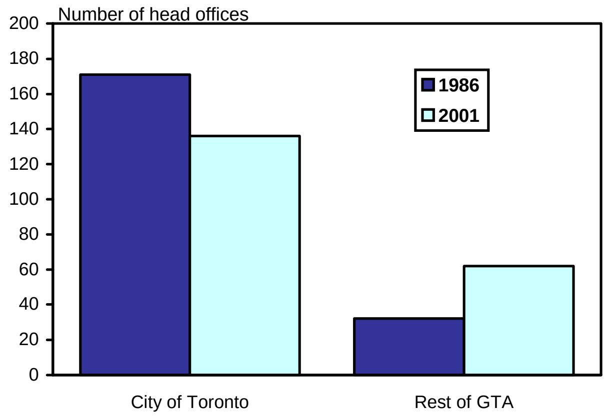
* Greater Toronto Area; Source: UDS Research and Information, TD Economics

GTA* POPULATION SHARES IN 2031



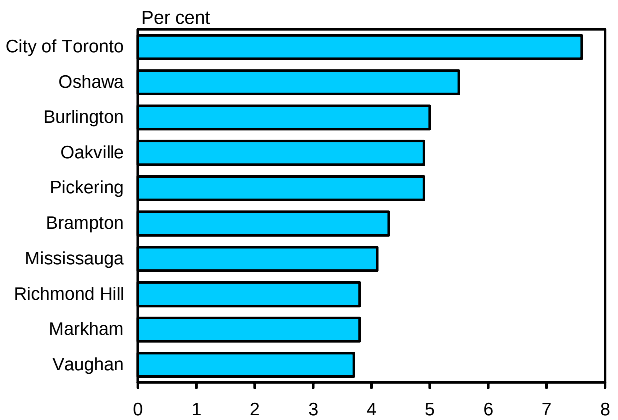
*Greater Toronto Area; Source: UDS Research and Information, TD Economics

HEAD OFFICES IN CITY OF TORONTO AND REST OF GTA*



* Greater Toronto Area; Source: Financial Post 500, TD Economics

INDUSTRIAL PROPERTY TAX RATES IN 2001



Source: City of Toronto, Property Tax Rate Survey, Annual Financial Reports of the respective regions, TD Economics

from 32 to 62. With many of the GTA's new and flourishing industries opting to locate in the suburbs, job growth has not been far behind. In the 1996-2001 period, job creation registered a blistering 5.8 per cent per year in York, 4.1 per cent in Peel, and 4.0 per cent in Durham – much higher than the 2.4 per cent recorded in the 416 area.[16]

While it is natural that the population of the higher-density City of Toronto would grow at a slower rate than those of the lower-density surrounding areas, the dramatic underperformance of the City's job market compared to those of the 905 areas is a more worrisome development. Businesses have fled to the suburbs – taking valuable jobs with them – largely to escape the cost of living and doing business in the city centre. The chief culprit is real estate and property taxes. Although residential tax rates are roughly comparable between the City of Toronto and surrounding areas, commercial, industrial and multi-residential rates are about twice as high as in the suburbs. And, while residential housing prices have been climbing in all GTA municipalities over the past few years, they remain considerably higher in the downtown area. So far this year, the average price of a single-family residential dwelling exceeded C$400,000 in many downtown Toronto districts. In contrast, in the surrounding GTA areas, prices were C$200,000-$250,000 in Ajax, Brampton, Burlington and Pickering.[17] Average prices in Markham were among the highest of the surrounding areas, at C$350,000.

The economic and social implications of urban sprawl are significant. Because public transit is not cost-effective in low-density suburban areas, sprawl contributes to burgeoning transit problems, leading to increased congestion and pollution. Some distressing facts that have emerged in GTA studies conducted over the past few years include:

- Within the City of Toronto, public transit accounts for 28 per cent of all morning peak period trips, as compared with 8 per cent elsewhere in the GTA.
- The Ontario Ministry of Transportation reports that over the past three decades, the GTA population has increased by 1.7 times, but car trips have more than tripled.[18]
- In June 2000, the Greater Toronto Services Board (GTSB) estimated that congestion in the GTA costs the economy C$2 billion annually due to delays in shipping goods – a figure that does not take into account the time lost by individuals.[19]
- The Toronto Board of Trade Survey of Senior Executives, released in September 2001, cited transportation as executives' second biggest concern, after taxes.[20]
- Air quality warnings issued in the GTA have surged in recent years. In 2001, the number of smog alert days jumped to 20 – more than double the high of 9 days recorded in 1999.[21] It is widely accepted that as much as half of the air quality problem in the GTA is attributable to pollution emanating from south of the border, but the GTA contributes its fair share, too.

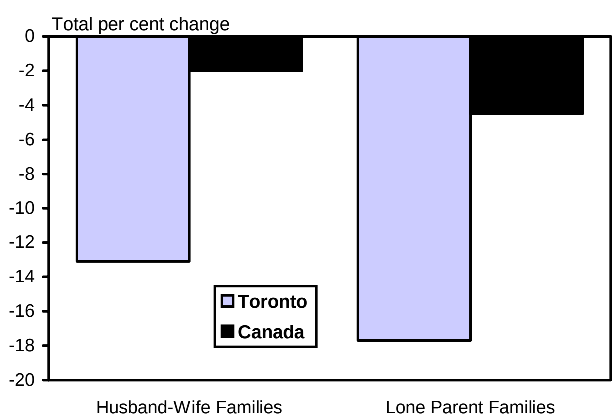
And, the problem is only likely to get worse. GO Transit's 2021 Plan, released in 1998, forecasts that the number of peak period auto trips will increase by 64 per cent between 1996 and 2021, resulting in a tripling of congested lane kilometres. Truck trips are expected to double over the next 20 years, according to a study by IBI Group.[22]

(4) Social inequity and poverty worsening

Although the GTA has prospered in recent years, many individuals in the region have been left behind. During the 1990s, average total before-tax income for individuals (including earned income and transfers from government) in the Toronto region stagnated, remaining flat at around C$33,000. The United Way of Greater Toronto and the Canadian Council on Social Development (CCSD) painted an even bleaker picture of the outlook in a recent study, pointing to worsening poverty and income inequality in Toronto.[23] The study revealed that the real median income of Toronto's husband-wife families and single-parent families fell by 13 per cent and 18 per cent, respectively, in the 1990s – compared with drops of 2 and 4 per cent for Canada as a whole. At the same time, the income gap between rich and poor continued to widen, as did that between certain ethnocultural communities.

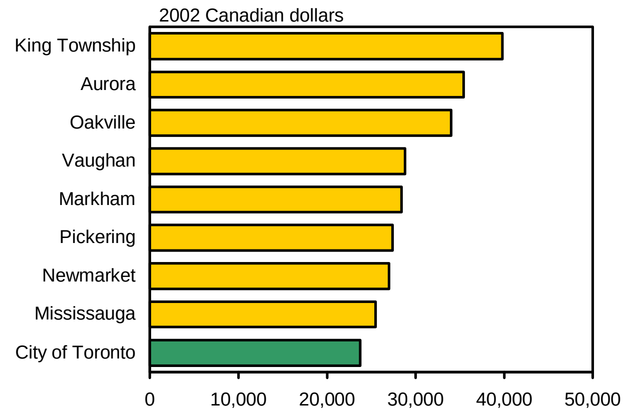
With the recent shift in output, employment and incomes from the City of Toronto to surrounding municipalities, and with the 416 area attracting homeless individuals from other parts of Canada, poverty in the GTA region is deepening, and is becoming more heavily concentrated in the City. FP Markets estimates that per capita income in the City of Toronto will be C$23,700 this year – considerably lower than the C$27,050 average expected in surrounding areas. The CCSD study indicated that the worst pockets of poverty are in the City's downtown core, in the areas of Regent and Moss Park, Kensington, Parkdale and St. Jamestown. But, there are also poor neighbourhoods elsewhere in the city, such as the Jane/Finch area, the former City of East York, and the former City of Scarborough.

