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Be it resolved… Toronto adopts 2025 budget

By Warren Lovely

The City of Toronto's 2025 budget was adopted in its final form on February 11th. This targeted *Market View* can't do the city's 325-page budget justice but aims to illustrate some key issues for municipal bond investors. No shortage of official documentation can be sourced directly from the city's budget subsite (**link**). Back to the 2025 budget…

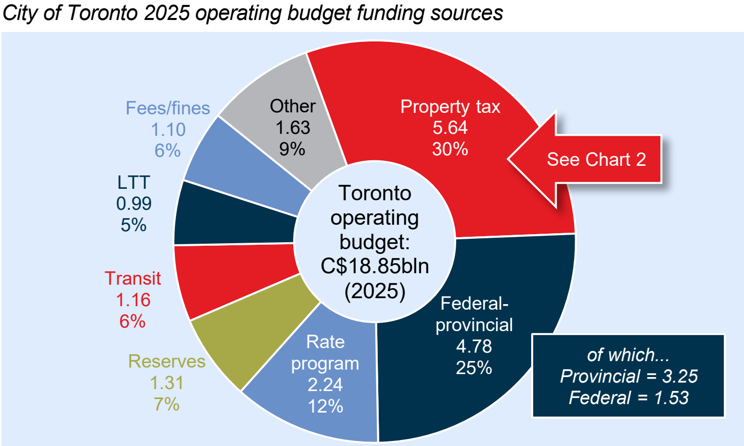
Toronto will spend $18.85 billion to operate the city this year, a level of expenditure surpassing each of the Atlantic Canada provinces. That's not a knock on our friends out east but highlights the strategic importance of Canada's largest city. As required by law, the operating budget is balanced. The 'balance achieved' declaration is always gratifying for analysts/investors, even if it means tough budgetary decisions. Case in point, a property tax increase and other balancing actions were needed to close a $1.2 billion 'opening pressure'. There's been steady progress on the budget gap that opened up with COVID.

The latest 10-year capital plan is the largest ever, stepping up nearly $10 billion to $59.6 billion. Rapid population growth necessitates infrastructure investment. The enlarged capital budget likewise permits Toronto to tackle a SOGR backlog and advance on decarbonization plans/priorities. Only a fraction of the capital plan is directly debt financed, the city maintaining headroom vs. formal leverage limits.

For 2025, the pace of bond supply is unlikely to break from the recent trend. NBC's anticipates $1-1.2 billion of gross issuance this year. The long-term nature of the capital projects being financed tends to make longer-term issuance a natural fit. The city's bonds are of a higher average credit quality these days, S&P upgrading the city one notch last October (on a more sustainable fiscal outlook). Toronto remains one of most liquid names in the municipal sector and offers a degree of yield enhancement vs. the generally lower-rated home province (Ontario).

Chart 1: T-Dot's operating budget approaching $19bln

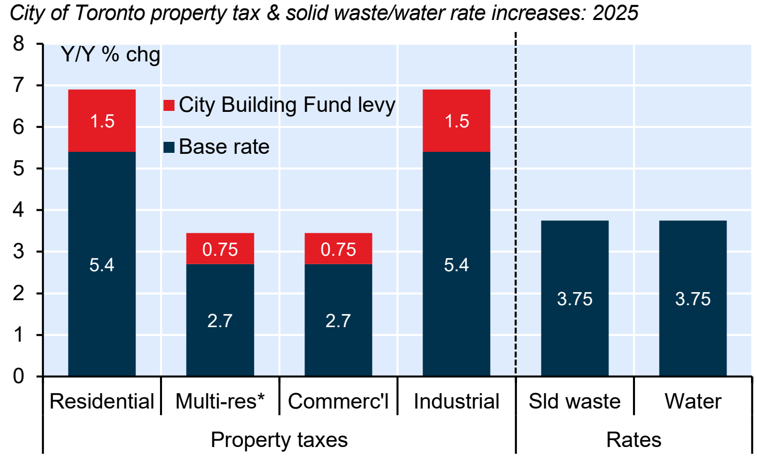
City of Toronto 2025 operating budget funding sources



