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Toronto's 2026 budget holds property tax hike to a minimum

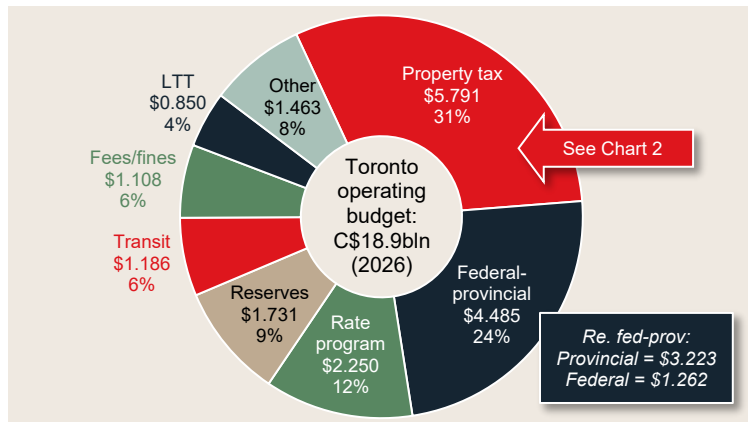
By Warren Lovely

The City of Toronto's 2026 budget—launched in preliminary form in January and formally adopted February 10th—is by its very nature 'balanced'. After all, operational balance is a legislative requirement for Ontario municipalities. This binding constraint is a noted bondholder safeguard and helps explain the relatively limited leverage (and lofty credit ratings) across much of the municipal and local government sector.

So it was never a question of *IF* Toronto would balance its 2026 budget, but rather *HOW* to ameliorate fiscal pressure. As expected, attention keyed on the property tax increase required to fund the City's nearly \$19 billion operating budget. Matching the original proposal, the enacted property tax increase (a combined 2.2% residential) was about as modest as could reasonably be expected. This limited tax increase—a fraction of what was passed in 2025—is a relief for Toronto households, with programs available to further lessen the burden on vulnerable segments.

Chart 1: Funding Toronto's \$18.9bln operating budget

City of Toronto operating budget funding sources: 2026

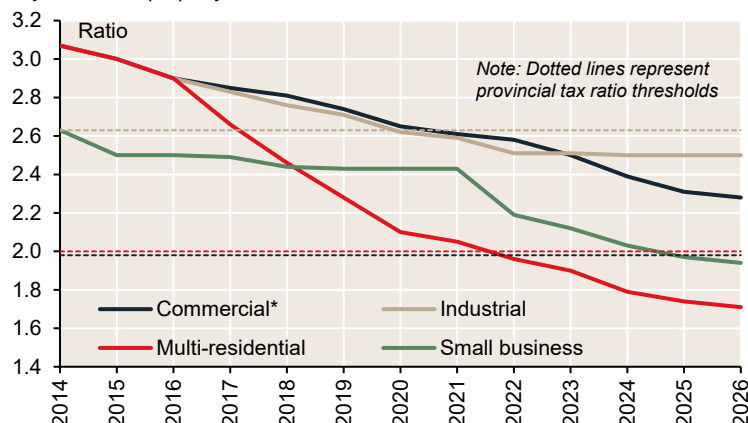


Source: NBC, Toronto | Note: Figures in labels are C\$bln & share of total operating budget

Over 30% of 2026's \$18.9bln operating budget is covered by property taxes, where rate increases were held to a relative minimum. A combined 2.2% residential property tax increase adds \$92 to the average annual tax bill, with property taxes funding transit, police/fire services, social programs, parks/rec, etc. Relief programs are available for the vulnerable (e.g., low-income seniors, disabled).

