



➤ Governance and Finance of Large  
Metropolitan Areas in Federal Countries

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*at the*

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# Cities are engines of economic growth

- ❑ Cities are important drivers of productivity, innovation, and economic growth
- ❑ Need for “hard” services (water, sewers, and roads) and “soft” services (cultural facilities, parks, and libraries) to attract skilled workers
- ❑ Cities that fail to provide these services will lose their economic advantage

# Outline of presentation

- ❑ Why does governance matter?
  
- ❑ Governance models in metropolitan areas
  - ❑ Criteria for evaluating governance models
  - ❑ Five models of governance ... with examples
  - ❑ Evidence from OECD countries
  
- ❑ How to pay for metropolitan services
  
- ❑ Final observations on governance and finance

# Governance in Metropolitan Areas

# Why does governance matter?

- ❑ Metropolitan governance is critical to how:
  - ❑ services are delivered efficiently
  - ❑ service delivery is coordinated across the metropolitan area
  - ❑ costs are shared
  - ❑ citizens access local government
  - ❑ local governments are responsive and accountable

# Why does governance matter?

- ❑ Metropolitan governance matters for service delivery:
  - ❑ **Transportation:** Need to coordinate transportation across municipal boundaries; need to ensure access to employment and services; need to coordinate transportation and regional land use
  - ❑ **Water:** Need to determine where treatment facilities will be located
  - ❑ **Solid waste:** Need to determine where garbage disposal sites will be located
  - ❑ **Policing:** Need to fight crime across municipal boundaries
  - ❑ **Social services, health and education:** Need to decide on level of expenditures and how to share costs

# Why does governance matter?

- ❑ Metropolitan governance matters for economic development:
  - ❑ Quality of the **business environment** affects investment and economic growth
  - ❑ Impact on **productivity**:
    - ❑ larger cities enjoy agglomeration economies
    - ❑ fragmented governance could increase cost of doing business because of need to deal with many local offices, ineffective planning and traffic congestion
  - ❑ **Coordination** of economic development activities reduces harmful competition within the metropolitan area

# Balancing regional and local interests: criteria to evaluate governance models

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



# Five models

- ❑ One-tier fragmented government structures
- ❑ One-tier consolidated government structures
- ❑ Two-tier government model
- ❑ City-state
- ❑ Voluntary cooperation/special purpose districts

*A metropolitan area can reflect more than one model*

# Examples from Nine Federal Countries

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

# Fragmented One-Tier

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

# Fragmented One-Tier Structures

- ❑ Los Angeles – 200 cities and 5 county governments
- ❑ Geneva – 74 municipalities
- ❑ Sydney – 43 local councils
- ❑ Mumbai – 7 municipal corporations, 13 municipal councils, parts of two districts, more than 900 villages, 21 parastatals

*Examples of inter-municipal cooperation to follow*



# One-Tier Consolidated

- ❑ Metropolitan government with powers to deliver services and raise revenues across metropolitan area
- ❑ Economies of scale; redistribution between rich and poor areas; coordination of service delivery; internalizes externalities; more choices for efficient taxation
- ❑ Threat to local autonomy, responsiveness, and citizen engagement
  - ❑ Innovative mechanisms – open government; participatory budgeting
- ❑ Reduces competition among municipalities – weakened incentives to be efficient
- ❑ What is the appropriate boundary?

# Consolidated One-Tier Structures

- ❑ Cape Town – geographic boundary coincides with economic region
- ❑ Toronto – a city too big and too small



# Two-Tier

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



# Two-Tier Structures

- ❑ Barcelona – Metropolitan council plus 36 lower tiers
- ❑ Vancouver – regional district plus 21 municipalities, 2 unincorporated areas, and one municipality for parks only
- ❑ Portland, Oregon – Metro government plus 25 municipalities in 3 counties and several unincorporated areas





# City-States

- ❑ City and state powers
- ❑ Internalize externalities, region-wide taxation, broad-based taxes, enhanced borrowing powers
- ❑ Expansion of boundaries into other states is difficult
- ❑ Tensions between city-state governments and central government

# City-States

- ❑ Berlin, Bremen, Hamburg
  - ❑ more legal powers than cities
  - ❑ more revenue tools

BUT

- ❑ territory does not always cover entire urban agglomeration

# Special Purpose Districts

- ❑ Single function placed under control of special district; may have access to dedicated revenue stream (e.g. user fee or earmarked tax)
- ❑ Easy to create politically; easy to disband; local autonomy; economies of scale; address externalities
- ❑ Potential problems of accountability; redistribution not automatic
- ❑ No regional vision