REAL MEDIAN INCOME^: 1990-99



^ Constant 1999 dollars; Source: Canadian Council on Social Development, The United Way, TD Economics

NOMINAL PER CAPITA INCOME: 2002 ESTIMATE
City of Toronto and Selected Surrounding Areas



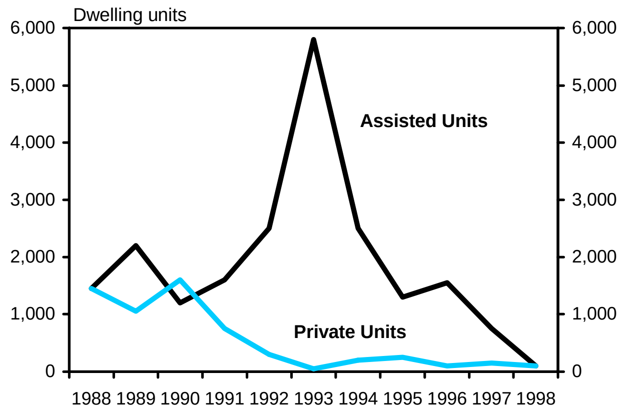
Source: FP Markets Canadian Demographics 2002, TD Economics

(5) Erosion of infrastructure

The GTA desperately needs to inject new funds into ageing transit, water and sewer systems, and buildings and roads. Years of rapid growth have taken a toll on the GTA's physical foundation. In some areas, water and sewage systems are more than 50 years old. The Toronto Transit Commission (TTC) has estimated that it will require a total of about C$3.8 billion in new capital investment over the next 10 years to maintain its existing facilities in a state of good repair and to accommodate new growth. But, there have been few systematic studies of the overall amount of investment that is required to rehabilitate the GTA and support its future growth. Consultants at IBI Group took a stab at the problem, estimating that if recent GTA development patterns continue, C$55 billion in new infrastructure capital plus an additional C$14 billion in operating costs (in constant 1990 dollars) would be needed over the next 25 years.[24] But, beyond that, all that is certain is that the needed investments within the GTA are substantial.

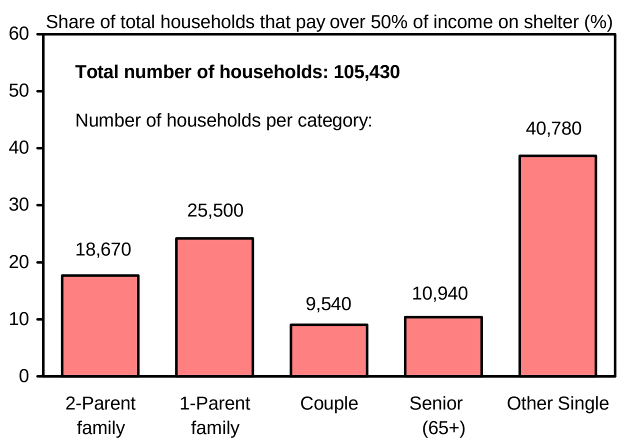
Infrastructure requirements are also substantial on the social side, particularly where affordable housing – or the lack thereof – is concerned. The 1999 report released by the Toronto Mayor's Homeless Action Task Force contended that the dearth of affordable housing in the GTA is a problem that has reached crisis proportions, with over 106,000 people paying more than 50 per cent of their income for rent, compared with a recommended level of 30 per cent.[25] The Task Force attributed part of the problem to the high – and rising – cost of private construction, which has pushed the break-even level for rents to a hefty

RENTAL HOUSING COMPLETIONS
City of Toronto, 1988-1998



Source: CMHC Toronto Region Market Report, 1988-1998, City of Toronto, TD Economics

PROFILE OF HOUSEHOLDS IN TORONTO WITH AFFORDABILITY PROBLEMS



Source: S. Pomeroy, "The use of rental assistance measures in a strategy to prevent homelessness"; Toronto Mayor's Homelessness Action Task Force, TD Economics

C$1,300-1,400 per month for each unit. That is almost double the C$750 per month that the average tenant household could afford if the 30-per-cent threshold were applied to an annual income of roughly C$30,000.

The boom underway in condominium construction in the GTA is likely to provide some relief for renters over the next few years – particularly as it creates opportunities for many middle- and upper-income renters to move into higher-end units, freeing up existing supply for lower-income tenants. Still, the reprieve for lower-income individuals is likely to be limited at best.

PART IV

THE U.S. CONTEXT

Modern-day cities on a hill?

As the GTA confronts the spectre of worsening economic and social problems, competing U.S. jurisdictions are beginning to enjoy their day in the sun. Many U.S. cities were in crisis twenty years ago, as heavy flight of residents and businesses to the suburbs, to a far greater degree than has occurred in Canada, left urban areas abandoned. Eventually, the severity of the problem galvanized governments into action, and they have spent much of the last ten or fifteen years bringing their cities back to life.

The U.S. federal government has been a vital part of the effort to revitalize U.S. cities, providing them with substantial new grants to help clean up their downtown cores, and invest in waterfronts, transit and social infrastructure projects. The largest federal program is the Transportation Equity Act (TEA-21), which was established in 1999. The TEA-21 has a total budget of US$217 billion, which will be spent over a six-year period on solving traffic and associated environmental problems in America's cities. In addition, the U.S. federal government also provides funds for urban investment through a host of other programs, including the Community Development Block Grant, the Home Investment Partnership, and the Revitalization of Severely Distressed Public Housing Program. It has been estimated that a region the size of the GTA would qualify for base funding of roughly US$240 million per year in federal grants if it were a U.S. jurisdiction.[26]

But, federal grants – while significant, both in dollar terms and in the beneficial impact they have had – tell only part of the story. U.S. cities have also been given more tools than their GTA counterparts to deal with the issues they confront. Above all, they have had access to a wider range of revenue sources, most of which tend to grow over time. Many U.S. municipalities can levy their own sales or excise taxes, and some have the power to levy income taxes. They also have more freedom to engage the resources of the private sector or other investors, by providing incentives, such as tax-abatements, personal and corporate income-tax exemptions or credits, and tax-exempt municipal bonds. And, they have more flexibility to establish public-private partnerships. Boston's "Big Dig" project (see text box, over) attempts to exploit all of these resources, from federal and state funding for the new subterranean tunnel system, to a possible new tax to support the revitalization of the surface area. It is a gargantuan effort, and one Torontonians should watch closely as they ponder the future of their own waterfront.

As we discussed in our April 22, 2002 report, *A Choice Between Investing in Canada's Cities or Disinvesting in Canada's Future*, not all of the financing options to which U.S. cities have access are problem-free. We highlighted the flaws inherent in several, including tax-exempt bonds (TEBs). We argued that TEBs are regressive instruments, and that they effectively represent a grant from the federal and/or state governments to the city, thereby providing benefits to one segment of the population (local citizens and the city) while tapping another for the cost (the general population). Interestingly, the Ontario government announced in its May 2002 throne speech that it is considering providing cities in the province with access to TEBs. Under the Federal-Provincial Tax-Collection Agreement, the federal government would have to agree to such a change in the tax base, and that seems unlikely.

Boston's "Big Dig"

The "Big Dig" is the moniker for an ambitious proposal first advanced in 1982 to bury part of an elevated highway that bisects Boston's downtown core, contributing to traffic congestion and cutting the city off from its waterfront. If that sounds familiar, it's because the description also fits Toronto's Gardiner Expressway – but, is the GTA ready for a Boston-style solution?

Billed as "the largest, most complex and technologically challenging highway project in American history", the Big Dig – formally known as the Central Artery/Tunnel Project – has two main components. A new, eight-to-ten lane underground expressway is being built to replace a six-lane section (the Central Artery) of U.S. interstate highway 93 (I93) that currently runs through downtown Boston. And, interstate highway 90 (I90, also known as the Massachusetts Turnpike) is being extended, also via an underground tunnel, to Logan Airport from its current terminal point south of downtown Boston. The first link of this latter initiative – the four-lane Ted Williams Tunnel, which runs beneath Boston Harbor – was completed in 1995. The new underground highway system will be a model of technological sophistication, featuring the world's largest highway tunnel ventilation system and the world's most advanced electronic traffic management and incident response system. Once the new, underground expressway is fully operational, the old, elevated highway will be dismantled, freeing up more than 200 acres of land for new parks and open space. And, the entire project is being carried out while the city of Boston goes about its daily business – which accounts for the project's protracted schedule (construction began in 1991 and will not be complete until 2004-05.)[1]

The cost of the Big Dig project is a staggering US$14.075 billion. The U.S. federal government is providing just over 60 per cent of the funding, while the state government – the Commonwealth of Massachusetts – is responsible for the remaining 40 per cent. The federal government's portion is composed of annual appropriations from the U.S. Department of Transportation and related agencies, and a promise to reimburse the state for a portion of its Grant Anticipation Notes (GANS) program (an asset-backed financing arrangement secured by a claim on future federal highway funds). The state government's share of the total cost is being met through a variety of means, including general obligation bonds, the GANS program, a Transportation Infrastructure Fund, and funding from the Massachusetts Port Authority and the Massachusetts Turnpike Authority.[2]

A plan of such grand proportions almost invites problems of a similar dimension, and the Big Dig has been no exception. Since its launch more than ten years ago, the project has been plagued by escalating costs, engineering problems, and construction delays. In 2000, cost overruns prompted the U.S. Congress to pass legislation bringing the project under tighter federal jurisdiction. Big Dig officials must now submit their finance plan annually to two federal agencies for approval – the Transportation Department's inspector general and the Federal Highway Administration – before federal aid is disbursed. The legislation also caps total federal funding for the project, which means that any new funding shortfalls will have to be absorbed by the state. The Transportation Infrastructure Fund, which was established by the Massachusetts state legislature in 2000, has increased the government's flexibility to meet new financing needs, but with the state's fiscal health deteriorating, this is a double-edged sword.[3]

