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2026 BUDGET BRIEFING NOTE

Carbon Budget - 2026 Staff Prepared Budget

Introduction:

- This Carbon Budget briefing note focuses on the *impact* of City-led greenhouse gas (GHG) reduction actions (i.e. projects and programs) in the 2026 Staff Prepared Budget on Toronto's progress toward Council-adopted GHG reduction goals.
- The City's Carbon Budget Prioritization process is the annual process, adopted by Toronto City Council as part of the codified Carbon Budget Accountability system (2023), implemented in 2024, to align the budget with the City's TransformTO Net Zero climate strategy. The process is made up of a consistent set of steps and technical guidance used by City Divisions, Agencies and Corporations to identify and prioritize new or enhanced GHG reduction actions for inclusion in the City's 2026 Staff Prepared Budget.
- This briefing note presents the outcomes of the ongoing (baseline) GHG reduction actions that continue year-over-year and the actions that were submitted through the annual Carbon Budget Prioritization process. Similar to last year this process aims to identify new or enhanced GHG reduction actions that can bring *additional* GHG reductions in the upcoming budget year (or in future years), beyond those reductions already expected from continuing baseline actions.
- This year's Carbon Budget is informed by the introduction of the technical modelling using the City's Local Emissions for Net Zero (LENZ) modelling suite based on carbon dioxide equivalents (CO₂e), to quantify the greenhouse gas reduction impact of budgeted actions.
- This briefing note also quantifies and tracks fossil fuel dependencies in the City's operating and capital budget proposals.

Key Points:

GHG reduction impact of Budget 2026

- The 2026 Staff Prepared Capital and Operating Budget contains 35 new or enhanced GHG reduction actions identified via the Carbon Budget Prioritization process, with an estimated annual GHG reduction impact of 64,267 t CO₂e in 2026 (realized in total emissions below), growing to 217,914 t CO₂e annually, subject to the actions being fully funded and implemented.

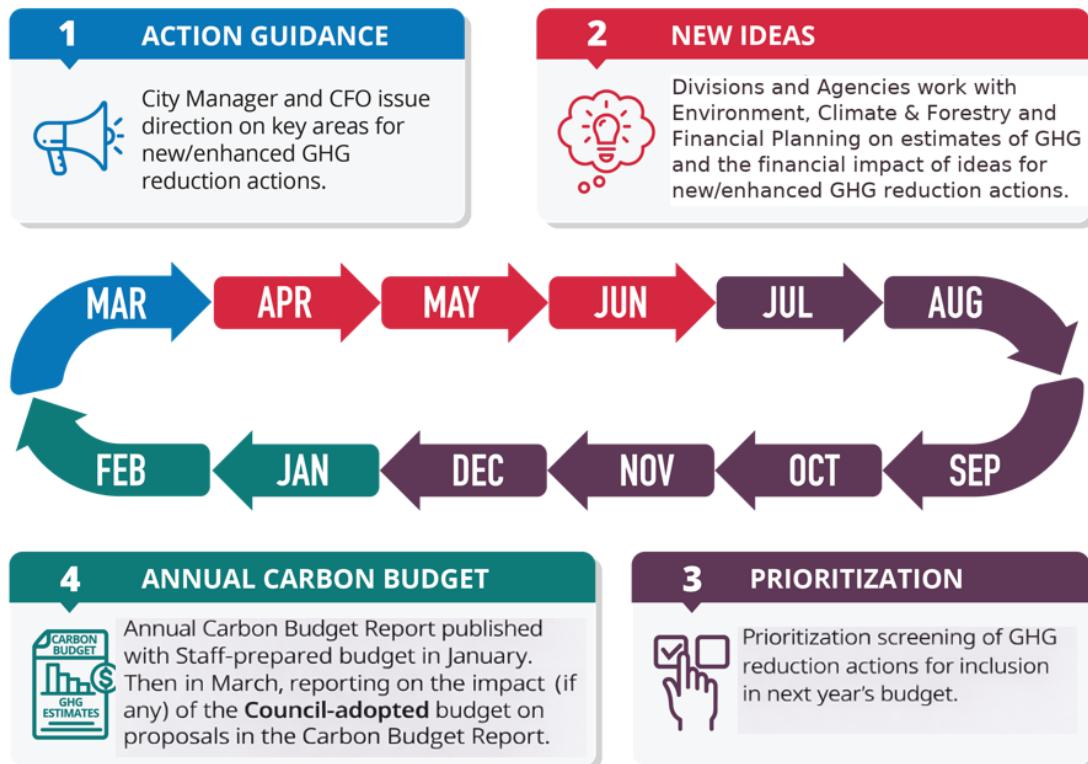
- The total estimated annual GHG reduction impact of the annual Budget is 170,450 t CO₂e in 2026.¹ In 2026, most emissions are attributed to the Transportation sector (71,994 t CO₂e), followed by Waste (54,873 t CO₂e) and Buildings (43,583 t CO₂e).
 - i. Appendix A provides 2026 GHG reductions estimates for the ongoing GHG reduction actions that continue year over year.
 - ii. Appendix B provides estimates for new or enhanced GHG reduction actions that can bring additional GHG reductions in 2026 (or in future years).
- To achieve the desired outcomes as noted above, the GHG reduction actions involve a planned capital investment of \$1.70 billion and an operating expense budget of \$79.06 million.
- A further 10 new/enhanced GHG reduction actions were identified via the Carbon Budget Prioritization process but ultimately not included in the 2026 Staff Prepared Capital and Operating Budget. Some of the proposed actions need to be further reviewed, scoped, and assessed in terms of their financial and environmental impacts. These actions, if determined viable, may be considered for inclusion in future budget submissions and would have an estimated annual GHG reduction impact of 17,406 t CO₂e annually once fully funded and implemented. A full list of such actions is provided in Appendix B.