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

Chart 2: Property tax increase part of the balancing strategy

City of Toronto property tax & solid waste/water rate increases: 2025

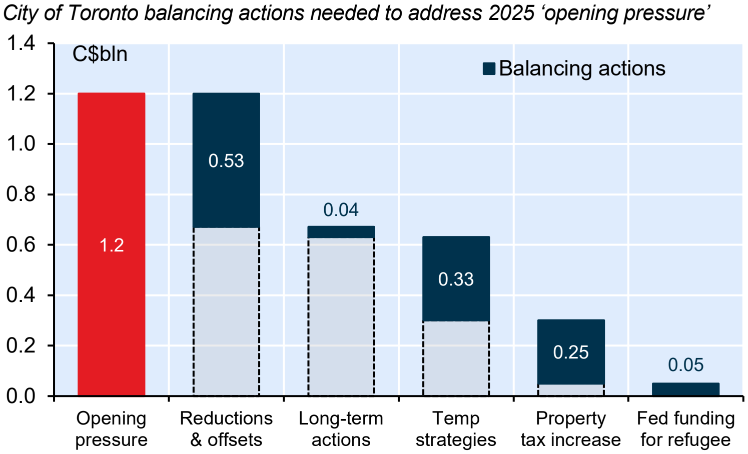


Source: NBC, Toronto | Note: New multi-res subclass has lower rates to encourage supply

Toronto provides a range of vital services. More than anything, the city's budget is funded via real property taxes. Residential property taxes will increase 5.4% in 2025, with an incremental capital-related levy of 1.5%. The increase for the multi-res segment is half that, with rate reductions for new multi-re properties and an array of income- or property value-tested relief programs available.

Chart 3: Toronto closes $1.2bln 'opening pressure' in 2025

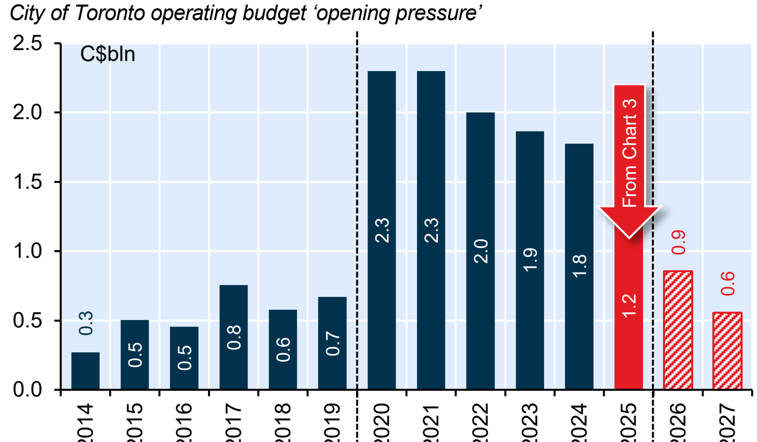
City of Toronto balancing actions needed to address 2025 'opening pressure'



Source: NBC, Toronto | Note: Reflects enacted measures to address 2025 pressure

Chart 4: Underlying budget gap continues to be tackled

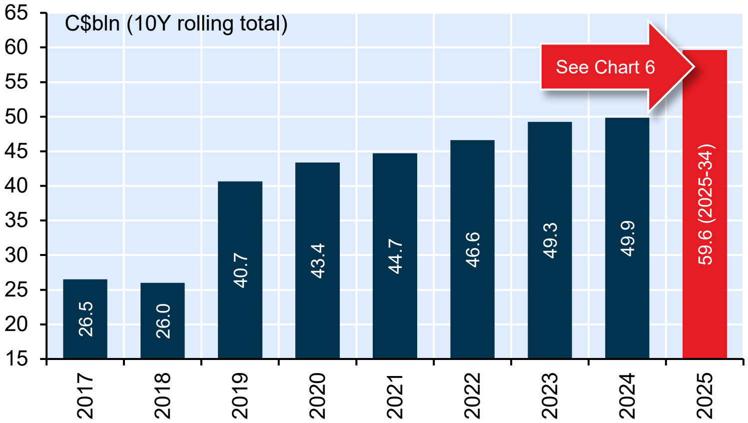
City of Toronto operating budget 'opening pressure'



Source: NBC, Toronto | Note: 2025 pressure addressed; 2026-27 are current expectations