There have also been disputes over issues of governance. The Big Dig project is funded entirely by the federal government and the Commonwealth of Massachusetts – the city of Boston has no involvement in the financing. The highways in question are owned by the Massachu-

(continued over)

There is another, perhaps even more important dimension to the wave of urban revitalization that is sweeping across the United States today, luring citizens back to their cities' downtown cores – and that is the presence of a committed and engaged private sector. According to Canadian urban planner, Joe Berridge, the participation of the private sector has been a common thread, and a critical factor, in the success of virtually all of the U.S. cities that are currently experiencing an urban renaissance.[27] In Canada, members of the private sector frequently contribute their time and energy to charitable endeavours, but the private sector as an entity is not yet an integral part of the urban planning process. Berridge contrasts this with the U.S. situation, where urban regeneration agencies like the Boston Redevelopment Authority – which is directing Boston 400, the city's comprehensive, new long-term plan – are at the forefront of the drive to bring cities back to life. These private sector-run agencies work closely with city

Boston's "Big Dig" *(continued)*

setts Highway Department (I93) and the Massachusetts Turnpike Authority (I90), a quasi-public agency with its own revenue-raising capabilities. The Turnpike Authority was given oversight of I93 by the state legislature in 1997, and will eventuallly assume ownership of it when the entire underground corridor – which will be known as the Metropolitan Highway System – is complete.

If the subterranean governance structure is relatively straightforward, however, it's a different kettle of fish at sea level. After years of discussion, there is still no consensus on who should own and oversee the above-ground space – called the "Surface Artery" – that will be reclaimed when the old highway is dismantled. Predictably, the City of Boston wants a hand in the decision-making process, and there is general agreement that it should have a significant role. But, the state legislature wants its interests represented, given its substantial financial commitment to the project, and the Turnpike Authority must ensure that the structure chosen allows for proper maintenance of the highway system. And then, there are the business, community and interest groups to consider, all of whom have a different vision of what should be done with the space. The Big Dig's environmental permits prohibit the construction of office buildings, hotels or condominiums in the area, but some business groups favour the development of cultural facilities, while open-space advocates are insisting the land be reserved for public parks.[4]

In March 2002, a tentative step forward was taken. Boston Mayor Thomas Menino – one of the city's greatest champions, and a well-known figure in urban regeneration circles – and the Speaker of the Massachusetts House of Representatives made a joint announcement that legislation will be drafted to create a new governing body to control the Surface Artery area. The entity is to be set up as a non-profit organization and will be run by a board of trustees appointed by the governor, the legislature and the city. The Mayor also suggested a permanent real estate surtax might be imposed on downtown businesses, to ensure that the management and maintenance of the Surface Artery area is funded by a dependable revenue stream. Still, the composition of the governing body has yet to be determined, and the enabling legislation has not yet been drafted, so much remains to be done.[5]

All of this should strike a chord with GTA residents, who have endured years of wrangling between federal, provincial and municipal government officials over who should pay for the various initiatives needed to revitalize Toronto's beleaguered waterfront. Whether it be burying the Gardiner expressway, improving water quality, cleaning up contaminated land along the lakeshore, or simply restoring the area to make it more amenable to public use, the lack of progress has been discouraging. If there is one lesson to be learned from Boston's Big Dig, it is that a public works project of this magnitude cannot be undertaken without substantial funding from upper levels of government. City officials in Boston, who liken the Big Dig to major 20th century ventures like the Panama Canal or the Chunnel (the tunnel beneath the English Channel), have adopted the slogan, the "The Big Dig – Worth its Wait". Unless the federal government and the province of Ontario can be persuaded of the economic value added of a revitalized waterfront – and can be assured that the project can be completed in an efficient, cost-effective way – the GTA will face an even longer wait.

1. Boston Redevelopment Authority, "Boston's Strong Economy – 2001," *Report #546*, June 2001.
2. *Cost/Schedule Status of the Central Artery/Turnnel Project*, submitted by Massachusetts Turnpike Authority, April 2001.
3. Raphael Lewis, "Opening Dates Set for Segments of Boston's Big Dig Road Construction Project," *The Boston Globe*, March 29, 2002.
4. Thomas C. Palmer, Jr., "Massachusetts Turnpike Authority Delays Search For Boston Park Designers," *The Boston Globe*, April 8, 2002.
5. Thomas C. Palmer, Jr., "Officials for Boston's Big Dig Road Project Get Read to Pick Urban Designers," *The Boston Globe*, April 8, 2002.

Chicago: Our kind of town?

One of the areas in which U.S. cities are miles ahead of their Canadian counterparts is their ability to enlist the support of the private sector for the task of urban revitalization. Chicago is a prime example of how private sector expertise can be leveraged to great effect.

Like many U.S. cities, Chicago entered into a period of decline during the 1970s and 1980s, as sub-par economic growth and the spread of suburbanization conspired to hollow out the city's downtown core. For the windy city, the turnaround began in its financial services industry cluster. As participants at a recent conference hosted by the Federal Reserve Bank of Chicago and the University of Illinois at Chicago noted, exchanges like the Chicago Board of Trade and the Chicago Mercantile Exchange have made Chicago the risk-management capital of the global financial industry. Building on this success, the city has more latterly developed a presence in other business services, such as accounting, consulting and legal services – all of which has brought about a dramatic reversal in population and employment growth trends. After two decades of decline, the city of Chicago recorded positive population growth in the 1990s, as households returned to the downtown core, attracted by its reviving economic growth and the city's enduring cultural appeal.[1]

In August 1999, a new public-private partnership called World Business Chicago (WBC) was formed to help the city keep the momentum going. WBC is a public-private economic development corporation co-chaired by Richard Daley, the Mayor of Chicago, and Michael O'Halleran, President and COO of Aon Corporation. The WBC's Board of Directors includes top business leaders from companies and institutions like Boeing, the Chicago Mercantile Exchange, the Federal Reserve Bank of Chicago, McDonald's, Merrill Lynch, Sara Lee and United Airlines.[2]

WBC's mandate is to contribute to the expansion of the Chicago regional economy by supporting the growth and development of Chicago's private sector and the broader metropolitan area in which it is located. To this end, WBC works in concert with the private, public and not-for-profit sectors to help companies re-locate to Chicago or expand their existing facilities in the city. WBC's primary role is to attract new business to the Chicago area, while public sector entities like the City of Chicago's Department of Planning and Development (DPD), a line agency of the municipal government, focus on retaining existing businesses and facilitating their expansion.

Together, the DPD and the WBC have proved a formidable team. They scored one of their greatest successes a year ago, when Boeing announced that it was moving its headquarters from Seattle to Chicago. The top U.S. exporter wanted to find a more central location for its operations, and it considered a number of cities, including Dallas and Denver. To win Boeing's business, DPD Commissioner Alicia Mazur Berg and WBC Executive Director Paul O'Connor made a joint presentation to Boeing, showcasing Chicago's virtues as a corporate headquarters – a prime example of the synergies that can be realized through public-private partnerships.[3]

It was not the first time Chicago has benefited from the intervention of an enlightened private sector. At the turn of the last century, Aaron Montgomery Ward, founder of the retail giant, spent twenty years and a small fortune fighting city officials and his own corporate colleagues to stop private development along Chicago's waterfront. Today, the city's spectacular lakeshore is the envy of many, not least Toronto. It is the crowning jewel of a once-great city that is recapturing its former glory - and then some.[4]

1. Margrethe Krontoft, Dan McMillen and William A. Testa, "Are central cities coming back? The case of Chicago," *Chicago Fed Letter: Special Issue*, Federal Reserve Bank of Chicago, December 2001.
2. World Business Chicago website (http://www.worldbusinesschicago.com/about/aboutwbc.asp).
3. The information in the above two paragraphs was compiled with the help of the City of Chicago's Department of Planning & Development. We are grateful for the generous assistance of communications director Joel Werth and project managers Nori Bleiman and Benet Haller.
4. Don Wanagas, "Why can't we be Chicago?," *National Post*, August 18, 2001.

council, but at the end of the day, they typically have final decision-making authority, even over the disposition of assets that are owned by the municipality.

Public-private partnerships – like World Business Chicago (see text box above) – are another way of making the private sector a stakeholder in the urban planning process, while drawing on its financial resources and the strategic expertise of its business elite. Canadian cities are starting to explore this option (see the Toronto Waterfront Corporation text box on page 26), but we are only just beginning to cultivate the ethos of corporate involvement that has become the hallmark of the U.S. experience.