# Special Purpose Districts

- ❑ Greater ABC Region in São Paulo (“bottom up”)
- ❑ Parastatals in Mumbai delivering a range of services
- ❑ Purpose-oriented intergovernmental cooperation (e.g. waste disposal, energy supply) in Swiss metropolitan areas



# Evidence from OECD countries

- ❑ Review of governance structures in 275 metropolitan areas in OECD countries
  
- ❑ Main functions for metropolitan organizations:
  - ❑ regional economic development
  - ❑ spatial planning
  - ❑ transportation

Source: Ahrend, Gamper, and Schumann (2014)

# Evidence from OECD countries

- ❑ Few powers; small budgets
  
- ❑ Yet, where there are metropolitan organizations – metropolitan areas perform better than fragmented local governments:
  - ❑ denser
  - ❑ higher per capita GDP
  - ❑ attract more people
  - ❑ higher level of public satisfaction with public transport
  - ❑ lower levels of air pollution

Source: Ahrend, Gamper, and Schumann (2014)

# Evidence on governance and productivity

- ❑ Study of Germany, Mexico, Spain, United Kingdom, United States
- ❑ Fragmented governance structures tend to have lower levels of productivity (measured by wage premiums)
- ❑ A metropolitan area with twice the number of municipalities is associated with around 6 percent lower productivity
- ❑ Impact cut in half if there is a governance body at the metropolitan level

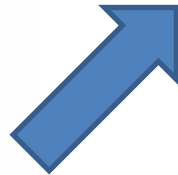
Source: Ahrend, Farchy, Kaplanis and Lembcke (2014)

# Financing Services in Metropolitan Areas



# Linking Revenues to Expenditures

- ❑ People want to see what they are getting for their taxes
- ❑ Linking taxes and services increases public support
- ❑ Examples of ballot initiatives in the US to pay for transit



# Linking Revenues and Expenditures

# Different services— Different revenue tools

## Private

Water  
Sewers  
Garbage  
Transit

## Public

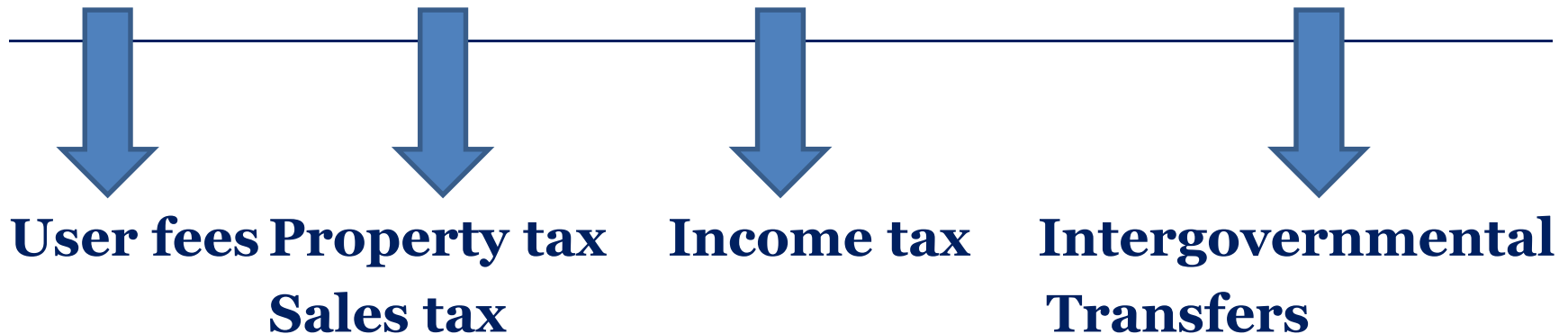
Police  
Fire  
Local parks  
Street lights

## Redistributive

Social assistance  
Social housing

## Spillovers

Roads/transit  
Culture  
Social assistance



# Different infrastructure— Different fiscal tools

## Taxes



short asset life  
(police cars,  
computers)

## User fees



identifiable beneficiaries  
(transit, water)

## Borrowing



large scale assets  
with long life  
(roads, bridges)

# Different infrastructure— Different fiscal tools

## Development charges



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

## P3s



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

## Land value capture taxes



increase property values  
(transit)