Chart 3: Property tax burden continues to shift

City of Toronto property tax ratios & thresholds



Source: NBC, Toronto | Note: Commercial tax ratio threshold not yet achieved

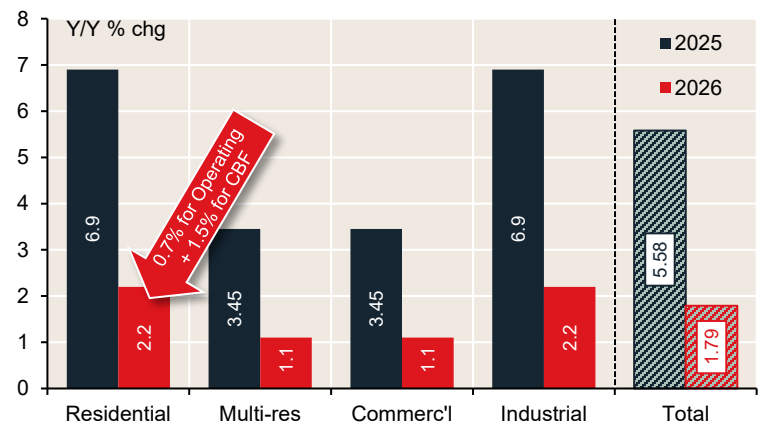
Toronto's relative property tax burden continues to shift, with low(er) rates and incentives on multi-residential properties designed to spur new affordable housing supply. Some 28K small businesses benefit from a commercial rate reduction. The City views ~90% of its revenue as having limited-to-no connection to the economy, with the more sensitive land transfer tax accounting for just 4% of operating revenue. Firm budgetary constraints, relatively limited revenue tools and the municipal sector's modest share of the government tax dollar can make for a challenging fiscal environment.

Far beyond the marginal revenue linked to the property tax increase, a host of 'balancing actions' were needed/employed. Additional effort will be required in future years. The City is upfront about the challenges it faces, including the minor share of the overall tax dollar that trickles down to municipalities and Toronto's limited ability to grow revenue in line with the economy. (As an aside: Structurally low revenue sensitivity could be a relative plus should economic conditions soften abruptly.)

A somewhat larger share of a fresh 10-year capital plan (topping \$63 billion) is to be debt-financed, gradually pushing the debt service ratio to its 15% limit. There remains a sizeable state of good repair backlog to address. Toronto is apt to issue ~\$1.3 billion of new bonds this year (in conventional and labeled format), a modest step up vs. recent years. Supply seasonals hint at a near-term test with municipal spreads currently well supported and investor engagement/liquidity appearing healthy.

Chart 2: Residential property tax increase held to 2.2%

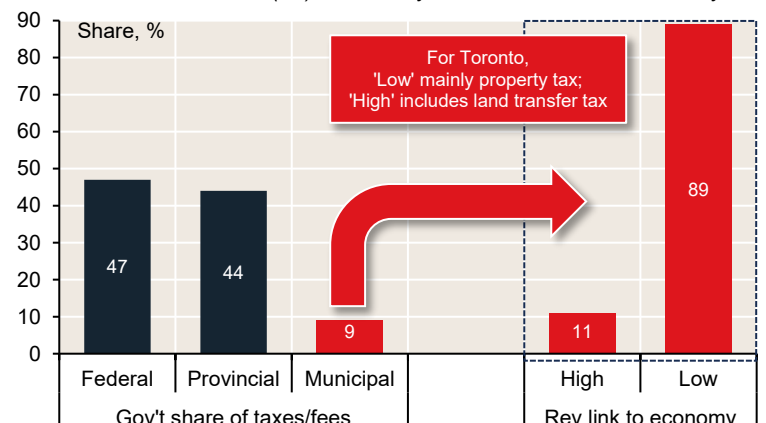
City of Toronto property tax rate increases: 2026 vs. prior year



Source: NBC, Toronto | Note: Includes operating levy + City Building Fund (CBF)

Chart 4: Revenue constraints (minor share, limited link to economy)

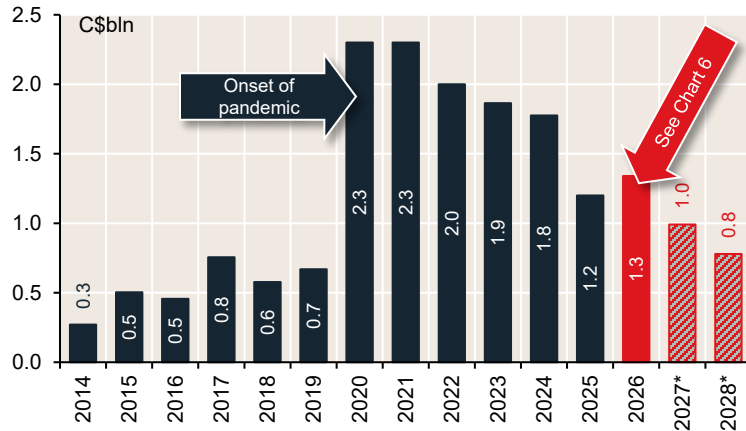
Government revenue share (left) & sensitivity of Toronto revenue to economy