PART V

THE NEW GTA GOVERNANCE ENVIRONMENT

Attitude of subservience starting to change

Like other local governments in Canada, GTA municipalities – which are under provincial jurisdiction – have traditionally been treated as a "junior" or "third order" level of government by the Province. While this attitude has not yet been eradicated, the province of Ontario has begun to cede responsibility for a variety of programs and services to its municipalities. In fact, Ontario's provincial government has handed over more duties to its cities than most of its Canadian counterparts, with municipalities in Ontario now involved in the provision of social services (see the *Local Services Realignment* text box, below). Moreover, the province's new Municipal Act – which has already been passed and which goes into effect on January 1, 2003 – will provide cities with a few new financial tools and some additional leeway to conduct their operations. Although these reforms fall well short of giving Canadian cities the latitude that U.S. municipalities enjoy, they are important from a policy perspective. They signify that, while provincial governments – and to a lesser extent, the federal government – will continue to play a key role in managing activities in the cities, municipal governments are an increasingly important part of the equation.

This evolution is not without its problems. For instance, the high degree of population mobility within a province may make it difficult for local governments to provide social assistance effectively. But, on the whole, the case for decentralizing decision-making authority and program and service delivery to the local level rests on solid, logical foundations. Individuals needs vary widely – even within the GTA. Municipal governments, by virtue of their proximity to their constituents, are in a better position than their federal and provincial counterparts to identify and meet these unique requirements.

Local Service Realignment (LSR)

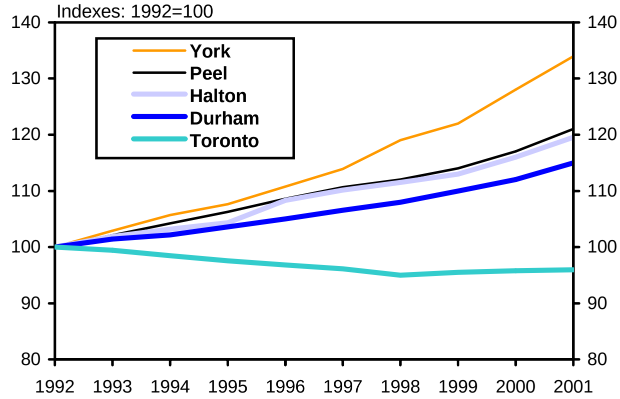
In 1996, the Ontario government carried out a "Who Does What" exercise in an attempt to promote more efficient and more accountable service and program delivery. Building on the results of that exercise, the provincial government adopted a new division of responsibilities for local services in 1998, called Local Service Realignment (LSR). LSR provided for the following:

- Municipalities were given 100 per cent funding responsibility for transit, police, property assessment services, septic-system inspection, and social housing. Municipalities were also given full responsibility for GO Transit operations and base-capital funding, but the province subsequently took back this role in January 2002. The Province has also announced support for up to one-third of eligible municipal transit capital costs. The Ontario government estimates that the latter move has freed up C$1 billion in additional room for GTA municipalities and Hamilton to invest in transit.
- The province has assumed 100 per cent control of children's aid societies and shelters for abused women.
- Responsibilities for benefit payments for child care, the Ontario Disability Support Program, sole support parents and non-residents on Ontario Works, and Ontario drug benefits are shared 80-20 between the provincial government and municipalities (though administration costs for these services are split 50-50).
- Funding responsibility for land ambulances and public health programs is shared equally between the provincial government and the municipalities.

LSR was designed to be revenue-neutral, with cities taking on about C$2.5 billion in new service responsibilities, net of savings targets, in exchange for $C2.5 billion in additional revenues. The province has freed up this additional revenue by handing over a share of the residential property tax room that had been used to fund school boards. With the province having taken back a greater share of responsibility for education, municipalities' funding obligations in this area have been reduced.

The Ontario government also provided municipalities with permanent funding of about C$500 million through the Community Reinvestment Fund (CRF). Municipalities can access this fund if the costs of the new programs and services they are responsible for providing under LSR exceed the tax room that has been freed up – though, in order to access CRF funds, municipal governments have to meet targets for cost savings, which are pre-specified based on the size of the city.

PROPERTY ASSESSMENTS IN THE GREATER TORONTO AREA



Source: City of Toronto, Annual Financial Reports of the respective regions and survey, TD Economics

The C$2.5 billion-odd in service responsibilities, net of savings targets, shifted to the municipalities under LSR in exchange for property tax room and new temporary and permanent funding has prompted a heated debate between provincial and city officials as to who received the better financial deal under the reform. According to the Ontario government, no cities in the province have been worse off under the plan to date, and some cities have actually benefited – especially those in the GTA, which have achieved additional savings following the provincial government's move to take back responsibility for GO Transit in 2002. However, several cities in the province dispute this assessment. They argue that the funding switch has actually resulted in a higher cost burden – primarily due to the province making inadequate allowances for capital funding and the cost of the transition. As proof, they cite the widespread hikes in property taxes now underway in the GTA. While most municipalities in the region will raise property tax rates by 2-4 per cent in 2002, Oakville and Oshawa plan increases of 8-9 per cent this year.

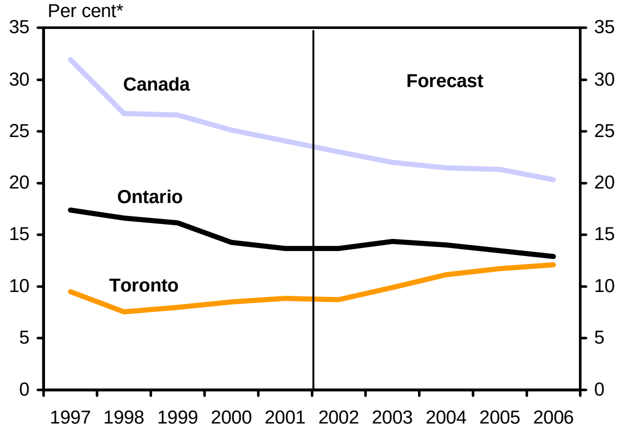
While the debate will likely rage on for some time to come, the bigger issue is that cities are still being expected to fund their increased responsibilities through property taxes. Although municipalities in the GTA have begun to make greater use of other levies, such as user fees and development charges, property taxes still make up about half of their revenue base. This is an untenable situation. Property taxes are inherently flawed as a source of funding for cities' ongoing needs, because they are based on assessable property values. As such, they have only a weak relation to ability to pay, and are not closely aligned with the cost of services. Property taxes are also regressive in nature, which means they are a poor means of funding income redistribution. And, there can be extended periods during which returns from property taxes do not rise in tandem with the cost of cities' programs and services.

This has certainly been the experience in the GTA, where the slow growth of assessment bases has constrained the finances of municipal governments. While the introduction of LSR in Ontario complicates comparisons of the pre- and post-1998 periods, there is no mistaking the gap in revenue growth that opened up during the two-year period ending in March 2001, when provincial government revenues rose by 16 per cent, while revenues in the City of Toronto, Halton, and Peel regions eked out only minimal gains. Even more instructive, a recent study by Harry Kitchen showed that the municipal property tax burden in Ontario has declined from 4.1 per cent of GDP to 2.6 per cent, while combined provincial income and consumption taxes have virtually doubled, from 6.6 per cent to 11.6 per cent. And, municipalities have few places to turn. Unlike the federal and provincial governments, they cannot issue debt to finance operating shortfalls. Rather, provincial legislation constrains them from using debt financing for anything other than long-term capital expenditure.

Not all municipalities are in the same predicament

Of all the GTA's municipalities, the City of Toronto confronts the most daunting set of challenges. It has a higher population of new immigrants, the homeless, and the elderly, all of whom have special needs. It has an inadequate transportation system – the TTC, in particular, is an ageing asset badly in need of an upgrade. And, it is simply older than the rest of the GTA, which means its infrastructure is in greater need of repair. Compare this with the experience of suburban regions like York and Durham, where assessment bases have been growing far more rapidly than in the 416 area code, and where burgeoning "greenfields" development has boosted revenues from development charges and property taxes.

This has permitted suburban regions to keep debt burdens at low levels and build up reserve funds in anticipation of future infrastructure needs. The City of Toronto, by contrast, has been moving in the opposite direction, drawing down its reserves and raising its debt burden. This is reflected in the fact that the City of Toronto's gross debt per capita now stands at more than C$800 – about C$200 above the GTA average – while its per capita debt servic-



* Per cent of total revenues (interest only) for Canada & Ontario; per cent of property taxes (principal & interest) for Toronto
Forecast by City of Toronto and TD Economics
Source: City of Toronto, TD Economics

ing costs, at C$105, are well above the regional average of C$74. Debt service charges in the City of Toronto now absorb about 10 cents of every revenue dollar.