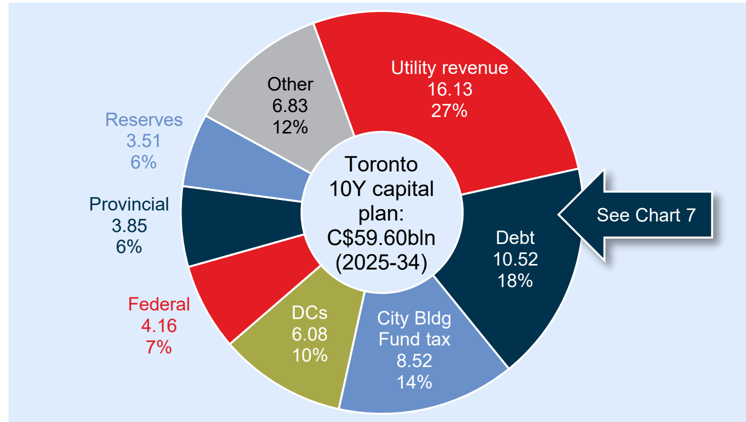
The property tax increase is part of Toronto's balancing act. Elsewhere, program savings and non-property revenue adjustments yielded important progress, while other longer- and shorter-term strategies ultimately got the budget to balance—as is required by provincial legislation. The underlying budget gap (aka 'opening pressure') is being worked down, improving fiscal sustainability.

Chart 5: Toronto's 10-year capital plan steps up notably…
City of Toronto rolling 10-year capital plan



Source: NBC, Toronto | Note: Plan coverage rolls with latest 10Y plan covering 2025-34

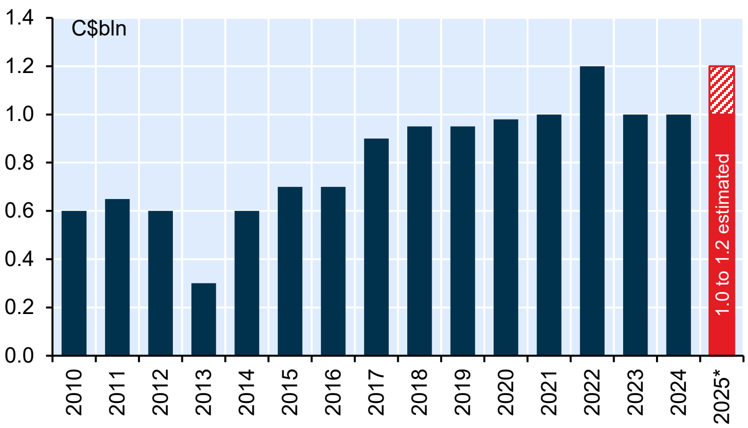
Chart 6: … though direct debt only a minor funding source
City of Toronto 10-year capital budget planned funding sources (2025-34)



Source: NBC, Toronto

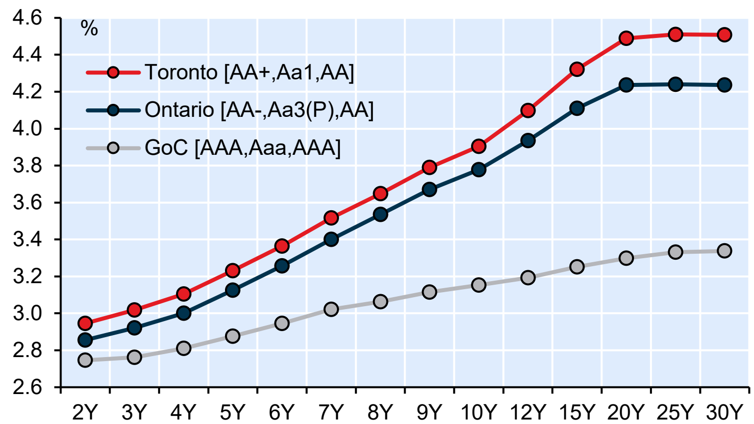
A record 10-year capital plan (of $59.6bln) has stepped up notably vs. last year. Related investments will allow Toronto to: accommodate a larger/growing population; make progress on a state-of-good-repair (SOGR) backlog; and advance on decarbonization plans/priorities. As always, a material portion of the capital spend is rate supported. Net out dedicated federal-provincial grants, development charges, a special property tax levy and other capital revenue streams, and the portion needing to be directly debt financed is less than 20% (over the full 10-year period).

