Regional Municipality of York

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
A diverse and wealthy economy as well as a growing population and assessment base support the Regional Municipality of York's revenue growth.	After-capital surpluses will decline as the region proceeds with its capital plan.
Its long-term financial management practices will allow the region to continue posting healthy budgetary results.	The debt burden will slightly fall as a result of debt repayment, contributions to sinking funds, and revenue growth.
An extremely predictable and supportive institutional framework supports the ratings.	York's robust liquidity will continue to support its creditworthiness.

S&P Global Ratings' long-term issuer credit rating on the Regional Municipality of York is 'AAA'. We expect the region's diverse and wealthy economy will continue to foster economic stability. We estimate that the region will continue posting healthy operating balances but that its after-capital surpluses will fall as it proceeds with its capital plan. York will issue debt to help fund part of its capital spending plan but we expect the debt burden will slightly decrease as a result of debt repayment, contributions to sinking funds, and revenue growth. We estimate debt service coverage will remain higher than 100% in our forecast horizon.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, York will maintain strong operating surpluses and that its after-capital surpluses will fall as it proceeds with its capital plan. In addition, we expect the debt burden will slightly decline to about 84.7% of operating revenues in 2025.

Downside scenario

We could lower the ratings in the next two years if York generated lower-than-expected revenue and we believed its flexibility to raise revenues was constrained, resulting in much weaker operating balances and either sustained after-capital deficits of more than 10% of total revenues or rising debt that led to an interest burden above 5% of operating revenues. Both scenarios would likely lead to a lower financial management score.

Rationale

Strong economy and prudent financial management will remain key to the region's creditworthiness.

York's diverse and wealthy economy benefits from its proximity to and integration with the City of Toronto. The region boasts the sixth-largest municipal population in Canada, with an estimated 1.24 million residents in 2022, as well as a sizable employment base of about 594,000 jobs. The region’s economy has added more than 16,000 jobs since 2019 with a very important contribution from the finance, insurance, and real estate sectors. Building activity and assessment growth continue to support regional revenues. Although municipal GDP data are unavailable, we believe that York's GDP per capita is higher than the national level, which we estimate will be more than US$54,700 in 2023, based on the region's high income levels.

We believe York's financial management is very strong and in line with that of regional peers. York's long-term capital plan has evolved in the past several years, reflecting both revised growth estimates and greater financial discipline, and we believe management demonstrates the flexibility to appropriately align capital plans with fluctuations in population growth. The region produces a multiyear budget that matches the term of council and from which management develops annual budgets with achievable revenue and expenditure targets. Moreover, the region has an established commitment to fiscal sustainability through its fiscal strategy process, which successive regional councils have endorsed. Council continues to endorse the building of several reserves and is proactively raising funds for the subway extension via a dedicated levy.

As do other Canadian municipalities, York benefits from an extremely predictable and supportive local and regional government framework that has demonstrated high institutional stability and evidence of systemic extraordinary support in times of financial distress. Most recently through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. Although provincial governments mandate a significant proportion of municipal spending, they also provide operating fund transfers and impose fiscal restraint through legislative requirements to pass balanced operating budgets. Municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be intensive. Any operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations) through reserve contributions. Municipalities have demonstrated a track record of strong budget results and, as such, debt burdens, on average, are low relative to those of global peers and growth over time has been modest.

Budgetary performance will remain strong and debt will remain manageable.

We expect operating balances will remain strong and average 27.7% of operating revenues in 2021-2025. These surpluses should support York's capital plans, which include an eight-kilometer extension of the Yonge St. subway line north to Richmond Hill for which the region budgeted C$1.12 billion starting in 2022 to fund its share. The region plans to partially fund this project via a dedicated 1% levy. We expect after-capital surpluses will decline as York proceeds with its capital plan and average 13.3% of total revenues in 2021-2025. We view York as having high budgetary flexibility, owing to its above-average household incomes and relatively low tax rates, which we think would support additional revenue generation, if necessary.