City of Toronto infrastructure a serious burden

This financial noose is only expected to tighten over time, as the City of Toronto faces growing pressure to re-invest in infrastructure. This year, the City projects that it is underfunding capital by about C$200 million – an amount that it projects will begin to rise sharply by 2004, as the TTC's ageing infrastructure and fleet of trains need to be replaced. Toronto City Council estimates that the cost of upgrading the TTC would increase the overall capital funding shortfall substantially by mid-decade. This figure does not include the underfunding of water and waste water infrastructure – a lacuna the city plans to fill by introducing a series of user fee hikes in the order of 10 per cent per year, on average, over the next several years. In fact, the city's capital funding projections merely reflect the cost of maintaining existing infrastructure. They do not incorporate estimates of the cost of expanding or improving infrastructure, nor do they build in the City's share of the costs of developing the waterfront, re-habilitating the existing stock of social housing, or expanding GO Transit. If these expenditures were factored in, the funding shortfall would increase by several more hundreds of millions of dollars per year over the next several years.

The Ontario government has taken some steps to help the City of Toronto cope with these looming fiscal pressures. In the first place, the City of Toronto is itself a product of these efforts. It was created in 1998, when the province amalgamated Metro Toronto with its six municipalities, in an effort to reduce duplication of services – producing savings of about C$153 million per year in property- and rate-supported programs. Second, to help defray some of the higher costs of social services in the City of Toronto, a pooling formula was introduced in the GTA, whereby surrounding municipalities contribute to a share of the City's expenditures on social housing and social assistance. Third, as noted in the LSR text box, the provincial government took over full responsibility for operating and base-capital funding of GO Transit in 2002, freeing up

Amalgamation

Another major change introduced by the provincial government was the amalgamation in 1998 of the former regional government of Metropolitan Toronto and its six constituent municipalities – Toronto, Etobicoke, York, East York, North York and Scarborough – into a single entity, the new City of Toronto.

The provincial government wanted to reduce the size of the municipal government and rationalize its operations. As compared with a total of 106 elected officials in the former municipalities, the present City Council has 45 members (1 mayor and 44 councillors). The new city has integrated the management structure of the seven previous organizations, resulting in a 34-per-cent cut in management costs. The 52 departments and 206 divisions of old have been replaced by a new streamlined arrangement, with just 6 departments and 37 divisions. Proponents argue that the leaner structure has reduced confusion and enhanced accountability.

Reducing inefficiencies created by overlapping service delivery has generated some C$153 million in cost savings per year, a figure in excess of what the province expected to realize when it settled on amalgamation. Even greater savings would have been achieved had three-quarters of the City of Toronto's total budget of C$6.5 billion not already been merged under the previous metropolitan government framework, and had there not been unanticipated costs associated with harmonizing wages and services across the new, broader jurisdiction.

$50.8 million annually from the former GO levy for the city to invest in transit, and announced that it would restore modest capital funding to the TTC. Last, the province's 1998 Energy Competition Act confirmed that municipalities would be the sole owners of local municipal electric utilities, providing the cities with an important new source of revenue.

Still, the revenue bases of municipalities across the GTA – not just in the City of Toronto – are not growing in line with their needs, particularly given the rapid growth in the GTA and the associated economic and social challenges this has spawned. As things stand now, the substantial capital expenditures that will be required to maintain and rehabilitate municipal infrastructures threaten to push debt burdens up sharply right across the GTA, resulting in a higher debt service burden – and, inevitably, cuts to programs and services.

PART VI

LEADING THE GTA INTO THE 21ST CENTURY

Over the past few years, the federal government and the province of Ontario have started to face up to the critical role that the GTA and other Canadian cities will play in shaping the nation's future. As mentioned earlier, federal and provincial tax rates have been lowered in recent years. At the provincial level, infrastructure spending has been ramped up in recent budgets, and municipalities have been granted selected new decision-making powers. The federal government has also put new money on the table in the form of grants to help with the plight of the cities. Below, we list some of the key provincial and federal measures announced or implemented in recent years to help Canada's cities deal with the challenges they face:

Ontario government

- The provincial government established the SuperBuild Initiative in 1999 to invest in infrastructure. Over the past few years, the government has spent C$9 billion on roads, highways, post-secondary education, health care, waterfront development, culture and innovation, and it has leveraged an additional C$4 billion in private investment. By 2004, a total of C$20 billion will have been spent, much of it in cities.
- The government announced a plan to invest C$3.25 billion in transit over 10 years, and it is seeking a partnership arrangement with the federal and municipal governments that would increase this amount to C$9 billion. The C$3.25 billion figure includes additional funding for the TTC to cover one-third of the amount for transit fleet replacement, as well as the cost to the province of taking back responsibility for funding Go Transit's operating and base-capital needs.
- The province has now passed a new Ontario Municipal Act. The Act, which will be implemented on January 1, 2003, provides cities with additional decision-making authority.

The New Ontario Municipal Act

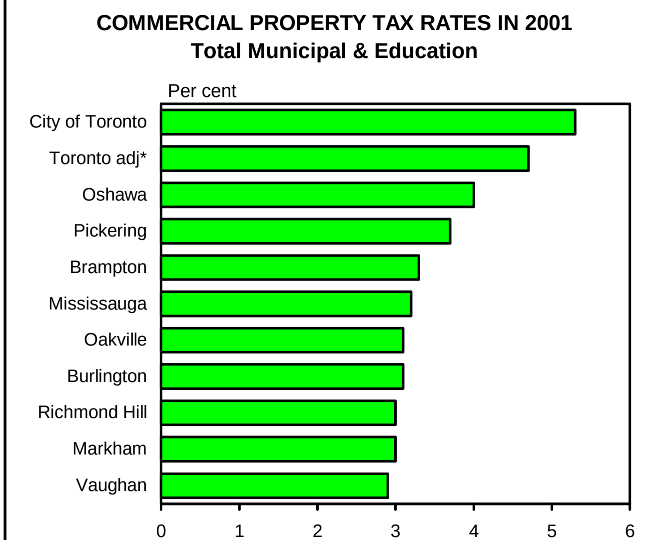
The implementation of the new Ontario Municipal Act, which will go into effect on January 1, 2003, will go some way toward providing municipalities with more autonomy and flexibility. For the first time, the Act will recognize cities as responsible, accountable governments with respect to matters within their jurisdiction, providing them with authority in 10 spheres of influence, including public utilities, waste management, public highways, transportation systems, culture, parks, and economic development. In addition, the Act will grant cities "natural person powers", in effect giving them the same authority and flexibility as individuals and corporations to manage their affairs. And, it will make it easier for cities to set up Corporations and enter into public-private partnerships. As an example of the latter, cross-border leasing arrangements are already being explored by the City of Toronto for financing subway cars. Increased ability to raise long-term private-sector capital through financing vehicles other than sinking-fund debentures will likely be allowed under the new Act.

While the Act is a step in the right direction, it does not give Canadian cities anywhere near the range of financing tools and decision-making authority that local jurisdictions in the United States have access to. Moreover, some of the new powers that the Act will bestow on cities – including natural-person powers – will be subject to a list of limiting regulations that will not be released until later this year. So, the degree of increased flexibility that cities will enjoy in practice is still an open question.

- The Ontario government introduced Current Value Assessment to help resolve inequities in the property tax system that had developed over the last 50 years. Part of this change included elimination of the Business Opportunity Tax, which was dicriminatory to certain classes of business, extremely difficult to administer, and resulted in substantial losses for municipalities (*i.e.*, since uncollected taxes were not secured against properties, as is the case with property taxes.)
- To combat urban sprawl and other regional issues, the government announced the creation of five "Smart Growth" panels, each of which will consist of representatives from the private sector, as well as municipal and other community leaders from across the province. The Central Zone "Smart Growth" panel, which includes the GTA and surrounding regions of Central Ontario, will focus its efforts primarily on transportation and waste disposal. The panel's mandate is to develop an integrated transportation vision for the Golden Horseshoe, including integration between highway and transit.
- To help rehabilitate large tracts of land with suspected or actual soil contamination, the government has introduced brownfields legislation. The legislation is aimed at supporting the cleanup and revitalization of former commercial and industrial brownfield sites by creating incentives for investment and clarifying environmental liability rules – uncertainty concerning which is one of the greatest impediments to private sector investment.

Current Value Assessment (CVA)

One of the chief recommendations of the 1996 Report of the GTA Task Force was that sweeping reforms be made to Ontario's archaic property tax system. The system was rife with inequities. Assessments were out of date; businesses were not treated equitably, with different types of businesses paying different tax rates; successful appeals by individuals and business of their property tax assessments were eroding tax bases; and, municipalities had little flexibility to resolve any of these biases. The most egregious problem was in the area of commercial property taxes, where rates were excessively high and assessments, in some cases, were 25 to 50 years out of date. The City of Toronto has been one of the worst culprits in this regard. While its residential tax rates are roughly in line with those of surrounding areas, its commercial and industrial rates are two times the provincial average, although some of this differential is attributable to higher provincial education tax rates in the City than elsewhere. This has been a major competitive problem for the city, and has contributed to urban sprawl.