Source: NBC, Toronto | Note: 'High' refers to revenue share impacted by economy (11%)

**Chart 5: Underlying budget pressures to overcome**

City of Toronto operating budget 'opening pressure' & future required offsets

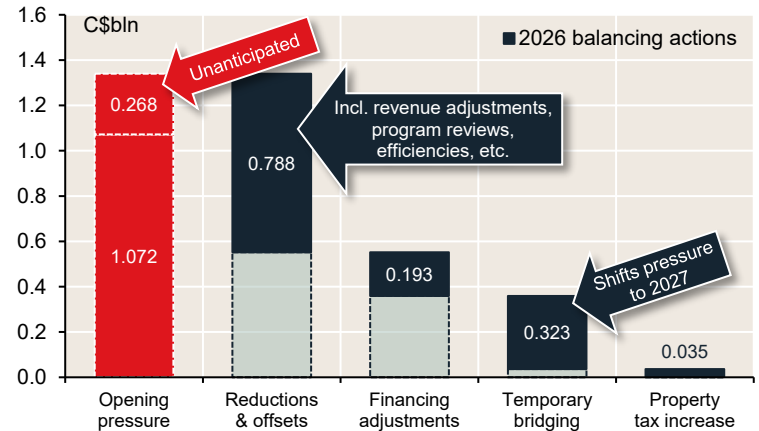


Source: NBC, Toronto | Note: 2026 incl. unanticipated pressure; 2027-28 refers to req'd offsets

Including unanticipated developments, Toronto had a \$1.34bln gap to fill in its 2026 operating budget. Pursuant to a long-term financial plan, a variety of actions (e.g., reductions, offsets, efficiencies) are being implemented to bolster fiscal sustainability. Temporary bridging will delay some pressure into 2027. A comparatively minor share of the pressure was offset by the property tax increase.

Chart 6: Variety of balancing actions employed in 2026

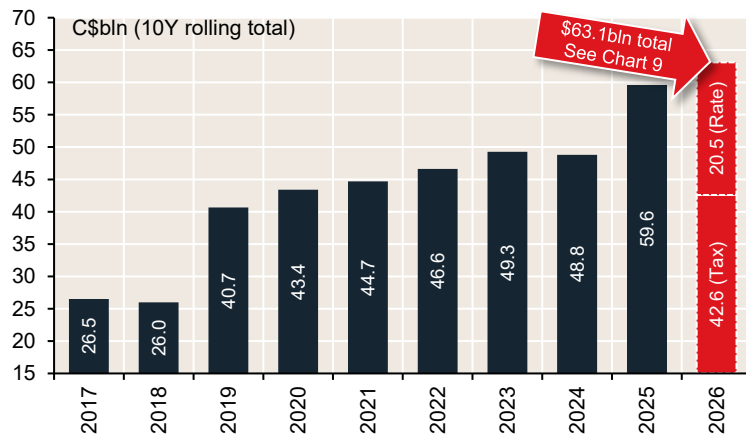
City of Toronto balancing actions taken to address 2026 budget pressure



Source: NBC, Toronto | Note: Blue bars are enacted actions to address pressure

Chart 7: City's 10-year capital plan tops \$63bln

City of Toronto rolling 10-year capital plan

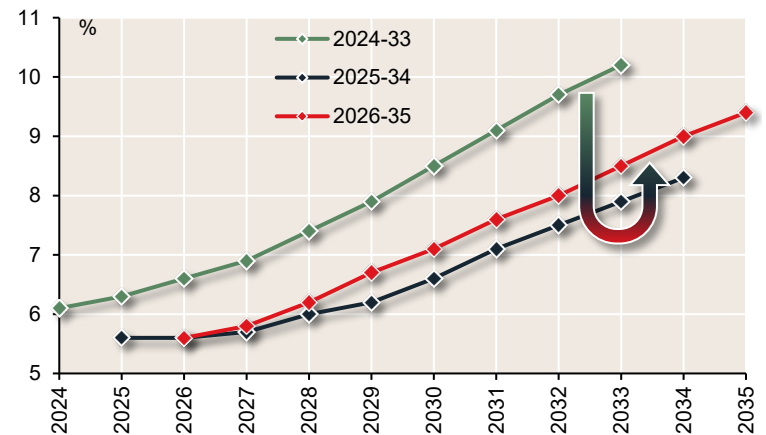


Source: NBC, Toronto | Note: Latest (2026-35) broken down by tax- & rate-supported

The fresh 10-year capital plan (for 2026-35) tops \$63bln, of which more than two-thirds is tax-supported. Whereas federal-provincial sources cover 24% of operating spending, just 13% of the capital plan is supported via intergovernmental contributions. State of good repair (SGR) needs are outpacing funding, pushing the SGR backlog up (though there's still a net improvement vs. 2024).