Chart 7: Expect (broadly) similar issuance tempo in 2025…
City of Toronto annual gross bond issuance (calendar year)



Source: NBC, Toronto | Note: 2010-24 are actuals; 2025 is NBC projection (unofficial)

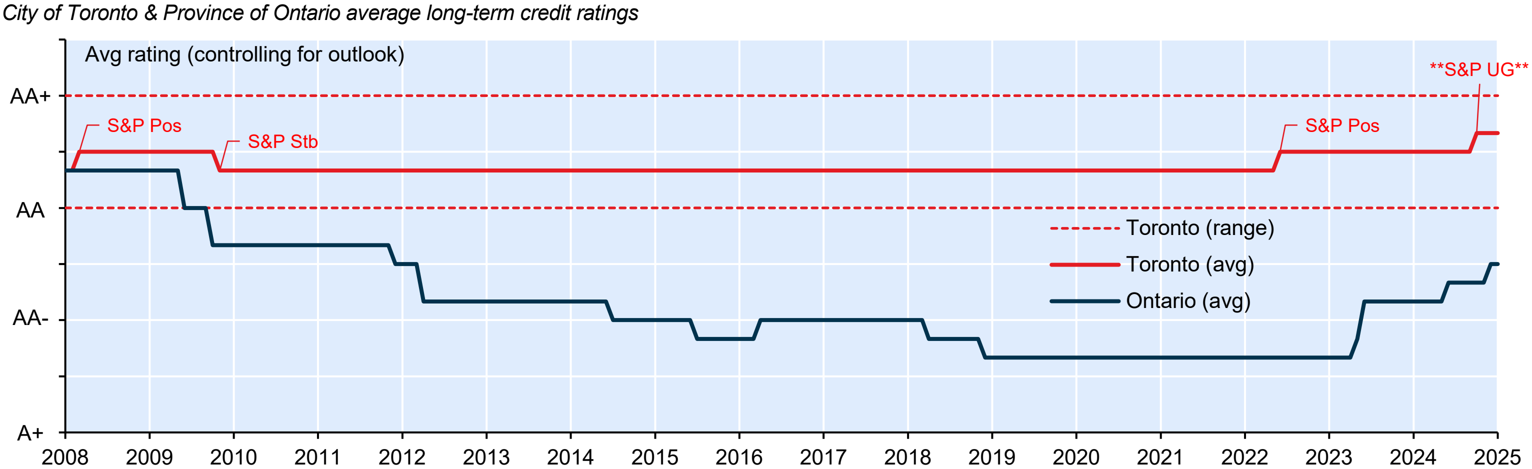
Chart 8: … with highly rated Toronto providing extra yield
Indicative constant maturity new issue borrowing rates by tenor (13-Feb-25)



Source: NBC | Note: Ratings in [;] refer to S&P, Moody's, DBRS, with (P) denoting 'positive'

With the 10-year capital plan identifying $10.5bln in total debt, the implied issuance pace looks to be more-or-less in line with the recent trend. NBC projects $1-1.2bln in gross bond supply for 2025, comfortably below the $2bln annual issuance limit. [A useful summary of the city's debt financing practices can be found **here**.] Since the city is funding capital projects with a long useful life, longer-term issuance (i.e., 10-, 20- or 30-years) tends to be a natural fit, subject to market conditions. Toronto bonds offer yield enhancement vs. the provi curve, an indicative 30-year yield of ~4.5% today.

Chart 9: Relative ratings stability a hallmark of Canada's municipal sector, with Toronto earning upgrade from S&P in 2024
City of Toronto & Province of Ontario average long-term credit ratings



Source: NBC, S&P, Moody's, DBRS | Note: Monthly closes to Jan-25; simple average (and/or range) of three long-term ratings controlling for 'positive' and 'negative' outlooks

Testifying to the fiscal/financial stability of the municipal sector (which is enforced by law), municipal credit ratings have generally proven impervious to the economic cycle. In Toronto's case, improved fiscal sustainability led to a one-notch upgrade by S&P in October 2024. All Toronto ratings are currently on 'stable' outlook. Refer to NBC's *Canadian Government Fact Sheet* set for more details.

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