* Assumes Toronto's education rate is reduced to the 905 average; Source: City of Toronto, Property Tax Rate Survey, Annual Financial Reports of the respective regions, TD Economics

In 1998, the Ontario government responded by launching Current Value Assessment (CVA). That year, all properties across the province were reassessed to establish a consistent and comprehensible set of assessments based on 1996 property values. A second, province-wide assessment was completed in 2001, updating all assessments to reflect 1999 values, with annual reassessments to begin in 2003. In an effort to alleviate the system's most flagrant inequities, the provincial government established "tax ratios" for each class of property. Municipalities whose tax ratios for a given property class are well above a "fair level" are prohibited from raising rates on those properties. The provincial government has capped individual tax increases on commercial, industrial, and multi-residential properties at 5 per cent to mitigate the immediate impact of the adjustment on businesses. As such, considerable variations still exist between classes of properties as well as among property types.

The federal government

- The federal government has introduced three infrastructure initiatives over the past several years, amounting to a total of C$6 billion in federal spending, of which the majority has been earmarked for projects in the cities.
- The latest initiative – a C$2 billion Strategic Infrastructure Fund announced in the December 2001 federal budget – will provide shared-cost assistance for large infrastructure projects such as highways, urban transportation, convention centres and sewage treatment.
- Over the past two years, the government has invested a total of C$250 million in two "Green Municipal Funds," investment funds that will provide financial support to projects that help improve the environmental efficiency and cost-effectiveness of municipal infrastructure. Recently, the federal government asked the province to facilitate a C$76 million investment in one-off capital assistance to the TTC.
- The April 2002 release of an interim report by the Prime Minister's Task Force on Urban Issues – chaired by federal Liberal MP Judy Sgro – also spelled good news for cities in the GTA and elsewhere in Canada. While it is not yet the official government position, the report recognizes that the federal government's ability to meet its national objectives will depend in part on the fate of Canada's cities, and it outlined a number of areas in which the government could either commit new funds or build on assistance it is already providing.

PART VII

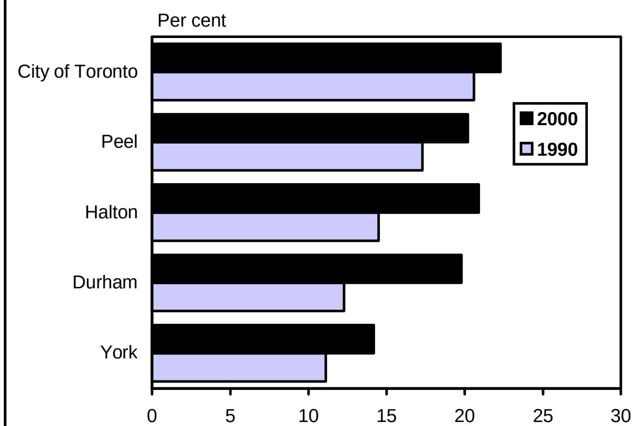
WHERE DO WE GO FROM HERE?

In our April 22nd report, *A Choice Between Investing in Canada's Cities or Disinvesting in Canada's Future*, we offered a number of policy prescriptions to raise the long-run economic and social prospects of Canadian urban centres, including those in the GTA. Here, we review those proposals as they relate to the GTA specifically.

Cities have to be part of the solution

Municipalities in the GTA have undergone tremendous changes in recent years – including LSR, amalgamation, and CVA – which have created significant, new challenges. While the manner of their introduction was sometimes controversial, these reforms have generally had desirable out-

USER FEES AS SHARE OF TOTAL REVENUE



Source: City of Toronto, TD Economics

comes – notably, improving fairness, efficiency and accountability across the region. Now that the GTA's municipalities have had a few years to adjust to these new realities, they must take stock of what still needs to be done to improve the prospects for economic growth and a rising standard of living. In our judgement, cities have significant scope to tidy up their own backyards within the current framework.

Cities need to do a better job of aligning property taxes, user fees, and development charges with the cost of services. Even with the recent provincial property tax reforms, industrial and commercial properties across the GTA are over-taxed relative to residential properties, downtown multi-residential properties in the City of Toronto are over-taxed relative to suburban areas, and commercial and industrial properties in the City are over-taxed relative to properties in surrounding areas. The caps placed on non-residential property tax increases by the Province will prevent the problem in the City of Toronto from worsening, but the City must do all it can to lower these tax burdens. This is crucial to stopping businesses and jobs from fleeing the downtown core.

In recent years, cities in the GTA have been given more flexibility to apply user fees, and they have taken advantage of the opportunity, with user fees as a share of total revenues in the GTA on an increasing trend over the past decade. In particular, there has been progress made by cities in moving towards full-cost pricing of water. However, they can do more. Municipalities in the GTA have not yet fully explored opportunities to move toward full-cost pricing of garbage collection, for example. There is also real potential for municipalities to introduce user fees in the area of non-public transportation, especially given the emergence of new, efficient technologies to collect tolls.

Charging the full cost of travel for highways and roads in the downtown core would be a win-win situation for society and the government's bottom line. Implementing road tolls would move the GTA part way towards resolving one of its greatest problems – gridlock – by encouraging more efficient use of transportation within the region. Until a user fee system can be implemented, municipalities – through their control of parking meters and public parking lots – could raise revenues from parking. This would achieve some of the same effects (*i.e.*, a substitution away from private automobiles) as road tolls on highways. Pushing up the cost of road use well above that of public transit would also ease the pressure on cash-strapped cities to subsidize this latter form of transportation.

Another way of tackling the problem of traffic congestion is by promoting urban density. And, in recent years, cities in the GTA have paid greater heed to this objective, recognizing that a thriving downtown core is an indispensable ingredient of a healthy city. Changes in land-planning strategies and the more flexible application of zoning bylaws have helped to spur a boom in condominium development along public-transit nodes. Cities and regions are becoming more creative in their approach to public transportation – for example, the city of Vaughan is considering the introduction of bus-only lanes on major city streets, and York region is mulling over plans to build a C$4 billion rapid transit system with help from the private sector. And, the City of Toronto may finally be posed to deal with one of the greatest blights on its landscape – the long expanse of derelict properties and vacant land along the city's waterfront, the railway lands, and east of Yonge along Front Street. The Central Waterfront area – extending about 10 kilometres from Jameson Avenue in the west to Leslie Street in the east – offers particularly promising opportunities. While the high cost of environmental clean-up and the City of Toronto's already-weak fiscal position present two significant roadblocks, the development of this property could generate income and taxes for the City.

Cities in the GTA should also strive to achieve increased efficiencies in their operations. The City of Toronto should press on with the realization of savings from amalgamation. Moroever, the appointment of independent Auditor Generals at the municipal level, akin to those at both the federal and provincial levels of government, would help to

The Toronto Waterfront Revitalization Corporation (TWRC)

- The Toronto Waterfront Revitalization Corporation (TWRC) was formed in 2001 by the City of Toronto, the Province of Ontario and the Government of Canada to spearhead the process of redeveloping Toronto's waterfront. The TWRC estimates the total cost of this endeavour – from cleaning up contaminated lands and lake water, to expanding parks and building new housing, to improving the transportation network that links the area together – at C$12 billion, 70 per cent of which is to come from public-private partnerships.
- Each level of government will contribute C$500 million to the Corporation, for a total commitment of C$1.5 billion. Four projects have been identified as priorities: (i) the extension of Front Street from Bathurst to Dufferin; (ii) the expansion of subway platforms and passenger corridors for the TTC and GO Transit at Union Station; (iii) Phase One of the environmental clean-up of the Port Lands; and, (iv) an environmental assessment for restoring the mouth of the Don River. The first two are precursors to the reconstruction of the Gardiner corridor and the dismantling of the elevated expressway.
- The Corporation has made great strides in the past year, despite the failure of the Toronto 2008 Olympic bid, which was expected to be a catalyst for the process. However, much remains up in the air. Provincial legislation to transform the TWRC from an interim into a permanent corporation has not yet been enacted, and key details have yet to be worked out regarding the full scope of the TWRC's legal powers. As the TWRC proceeds with the formulation of a business plan that will specify the next set of investment priorities for the waterfront and how these projects will be sequenced and financed, it is already struggling to define its role relative to the City of Toronto over the disposition of lands along the waterfront. And, while the federal and provincial governments reaffirmed their commitment to the project at the TWRC's May 2002 open house, there has been lingering concern about the City of Toronto's ability to fund its share of the project.

ensure that taxpayers are getting value for their money. At the same time, new opportunities for cost savings through alternative service delivery (ASD) could be more fully explored – especially in areas such as water and waste water. Water responsibilities, for example, could be set up through a Board, similar to the structure of the TTC or as a Corporation. Within the GTA, certain restrictive labour contracts impede any consideration of ASD, and should be addressed.