Carbon Budget Prioritization

- The Carbon Budget Prioritization is the process, part of the codified Carbon Budget Accountability system (2023), that provides a consistent set of steps and guidance for City Divisions, Agencies and Corporations to identify and prioritize GHG reduction actions (project, programs, policies) for submission to the City's annual Budget Process.
- The Carbon Budget recognizes that accelerated action – from the City, other levels of government, residents and businesses – is required to achieve Council's ambitious GHG reduction goals. The City's 2023 Sector-Based Emissions Inventory shows that community-wide emissions were 16.1 MtCO₂e, which is a two per cent increase from 2022. Though there is an overall downward trend in emissions over time by sector (buildings, transportation and waste) since 1990, it is unlikely the City will meet the 2025 or 2030 community-wide targets given the current pace of emissions reductions as compared to the required trajectory.
- Each annual Carbon Budget cycle begins with the City Manager and Chief Financial Officer and Treasurer issuing "Action Guidance" to Divisions, Agencies and Corporations, providing direction on key areas for new or enhanced GHG reduction actions that could be included in the next year's budget. This is followed by an ideation phase, an evaluation and quantification phase, a prioritization exercise and ultimately Carbon Budget reporting through the annual budget process. The goal of the annual prioritization process is to create a virtuous cycle where Divisions, Agencies and Corporations come forward with ideas for accelerating emission reductions.

¹ Note that for some actions that are expected to reduce emissions, a specific quantified estimate is currently unavailable due to data limitations, project-level analysis limitations, or the nature of the action (e.g. educational programming).

The figure below depicts the annual Carbon Budget cycle:



- The carbon budget process has matured from broad early engagement in 2025 to a more targeted, high-impact approach in 2026. While total estimated reductions are lower in 2026, the proposals reflect a more refined and strategic approach, emphasizing implementation feasibility and long-term impact. Several 2025 proposals continue to be implemented, demonstrating sustained momentum and a multi-year commitment to reaching TransformTOs net zero goals.
- For 2026 Budget, 9 Divisions, Agencies, and Corporations collectively proposed 95 new or enhanced actions to reduce GHGs, of which 45 were screened in for assessment of GHG reduction potential and financials.²

Of the 45 proposals that were advanced for assessment of GHG reduction potential, Environment, Climate and Forestry (ECF), formerly Environment & Climate, and Financial Planning divisions jointly assessed 30 proposals as "high priority" based on their importance to the TransformTO Net Zero Strategy, as measured through the presence of a "high" score on at least one of three criteria:

² Proposed actions were screened out if they: (i) are already accounted for in a baseline GHG reduction action; or (ii) have no or trivial potential impact on emission reductions and the TransformTO Net Zero Strategy.