Chart 8: SOGR backlog grows (but still improved vs. 2024 outlook)

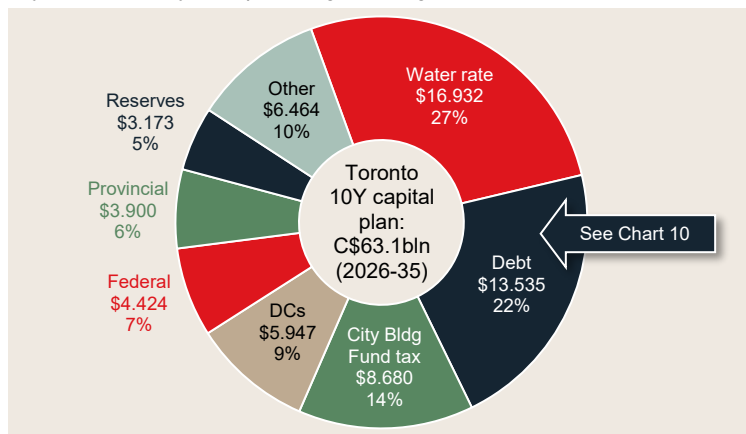
City of Toronto state of good repair (SGR) backlog relative to total asset value



Source: NBC, Toronto | Note: SOGR projected to hit \$24.7bln by 2035 or 9.4% of asset value

Chart 9: 22% of capital plan to be directly debt financed

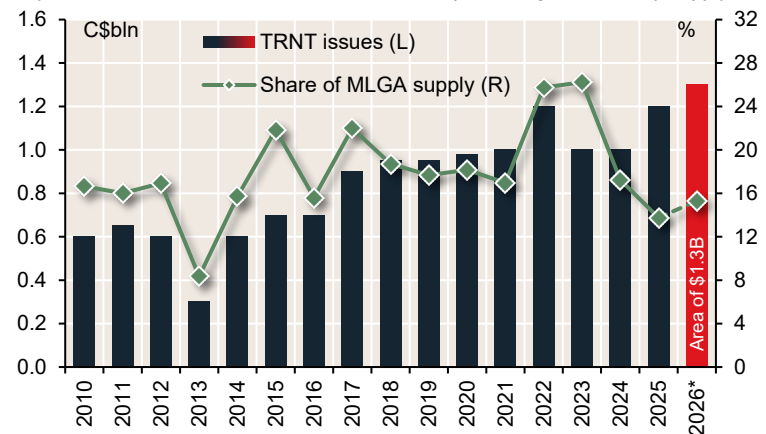
City of Toronto 10-year capital budget funding sources: 2026-35



Source: NBC, Toronto | Note: Figures in labels are C\$bln & share of 10-year total