A move toward greater regional co-ordination of services would also benefit the entire GTA region, by facilitating regional planning. In the absence of any regional governance framework encompassing the GTA, there is a tendency for municipalities and suburban regional governments to formulate policy with only their own interests in mind. The provincial government's Smart Growth panels were conceived as a way of helping to cultivate a broader perspective on regional planning. However, where the Central Ontario panel is concerned, at least – it is charged with developing solutions to solve the problems of gridlock and rising garbage volumes in the Central Ontario region – there is already skepticism. With the area of Central Ontario extending from Niagara Region to Haliburton County, and from Lake Ontario to Georgian Bay, there is concern that the region is simply too big for the small panel to manage effectively. And, there are qualms about its accountability, with several of the Panel's 19 members being unelected.

In the end, it may be that a more radical approach to the need for regional coordination is required – perhaps one that involves modifying the existing governance structure of the GTA. In its May 2002 report, *Securing Our Future*, the City of Mississauga made a suggestion along these lines.[28] The report advocates abolishing GTA regional governments and replacing them with a coordinating body of elected representatives from each municipality that would assume a number of region-wide responsibilities.

Needed … $$$

In the final analysis, it is clear that any savings achieved from city government reforms will pale in comparison with the cost of rehabilitating and expanding municipal infrastructure. Cities in the GTA need a new deal, which gives them access to a reliable revenue source. We described the pros and cons of four such financing mechanisms in our April cities report. Here, we review that discussion in the context of the GTA's priorities.

Grants and revenue transfers

Increased grants to cities from the provincial and/or federal governments could help address the huge infrastructure gap that has built up over recent years. To be useful, firm amounts need to be specified, and for a multi-year period. Grants that are "here one day and gone the next" are of little use to cities trying to plan for the future. The Ontario government's recent pledge to invest C$3.25 billion in transit over a 10-year period is a step in the right direction, but the provincial announcement did not include any reliable long-term commitment to assist municipalities with the funding of infrastructure expansion.

Of the three infrastructure initiatives the federal government has introduced over the last decade, the most recent measure, announced in the December 2001 budget, allocated a minimum of C$2 billion to a third party trust to operate an infrastructure program focused largely on municipalities. The federal government subsequently decided to operate the program as a component of conventional government spending, but it has yet to specify how much money will be made available each year, and for how long. This lessens the program's value to cities. Rather than launching brand new initiatives every few years, the federal government would do better to commit to an infrastructure program of 10 years' duration or longer, with at least C$1 billion per year in funding, targeted mainly at municipalities. To a significant degree, this would simply be giving greater certainty for planning purposes to its recent (ex-post) spending record on infrastructure. And, if the program were to be delivered in the form of conventional government spending – *i.e.*, rather than as an arm's length trust – it would do well to convene an external advisory board to guide allocation decisions. Another important principle would be that agreements be structured so as not to reduce the incentives for municipalities to attempt to recover infrastructure costs through user fees, where appropriate.

Revenue transfers from the provincial and/or federal government share many features in common with grants. The chief difference is that they are linked to a specific stream of federal or provincial revenues. As a result, they fluctuate in tandem with changes in those revenues, making transfers a more volatile funding source than grants. In addition to being unreliable to varying degrees, grants and revenue transfers both fail the test of accountability. When municipal politicians spend tax dollars collected by provincial or federal governments, they do not face the same pressure to ensure the money is being spent efficiently that they would face if they were levying the tax directly. And, taxpayers in one part of the country are providing the funds for spending that primarily benefit local residents in a particular municipality. In the case of the GTA, it means that about 80 per cent of the proceeds of a federal grant or revenue transfer would come from taxes on residents outside of the GTA. The comparable figure for provincial monies would be about 50 per cent.

Municipal Taxation Powers

The weak reliability and accountability features of grants and revenue transfers led us to propose that municipalities be given more authority to levy their own taxes. We argued that the best option would be a tax that piggybacked on an existing federal or provincial tax and that was collected by an existing public sector agency. We rejected a municipal corporate or personal income tax, for several reasons. It would be very difficult to capture corporate income locally, because businesses could shift it to another jurisdiction. And, a serious set of inequities would arise from levying a personal income tax without a corporate income tax – for example, taxing a sole proprietor while allowing corporations to accrue earnings tax-free. Even a sales tax would be difficult to apply locally, as sales would be pushed outside the jurisdiction. Furthermore, in the case of the GTA, piggybacking off the Ontario provincial sales tax (PST) would be problematic. This is because the PST taxes business inputs heavily, thus cascading the tax effect to the final consumer price and embedding a substantial tax burden into export prices – with deleterious effects on competitiveness. This latter problem could be resolved if the Ontario government shifted its sales tax to a value-added structure like the GST.

With these problems in mind, we narrowed the list of potential municipal taxes down to an excise tax. The less portable the good, the more feasible it would be to apply a local tax to it. Hence, hotel rooms, amusement establishments, and gasoline are potential candidates. In the case of the last, however, there is a border issue to consider, in that the tax would apply within the GTA, but not immediately outside the region, giving commuters an incentive to fill their tanks just beyond the GTA's borders. It would be feasible in theory, though complex in practice, to mitigate this problem by ramping down the tax rate in areas just inside the GTA perimeter. The federal and provincial governments levy excise taxes on alcohol and tobacco, but the high volume of smuggling from the U.S. shows how portable these commodities are, which means they are probably not a suitable candidate for a GTA excise tax, given how easily sales could be pushed outside the region. Another piggybacking candidate for consideration is vehicle registration fees.

How much money would an excise tax raise for the GTA's cities? For illustrative purposes, consider a gasoline excise tax. Cities in the GTA, where per capita automobile use is slightly lower than the all-province average, would collect about C$40-60 million for each cent/litre, with the City of Toronto receiving about C$20-30 million.

The primary concern with giving municipalities additional taxing powers is that Canadians' overall tax burden could rise. Few GTA residents would disagree with the statement that they are already paying enough, if not too much, in total taxation to the three levels of government. That is why we advocated in our April paper that any additional taxation powers granted to municipalities be accompanied by a simultaneous reduction in provincial and federal taxes. For instance, the federal and Ontario governments could each agree to lower their respective gasoline excise taxes by 2 cents per litre, and the municipalities could be given the authority to levy their own gasoline tax of up to 4 cents per litre. This arrangement would yield cities in the GTA approximately C$160-240 million per year, and the City of Toronto C$80-120 million per year. One possible obstacle is that, before it cut its own excise taxes, the federal government would likely want assurances from a number of provinces that they would lower their own excise taxes by a like amount, in order to free up tax room for municipalities.

Impact of Funding Options on the Overall Tax Burden

Quite rightly, some have questioned the likelihood of provincial and federal governments lowering their taxes to transfer room to the municipalities. Hence, there is a legitimate fear of an overall rise in the tax burden. However, it is by no means certain that granting additional municipal taxing powers is more likely to raise the overall tax burden than raising provincial or federal grants or revenue transfers. Consider a scenario where the provincial or federal government increases grants to the GTA by C$200 million and that amount is added incrementally to the region's current spending. Where does the C$200 million come from? The provincial or federal government would have to raise their taxes by C$200 million, cut spending in other areas by C$200 million, or accept a C$200 million deterioration in their budget balance. If they are unwilling to worsen their bottom line, then only the first two options are open. Unless the spending to be cut is viewed as being entirely useless, then the extra taxation and reduced spending options share some characteristics in common. Someone, somehow must pay for the increased GTA spending.

The choice between higher grants or revenue transfers and increased GTA taxation does make a critical difference in who pays. As argued above, in the case of grants or revenue transfers, it is non-GTA residents who pay much of the cost, whereas in the case of additional local taxation it is the residents who bear the cost. Shifting the burden outside the GTA could only be justified to the extent it is believed that improving the economy and quality of life in the GTA has large external benefits to the rest of the province or country, or it is argued that this simply counterbalances excessive net transfers by the provincial, and especially federal, governments out of the GTA through taxation relative to what they put back in through spending. This is precisely the argument made by many advocates for the GTA cities.

The idea of allowing municipalities the authority to levy their own tax is by no means without precedent in Canada. In six provinces – British Columbia, Saskatchewan, Manitoba, Quebec, Nova Scotia, and Newfoundland – municipalities have been granted powers to tax a number of goods and services (see adjacent text box).