- i. direct GHG reduction potential (high: 50-1000s t CO₂e annually);
- ii. indirect (enabling) GHG reduction potential (high: qualitative assessment); or
- iii. contribution to an inclusive and equitable net zero transition (high: qualitative assessment using framework similar to high/medium/low impact in 2025-26 Equity Responsive Budgeting manual, adapted to net zero context).

- There were 25 actions identified through the 2025 Carbon Budget Process that were resubmitted and screened in for 2026, either because they could not be accommodated within the 10-year capital plan due to financial constraints or because additional information is now available to support re-assessment. This reflects sustained interest in advancing decarbonization initiatives and the multiyear nature of major capital projects.
- All 45 screened-in proposals were allowed to be advanced as part of the City's [Capital Prioritization Framework](#) based on a set of weighted criteria according to project categories, capacity to deliver, risk assessment, environmental, social and governance contributions, and strategic alignment with the City's priorities. The "high priority" designations for new or enhanced actions in the Carbon Budget process carried through to the climate aspect of the Capital Prioritization Framework, as applicable.³

Local Emissions for Net Zero (LENZ) model

- This year's Carbon Budget uses the City's Local Emissions for Net Zero (LENZ) Modelling Suite to estimate the GHG reduction impact of several budgeted actions. LENZ is a decision-support tool developed by the City of Toronto that simulates city-wide energy and emissions systems to identify least-cost pathways to net zero by 2040.
- Each modelled action is assessed in the context of a fully optimized urban system. As a result, some actions may show zero or negligible GHG reductions—not because they lack value, but because their benefits may be offset by shifts elsewhere or are not cost-effective within the optimized scenario.
- The integration of LENZ supports more realistic, system-wide emissions estimates and helps prioritize impactful, cost-effective climate actions. It strengthens the City's ability to align budget decisions with its net zero strategy.
- In this reporting year, LENZ is applied to a limited set of actions as work to calibrate the modelling is underway, with the intent of streamlining actions and expanding its use for GHG reduction estimates in future years.

Emissions Budget

- Under the Climate Change Goals and Governance By-law (Municipal Code Chapter 669), the City must set emissions budgets for both corporate and community-wide emissions. These budgets define the total allowable GHG emissions for each period and ensure alignment with Council-adopted climate targets, including Toronto's commitment to a 1.5°C trajectory. For 2026–2030, Council has approved emissions budgets of 2.0 Mt CO₂e for corporate operations and 53.1 Mt CO₂e for community sources.

³ The 50 proposed actions that were screened out could be entered for Capital Prioritization under other merits than GHG reduction.

- Although corporate emissions represent only six per cent of Toronto's total emissions, divisions and agencies responsible for buildings and fleet must plan to operate within their allocated emissions budgets. As part of the Net Zero Strategy Action Plan (2026–2030), the City has prepared Advanced Plans outlining the activities required to meet the corporate emissions budget for buildings and transportation.
- The emissions budget provides the quantitative foundation for carbon budget reporting. Tracking actual and projected emissions against these limits strengthens accountability and supports Council decision-making on the actions and investments needed to remain on the pathway to net zero.