# How should metropolitan services be financed?

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

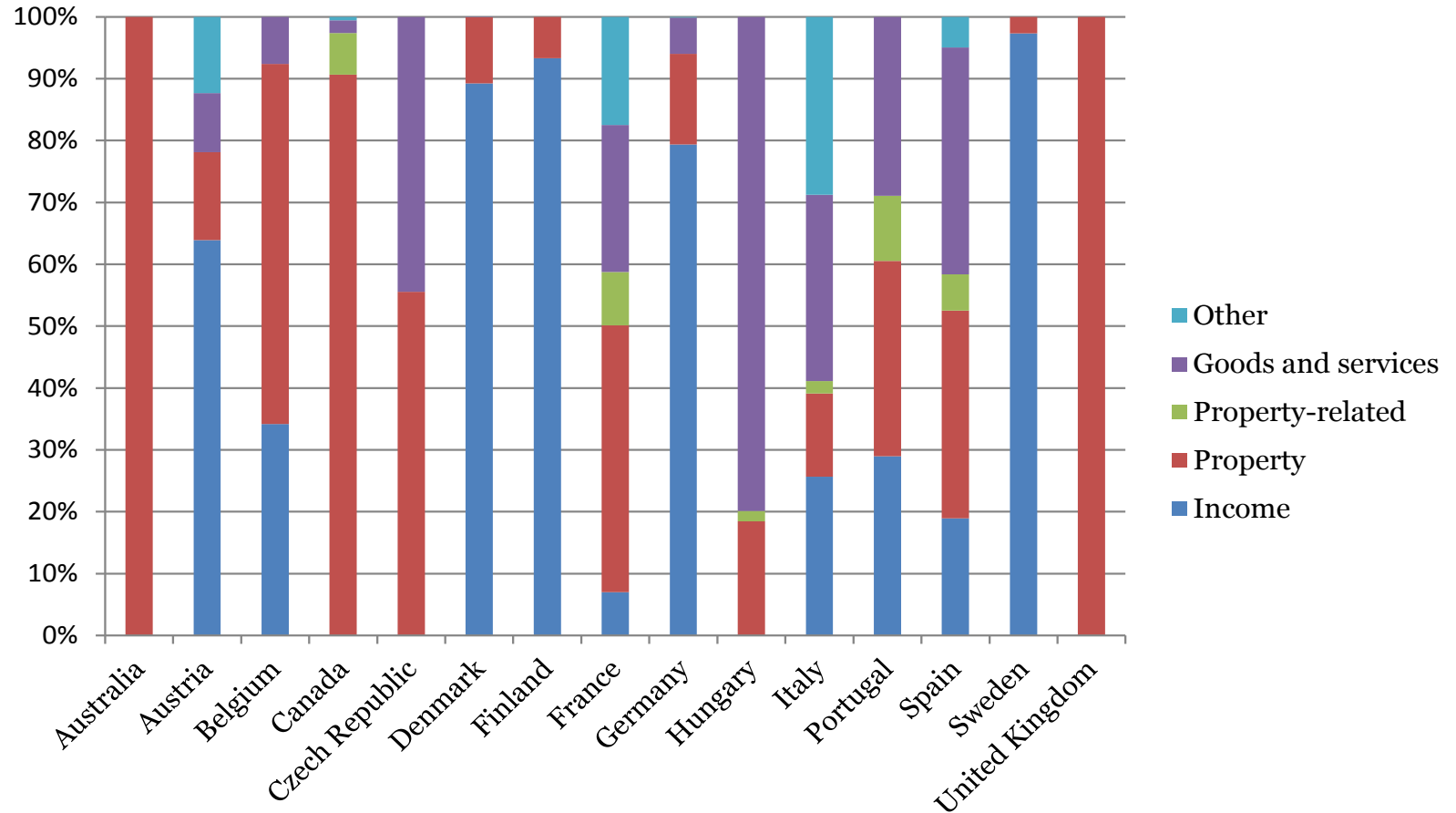
## **BUT**

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

# A mix of taxes

- ❑ Local governments benefit from a mix of taxes:
  - ❑ Range of expenditure responsibilities
  - ❑ Services used by commuters/visitors
  - ❑ Revenues that grow with the economy (elastic)
  - ❑ Tax distortions may offset each other
  - ❑ Increase municipal flexibility in adapting to local circumstances
  
- ❑ Ability to set tax rates: more responsible and more accountable to taxpayers

## Sources of Local Taxation, Selected OECD Countries, 2012



Source: OECD (2014) Revenue Statistics, 2011-2012.



# Final observations

- ❑ Different governance models have worked in different places at different times
  
- ❑ National and local context matter:
  - ❑ constitution
  - ❑ division of responsibilities and revenues
  - ❑ history of local autonomy
  
- ❑ Political boundaries rarely coincide with boundaries of the economic region
  
- ❑ Strong traditions of local autonomy make metro-wide cooperation difficult

# Final observations (cont'd)

- ❑ Special districts may work where metropolitan area is too large for a political structure
- ❑ Consolidation does not necessarily reduce costs but may make it easier to levy taxes over the metropolitan area
- ❑ Need for strong regional structure that encompasses economic region; need to balance regional and local interests
- ❑ Governance and finance are linked – design effective metropolitan governance and then appropriate fiscal structure