Another Potential Option: GST and PST Rebates

A fairly direct way of saving municipalities some money would be to eliminate a tax transfer that presently goes from them to the federal and provincial governments.[29]

Goods and services provided by municipalities fall under the "exempt goods" category of the federal Goods and Services Tax (GST). That means the recipients (residents and businesses) of these goods and services do not pay GST. But, unlike most other entities providing goods and services to final purchasers, municipalities cannot claim full credits for the GST they, in turn, pay the federal government. To ensure that the municipalities pay roughly no more tax than they would have under the old Federal Manufacturers Sales Tax, the federal government gives them a 57.14 per cent rebate on the taxes they have paid, leaving them paying a 3.0 per cent effective GST rate. In aggregate, all Canadian municipalities pay about C$425 million of GST to the federal government per year. The GTA share would be just under C$100 million, including operations such as the TTC.[30]

This tax transfer from municipalities to the federal government could be eliminated by exempting municipalities from the GST. The goods and services provided by mu-

Sharing the pie

- **B.C.** assigns a share of its provincial retail sales tax to municipalities. In the province, municipalities may request that the hotel room tax be levied at 10 per cent, rather than 8 per cent, with the additional 2 per cent transferred to local governments.
- Greater **Vancouver's** Transportation Authority is partially funded by an 11-cent-per-litre gas tax. This tax rate is set by the province.
- **Calgary and Edmonton** receive 4.5 cents per litre of the province's fuel tax. However, in its latest budget for the 2002-03 fiscal year, the provincial government in Alberta unilaterally reduced this share to 1.2 cents. Initially, the cut was to be effective immediately, but it has since been postponed to March 2003.
- **Saskatchewan, Quebec and Manitoba** have granted their municipalities the right to levy amusement taxes.
- **Manitoba** allocates revenues worth two percentage points of the personal income tax and one percentage point of the corporate income tax to its cities in the form of a per capita grant.
- In **Manitoba,** municipalities may levy sales taxes on liquor, hotel accommodation, and restaurant meals, subject to the approval of the Provincial Cabinet and may be collected by the province.
- **Montreal's** Agence Métropolitaine de Transport (AMT) is partially funded by a 1.5-cent-litre gas tax and a $30-per-car registration fee.
- Municipalities in **Nova Scotia, Quebec** and **Manitoba** all have the authority to levy a land transfer tax on the value of transferred property.
- Municipalities in **Newfoundland and Labrador** can levy a tax on coal, fuel and propane.

Source: Canadian Tax Foundation

nicipalities could be shifted into the "zero-rated goods category". The final recipients of the goods and services would continue to not pay GST. Hence, the federal government would suffer a revenue loss. Alternatively, the GST could be applied to municipal goods and services, as is the practice in New Zealand, where it applies even to property taxes. Or, municipal user fees alone could be taxed. With this last approach, the full burden of the tax would be borne by individuals, because businesses could claim input tax credits for their share. Providing a full tax credit to municipalites would almost certainly lead to cries for similar treatment from universities, public colleges, schools and hospitals.

Municipalities also pay provincial sales taxes, for which they receive no rebate at all. In aggregate, Ontario municipalities pay about C$275 million to the Government of Ontario. The GTA share is around C$150 million and the City of Toronto pays C$70 million.[31] As with the GST, consideration could be given to eliminating this tax transfer, with corresponding saving for municipalities.

A number of distortions result from denying municipalities full input tax credits. These include "self-supply bias", impediments to privatization, bias against downloading of public activities to the volunteer sector, barriers to intra-community trade, and tax "cascading" (i.e., where mark-ups get applied to sales taxes and exaggerate their impact on final prices).[32] The self-supply bias refers to a preference to use in-house supplies of goods, services and labour, on which no sales taxes are paid, over private-sector inputs where a tax burden would be incurred.

PART VIII

CONCLUSION

The Greater Toronto Area is large and far from homogeneous. As such, it is perhaps understandable that our study of its economy does not reach one, single conclusion. We are reminded of the famous phrase with which Charles Dickens began *A Tale of Two Cities*:

"It was the best of times, it was the worst of times."

The rapid expansion of the GTA speaks to how good times have been over the past decade. In fact, the GTA has ranked among North America's leaders in terms of job creation and population growth in recent years, thanks to the wealth generated by several dynamic and export-oriented sectors – including biotechnology, information and communications technology, financial services, entertainment, and automotive. These industries have prospered thanks to the region's well-educated and culturally diverse workforce, its ideal location close to the U.S. border, and its overall high quality of life. Armed with these ingredients, the GTA has the potential not only to build upon its past successes, but to become one of the world's great cities. Indeed, the GTA's ability to turn opportunities into results will be vital in raising Canada's overall standard of living above that of the United States.

Yet, the GTA faces some major impediments to continued robust expansion. We see *five* major impediments that threaten to undermine the region's longer-term economic performance, and hence, overall quality of life.

- The GTA's competitiveness rests on a weak foundation, because so much of it is a direct result of the weakness of the Canadian dollar.
- The province's education sector is still reeling from cutbacks implemented over the past two decades.
- Although the phenomenon has not been as pronounced as it was in U.S. cities 20 years ago, there has been a shift in output, employment, incomes and head offices from the City of Toronto to surrounding municipalities. The rapid pace of growth in the suburbs has led to increased urban sprawl, higher reliance on automobiles, worsening congestion and air quality, and widening income inequality between the City and the wealthier suburban areas.
- Worse still, despite some growth in the economy of the City of Toronto, deep pools of poverty persist, the effects of which are being exacerbated by an inadequate supply of affordable housing.
- Meanwhile, as the GTA continues to grow and expand, the system of infrastructure required to support this process is woefully inadequate and under-funded. On the transportation side, this promises a worsening of gridlock on GTA roads and highways, threatens the effectiveness of public transit, cuts into productivity and limits the pace at which exports from the GTA to the United States and the rest of Canada can grow.

In many respects, the needs of the GTA are not very different from those of cities across the nation. Above all, competitiveness and innovation need to be bolstered. The federal and Ontario governments must make efforts to reduce personal and corporate income-tax rates further, to eliminate capital taxes, and to continue to reduce their debt burdens. There must be renewed investment in knowledge and the institutions that provide it, both by the public and private sectors. And, federal and provincial governments must strive to obtain secure and efficient trading arrangements with the United States.

Other needs – such as poverty, transportation, and social housing – are more local in nature, since they vary from jurisdiction to jurisdiction. Municipalities in the GTA can go some way in addressing these needs within their own authority. But, with their heavy dependence on property taxes, and in some cases considerable debt loads, the local governments in the region are in no position to meet the challenge. In the near term, they will need additional financial support by the provincial and federal government in the form of firm, multi-year grants. Over the longer term, the solution lies more in granting local governments greater authority in how they conduct their business and in how they raise revenues. In all endeavours, co-operation will be required among the three orders of government to ensure the effectiveness of programs and to minimize the chance of an overall increase in the tax burden.

Above all, building a more prosperous GTA that will not only benefit all local residents, but create positive spin-offs for the entire country, will require the local governments, the Province of Ontario, the federal government and the private sector to work together. Jurisdictional wrangling between governments has impeded collaborative efforts in the past. But the GTA, with its potential and its challenges, simply looms too large both within Ontario and Canada to allow this to continue. Since almost one-half of Ontario's residents live within the GTA, the provincial government cannot achieve its objectives without addressing the GTA's needs. Similarly, the federal government cannot achieve its national objectives without paying close attention to the needs of the area which accounts for about one-fifth of the country's population. Lastly, many of the nation's largest corporations and businesses depend on the GTA region for both employees as well as sales. Thus, the private sector has a vested interest in ensuring that the GTA locomotive remains firmly on the rails.

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24. *Report of the GTA Task Force*, January 1996. Figures are based on revised IBI Group estimates, as presented in *The Economics of Urban Form,* and prepared for the GTA Task Force by Pamela Blais of Berridge, Lewinberg, Greenberg, Dark, Gabor Limited , September 1995.

25. Report of the Mayor's Action Task Force, *Taking Responsibility for Homelessness: An Action Plan for Toronto,* January 1999.

26. Joe Berridge, "The Challenge from U.S. Cities," submission to the Launch of the Official Plan, April 7, 1999.

27. Ibid.

28. Citizen's Task Force on the Future of Mississauga, *Securing Our Future*, May 2002.

29. A comprehensive discussion of the treatment of public bodies under Value-Added Taxes (VATs) can be found in Satya Poddar, "Exemptions Under the Sixth VAT Directive: Issues and Options," Ernst & Young, January 4, 2002 (draft).

30. The City of Toronto pays C$43 million after rebates.

31. The City of Toronto pays C$70 million. The GTA and province-wide estimates are based upon this.

32. Satya Poddar, "Exemptions Under the Sixth VAT Directive," page 8.