Chart 10: Bond issuance to edge a bit higher in 2026

City of Toronto bond issuance & share of municipal/local gov't authority supply

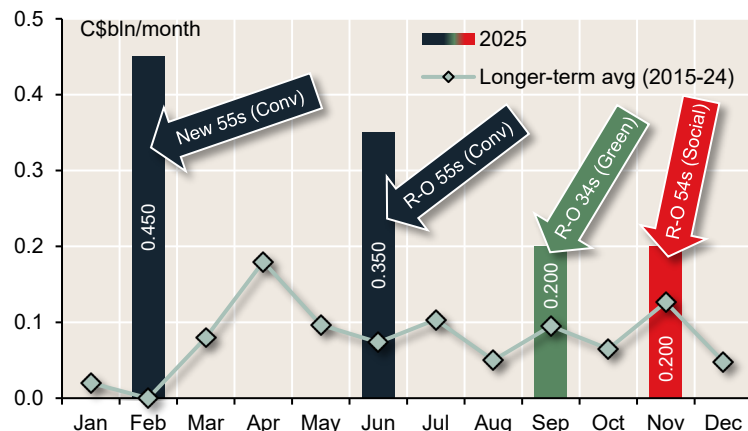


Source: NBC, Toronto, BBG | Note: 2026 based on NBC estimates

The City's capital ambitions (whether for productivity enhancing infrastructure, much-needed affordable housing and/or ongoing maintenance) would benefit from greater and more predictable federal-provincial support. Declining development charge (DC) revenue is another noted challenge. Notwithstanding the City Building Fund—dedicated to long-term projects and financed by an annual 1.5% property tax levy—a larger share of the 10-year capital plan is to be directly debt financed (22% vs. 18% in last year's version). Toronto is likely to issue roughly \$1.3bln of new debt in calendar 2026, with this bond issuance tempo up slightly vs. prior years (\$1-1.2bln). We see Toronto comprising ~15% of total municipal and local government authority supply this year (projected to be ~\$8.5bln).

**Chart 11: Reflecting on Toronto's 2025 bond program**

City of Toronto bond issuance by month: 2025 vs. longer-term trend

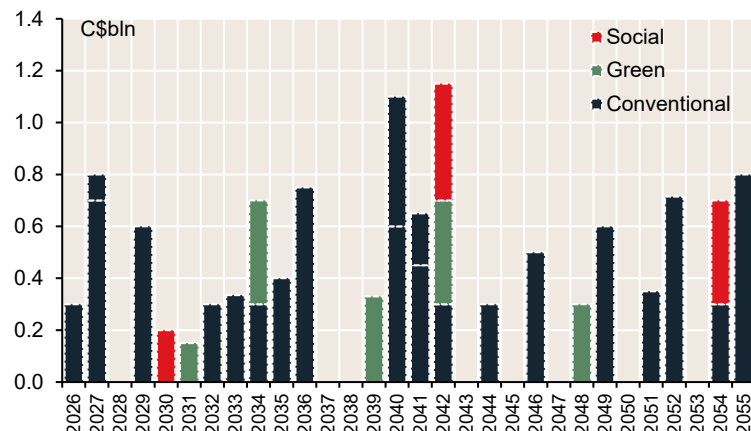


Source: NBC, Toronto, BBG | Note: Shading denotes bond type (conventional vs. labeled)

Last year, in 2025, Toronto brought \$1.2bln of new issue supply to market, kicking things off in February with a new conventional long bond (which was then re-opened in June). Toronto is a committed issuer of labeled bonds, both Green and Social. With ~\$12bln in outstandings spread over the curve, Toronto's has one of the more favourable liquidity profiles in Canada's MLGA sector.

Chart 12: Well-developed curve bolsters secondary liquidity

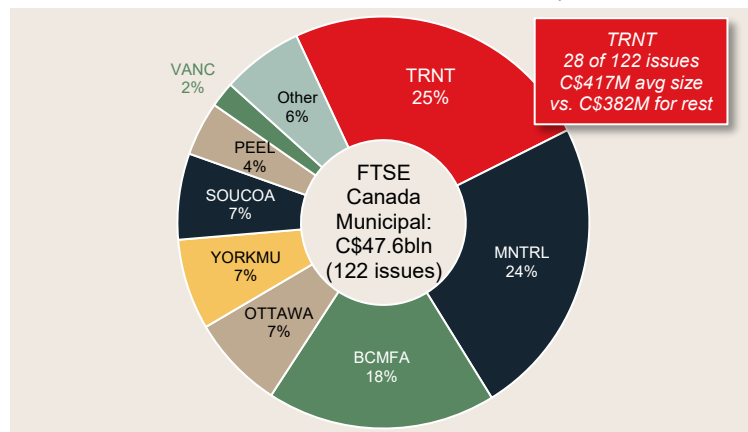
City of Toronto outstanding bond maturity profile: As of 11-Feb-26



Source: NBC, Toronto, BBG | Note: Shading denotes bond type (conventional vs. labeled)

Chart 13: Toronto core member of Canada's muni index

Issuer share of FTSE Canada Universe Bond Index: 'Municipal' sub-index

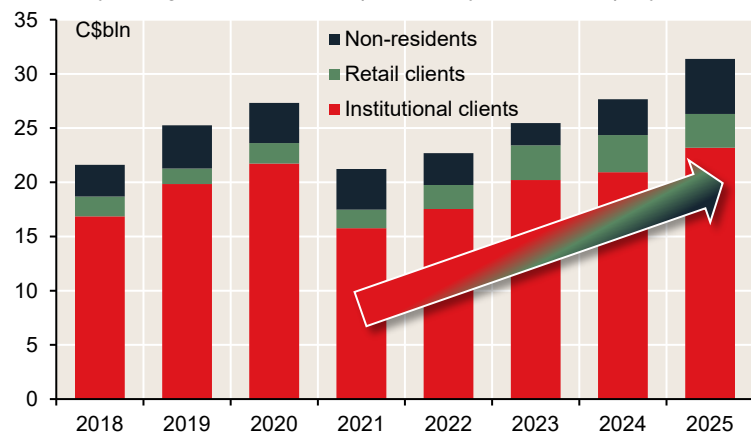


Source: NBC, FTSE Russell | Note: Based on current holdings of sub-index as at 10-Feb-26