Fossil Fuel Dependencies in Budget 2026

- The 2026 Staff Prepared Operating Budget contains \$44.84 million for the purchase of fossil fuels (i.e. fossil natural gas, gasoline, and diesel) for use in City operations.
- Estimated emissions from the projected consumption of fossil fuels in 2026 is 342,598 t CO₂e.
- The 2026 Staff Prepared Capital Budget also contains \$689.81 million in capital for projects tagged as containing at least one “fossil fuel reliant” element (e.g. a building project including procurement of a natural gas boiler, or fleet procurements including internal combustion engine vehicles).
- To maintain momentum toward net zero, City Council has directed staff to develop a policy to guide the transition of all City of Toronto Divisions and Agencies away from the procurement and operation of equipment that combusts fossil fuel in City-owned facilities by 2040, informed by Zero Carbon Transition Plans and reporting back to Council in 2028 ([2025.IE26.3](#)). The City’s [Corporate Offset Credits Policy](#) clarifies the “net” of net zero by defining whether and how the Corporation will purchase and/or sell carbon offsets in a science-based, fiscally responsible way as the City works toward the net zero goal.
- The only credits that can validly offset CO₂ emissions from Corporate fossil fuel assets to achieve “net zero” are those that remove CO₂ from the atmosphere and store it permanently (e.g. deep underground as basalt rock via mineralization or in a deep saline aquifer).
- The projected price of such offset credits in 2040 is \$321.00 per tonne of CO₂e based on research conducted for ECF in 2024. This high cost reinforces the financial prudence of the primary objective stated in the Corporate Offset Credits Policy, which is to reduce emissions from Corporate emission sources as close to absolute zero emissions as feasible by 2040 rather than rely on paying for offsets. For example, if the current annual Corporate emissions of 0.89 MT remained in 2040, the expected cost of offsets to achieve net zero Corporate emissions would be \$285.70 million annually.⁴ Actions that eliminate sources of Corporate emissions reduce this future cost.

⁴ The costs of future offsets are determined by multiplying the corporate GHG reductions by the carbon price \$321.00 per tonne of CO₂e.

Increasing Climate Resilience

- The 2026 Staff Prepared Capital Budget contains projects that have been identified by program areas as having one or more components that contribute to increasing climate resilience in Toronto with a planned capital investment of \$18.63 billion over the next 10-year (2026 – 2035) planning horizon.⁵
- As part of a renewed focus on coordinated climate resilience planning in 2026, the City is gathering information to better understand the overall costs of climate change to the City and to prioritize climate-related risks for action.

Intergovernmental Dependencies

- The City's ability to meet its TransformTO goals is highly dependent on the policy, regulatory, and funding environment established by provincial and federal governments. In recent years, the intergovernmental climate policy landscape has shifted significantly—from a period of strong action and investment toward one increasingly characterized by uncertainty, fiscal constraint, and the reversal or delay of critical climate policies.
- Key developments include:
 - Shifting public priorities, with increased focus on housing, affordability, and safety, contributing to reduced political attention and investment in climate action across orders of government.
 - Federal policy uncertainty, including unclear timelines for the Clean Electricity Regulations and Clean Electricity Investment Tax Credit; ongoing reviews of the Clean Fuel Regulations, the Electric Vehicle Availability Standard, and the industrial carbon pricing system; non-renewal of electric vehicle incentives; and discontinuation of programs supporting home and building energy retrofits.
 - Fiscal pressures at both the federal and provincial levels that limit the scale and predictability of climate-related funding programs on which municipal climate action depends.
 - Electricity system planning, including Ontario's and the Independent Electricity System Operator's commitment to a net zero electricity grid by 2050, and the release of the Integrated Regional Resource Plan, which will influence grid capacity, infrastructure upgrades, and future electricity-related emissions in Toronto.
- At the same time, the City faces significant municipal fiscal constraints that further challenge its ability to advance climate action without stable and coordinated intergovernmental support.

⁵ Reflects total capital investment in projects tagged for climate outcomes, including components that do not directly increase climate resilience but are necessary to deliver overall climate benefits. Some capital projects are tagged as both greenhouse gas (GHG) reduction and climate resilience initiatives; as a result, total capital investment is less than the sum of these categories due to overlap.

- These shifts create heightened intergovernmental dependencies for the City's climate strategy. Reduced policy certainty, delayed regulatory frameworks, and insufficient or unpredictable funding risk slowing the pace of emissions reductions and place Toronto's 2040 net zero target at increasing risk. Continued and enhanced partnership with other orders of government will be essential to create the enabling conditions required for climate success.