Historically, the region's rising population and assessment values have supported revenues while also putting pressure on growth-related capital spending. We see these pressures abating somewhat with population growth moderating to 1%-2% per year. Furthermore, in recent years, the region implemented strategies for capital asset replacement and more flexible delivery of growth-related infrastructure, which have resulted in the accumulation of large asset replacement reserves and lower debt issuance.

We expect operating surpluses, dedicated funding, and strong reserves will continue to fund the region's capital plan and reduce York's reliance on debt funding. The region continues to limit new debt issuance to fund growth-related spending and keep net debt below its 2017 peak. We estimate it will issue about C$878 million in 2023-2025. Nevertheless, we expect York’s debt burden (net of sinking funds) will decrease to 84.7% of operating revenues in 2025 from 88.5% in 2022 as a result of debt repayment, contributions to sinking funds, and revenue growth. In addition, the region's direct debt represents less than five years of operating surpluses, which mitigates our assessment of the debt burden. Interest costs accounted for about 3.9% of operating revenues in 2022 and we expect they will remain less than 5% during the two-year outlook horizon.

York demonstrates exceptional liquidity, in our view. We estimate total free cash in the next 12 months will be enough to cover more than 11x the estimated debt service for the period. We expect this ratio will remain well above 100% during the outlook horizon. In addition, we believe York's access to external liquidity is strong, in part because of its frequent issuance and its practice of maintaining benchmark issues that bolster liquidity for its debt in the secondary markets.

Regional Municipality of York Selected Indicators

Mil. C$	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	2,614	2,664	2,795	2,825	2,918	3,015
Operating expenditure	1,670	1,878	1,990	2,065	2,137	2,213
Operating balance	944	786	805	760	781	802
Operating balance (% of operating revenue)	36.1	29.5	28.8	26.9	26.8	26.6
Capital revenue	88	209	220	244	349	295
Capital expenditure	668	506	518	598	855	723
Balance after capital accounts	364	489	506	406	274	373
Balance after capital accounts (% of total revenue)	13.5	17.0	16.8	13.2	8.4	11.3
Debt repaid	177	206	214	216	233	245

Regional Municipality of York Selected Indicators

Gross borrowings	410	300	0	288	264	326
Balance after borrowings	596	582	292	478	305	455
Direct debt (outstanding at year-end)	2,904	2,711	2,472	2,517	2,510	2,554
Direct debt (% of operating revenue)	111.1	101.8	88.5	89.1	86.0	84.7
Tax-supported debt (outstanding at year-end)	2,904	2,711	2,472	2,517	2,510	2,554
Tax-supported debt (% of consolidated operating revenue)	111.1	101.8	88.5	89.1	86.0	84.7
Interest (% of operating revenue)	4.7	4.3	3.9	3.9	4.1	4.3
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	43,349.7	52,358.6	54,917.7	54,720.3	56,364.9	59,092.1

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. C$--Canadian dollar. $--U.S. dollar.

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1
Budgetary performance	1
Liquidity	1
Debt burden	2
Stand-alone credit profile	aaa
Issuer credit rating	AAA

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the **"Methodology For Rating Local And Regional Governments Outside Of The U.S.,"** published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

- Sovereign Risk Indicators, July 10, 2023. Interactive version available at http://www.spratings.com/sri.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook Canada Q3 2023: A First-Half Resurgence Will Give Way To An Inevitable Slowdown, June 26, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Sector And Industry Variables | Criteria | Governments | Sovereign Rating Methodology, March 24, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022

Ratings Detail (as of July 17, 2023)*

York (Regional Municipality of)		
Issuer Credit Rating		AAA/Stable/--
Senior Unsecured		AAA
Issuer Credit Ratings History		
29-Jul-2021	*Foreign Currency*	AAA/Stable/--
29-Jul-2019		AA+/Positive/--
31-Jul-2014		AA+/Stable/--
29-Jul-2021	*Local Currency*	AAA/Stable/--
29-Jul-2019		AA+/Positive/--
31-Jul-2014		AA+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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