For index watchers, note that Toronto currently has the single largest weight in the 'municipal' segment of the FTSE Canada Universe Bond Index, where the City's 28 index-eligible securities boast an above-average float. Secondary bond volume data show key client segments (e.g., domestic institutional, non-residents) more actively trading municipal paper (consistent with greater supply).

Chart 14: Key client segments more active in muni bonds

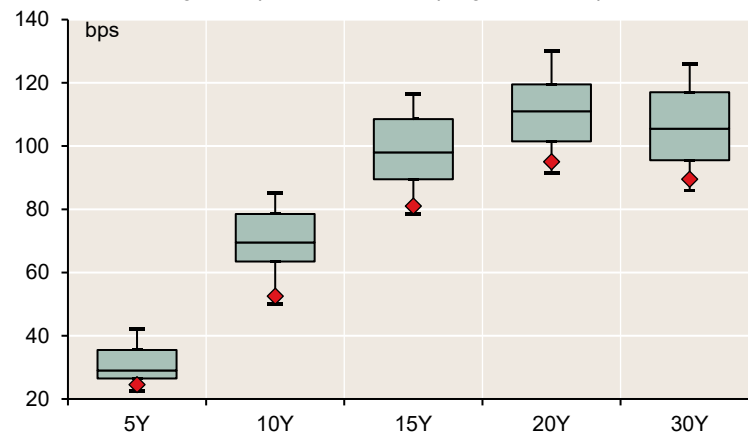
Secondary trading of Canadian municipal bonds by select counterparty: Annual



Source: NBC, CIRO | Note: Full-year volumes for all dealers; select counterparty types

Chart 15: Spreads tight to GoC curve, in munis as elsewhere

Current level & range for representative municipal government spread vs. GoC

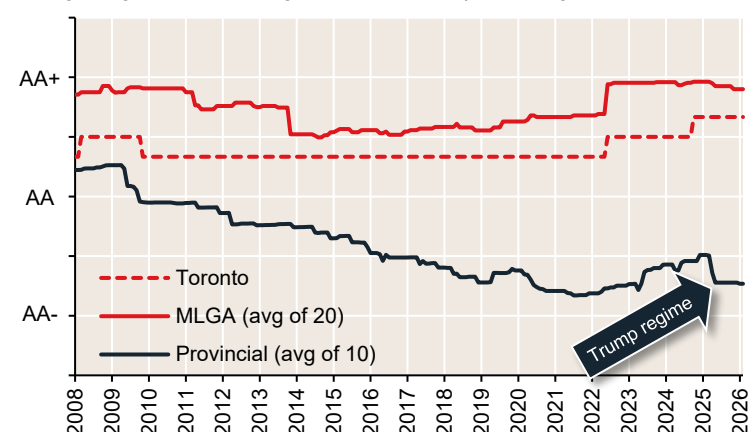


Source: NBC | Note: Based on daily spread indications from 20-Jan-25 to 11-Feb-26 (Trump 2.0); box represents 2nd/3rd quartiles, whiskers are min/max & red marker is current indication

Prospective MLGA bond supply, including from Toronto, will provide a test of investor demand at what are historically 'tight' spreads (for government spread product and credit more generally). As expected, the municipal-provincial bond basis has narrowed in this compressed spread environment. But there are fundamental reasons supporting relative pricing in munis. Not for the first time, municipal/local credit ratings have withstood recent economic/trade turbulence, whereas average provincial credit quality has weakened and is likely to remain on the defensive this year.

Chart 16: Municipal credit quality has proven resilient

Average long-term credit rating: MLGA sector vs. provincial governments



Source: NBC, S&P, Moody's, DBRS, Fitch | Note: Monthly average to Feb-26, controlling for outlook; MLGA comprises 20 municipal & local government authorities (incl. Toronto)



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