Market Dependencies

- Economic forces, such as lower inflation and interest rates, reliable supply chains and a deepening pool of skilled labour in critical sectors (e.g. building retrofits) are vital for facilitating the significant capital investments necessary for net zero developments and rapid retrofitting of Toronto's building stock.

Carbon Budget Tables

2026 Budget for GHG Reduction Actions:

Table 1 below presents the aggregate budget amounts, estimated GHG reduction, and alignment with emissions scenarios for City-led GHG reduction actions. These high priority and impactful actions encompass projects and programs that reduce GHGs within the buildings, transportation, and waste sectors, covering both the community and corporation. For reference, corporate emissions from City of Toronto operations comprise approximately six per cent of community emissions.

Table 1: 2026 Budget for GHG Reduction Actions

Sector	Capital ⁶ (\$ millions)		Operating (\$ millions)	2026 GHG Reduction (est.) (t CO ₂ e)
	2026 Capital Budget	Capital Plan 2026 – 2035	2026 Operating Budget	
COMMUNITY	Buildings	87.90	634.65	1.80 29,590
	Transportation	292.03	2,481.63	1.50 600
CORPORATE	Buildings	816.27	6,711.11	13.91 13,993
	Transportation	422.21	3,712.34	0.50 71,394
COMMUNITY / CORPORATE	Buildings	7.95	128.36	1.14 -
	Waste	62.79	1,084.26	55.71 54,873
CROSS- SECTOR	-	5.90	30.51	4.50 -
TOTAL		1,695.05	14,782.86	79.06 170,450

⁶ Note that capital projects may be tagged as both reducing GHGs and increasing climate resilience, meaning total capital investment in projects tagged as reducing GHGs and increasing climate resilience adds up to less than the sum of each category added together.

See “Appendix A – GHG Reduction Actions” for the budget amounts, estimated GHG reduction, and emissions scenario alignment for individual City-led GHG reduction actions (projects and programs).

Fossil Fuel Dependencies:

Table 2 below sets out the 2026 budgeted utility dollar amounts, estimated consumption by volume (based on previous year consumption) and resulting GHG emissions for all City divisions (excluding leased sites).

Table 2: 2026 Budget for Fossil Fuels

Emissions Sector	Fossil Fuel	2026 Operating Budget (\$ millions)	Consumption Estimate	2026 GHG Emissions Estimate (t CO ₂ e)
Buildings	Fossil natural gas	20.84	52,725,000 m ³	101,889
	Fossil natural gas via steam for district heat	4.51	3,113,000 m ³	6,016
Transportation	Diesel	9.58	75,318,000 l	201,928
	Gasoline	8.88	11,135,000 l	25,688
	Fossil natural gas	1.03	3,626,000 m ³	7,077
Total		44.84	-	342,598

Note: The Government of Canada made regulations that ended the application of the federal fuel charge and setting all fuel charge rates to zero beginning April 1, 2025.

Table 3 below sets out the budgeted amounts for all projects containing at least one fossil fuel reliant element tagged by Divisions, Agencies and Corporations in their 2026-2035 Capital Budget and Plan.

Table 3: Capital Investment in Fossil Fuel Reliant Projects

Division/Agency	Capital (\$ millions)	
	2026	10-yr Capital Plan 2026 – 2035
Children's Services	1.81	73.64
Corporate Initiatives	0.50	0.50
Corporate Real Estate Management	6.00	15.87
Economic Development & Culture	1.16	1.16
Environment, Climate & Forestry	22.81	285.02
Fire Services	0.43	16.58
Fleet Services	124.66	1,853.03
Housing Secretariat	5.00	12.84
Parks & Recreation	0.00	90.00
Solid Waste Management Services	6.74	6.81
Toronto & Region Conservation Authority	2.89	27.12
Toronto Housing Corporation	260.02	1,752.80
Toronto Paramedic Services	33.56	299.55
Toronto Police Service	18.18	171.28
Toronto Public Library	37.56	326.31
Toronto Shelter and Support Services	35.09	617.31
Toronto Transit Commission	8.65	229.89
Wastewater Program	101.52	2,709.91
Water Program	23.23	336.39
Total	689.81	8,826.01

Capital Investment in Climate Resilience

Table 4 below shows the capital investments in projects that have one or more components that contribute to increasing climate resilience as tagged by Divisions, Agencies and Corporations in their 2026-2035 Staff Prepared Capital Budget and Plan.

Table 4: Capital Investment in Climate Resilience

Division/Agency	Capital (\$ millions)	
	2026	10-yr Capital Plan 2026 – 2035
Children's Services	2.45	61.28
Corporate Real Estate Management	167.62	623.00
Economic Development & Culture	1.69	6.33
Environment, Climate & Forestry	27.26	316.47
Fire Services	0.38	16.53
Fleet Services	133.06	1,939.92
Housing Secretariat	9.88	87.16
Parks & Recreation	120.18	1,655.33
Seniors Services and Long-Term Care	31.57	428.38
Solid Waste Management Services	3.67	74.61
Toronto & Region Conservation Authority	29.35	281.18
Toronto Housing Corporation	291.23	1,510.50
Toronto Paramedic Services	33.23	293.32
Toronto Parking Authority	9.13	32.45
Toronto Police Service	45.59	618.70
Toronto Public Library	42.30	277.02
Toronto Shelter and Support Services	98.10	1,089.19
Toronto Transit Commission	317.42	1,762.27
Toronto Zoo	43.49	128.06
Transportation Services	158.49	1,921.05
Wastewater Program	218.38	4,910.73
Water Program	19.11	412.53
Waterfront Revitalization Initiative	38.95	179.65
Total	1,842.53	18,625.66

Key City-led Climate Resilience actions continue to include:

- Waterfront Revitalization's investment in the Port Lands Flood Protection project;
- Transportation Services' investments in green streets that integrate natural and human-made green infrastructure to capture and filter rainwater;
- Toronto Water's continued investments in the Basement Flooding Protection Program and the expansion of the Basement Flooding Protection Subsidy Program, giving property owners more tools to protect their homes from flooding;
- Toronto and Region Conservation Authority's investments in erosion control, watershed improvements, and waterfront development; and
- Parks and Recreation's investments in park development, providing new and improved green space for recreational and natural purposes.

Next Steps

Following Council's adoption of the 2026 Budget, ECF will review the analysis in this Briefing Note and report to Infrastructure and Environment Committee later in 2026 about any changes in the expected GHG impact based on the adopted budget.

Future Updates to the 2027 Carbon Budget Prioritization Process:

The Carbon Budget Prioritization process, adopted by Toronto City Council in 2023 as part of the Carbon Budget Accountability System, began implementation in 2024 and will be further enhanced in 2026.

With Council's recent adoption of the Net Zero Strategy Action Plan (2026-2030) (IE26.3), and the Progress and Priorities for Enhancing Toronto's Climate Resilience (EX28.5), some of the major enhancement updates that can be anticipated the 2027 Carbon Budget process include:

- a. The phase-out of City of Toronto procurement and operation of equipment that combusts fossil fuel in City-owned facilities, subject to a list of exceptions, by discontinuing the procurement of fossil-fuel equipment in time to ensure fossil free operation by 2040.
- b. The feasibility of incorporating climate resilience and climate change adaptation objectives as part of the carbon budget intake process to more clearly make the link between prioritizing climate-related risks alongside GHG reduction potential.
- c. Stronger strategic alignment between equity and City-led climate actions through engaging People & Equity to strengthen the equity impact assessment within the Carbon Budget Prioritization process.

These anticipated additions will be subject to a process that outlines both the steps and technical guidance for inclusion in the 2027 budget submissions for consideration, contingent on the City's affordability and prioritization relative to other competing priorities.

With these enhancements underway, the City continues making strides toward Council-adopted GHG reduction targets, while ensuring that City-led climate actions are equitable and resilient.

Attachment

Appendix A – GHG Reduction Actions in the 2026 Staff Prepared Budget
Appendix B – 2026 Carbon Budget Prioritization

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