York Region

Office of the Commissioner
Finance Department

Memorandum

TO: Chairman and Members of Regional Council

FROM: Bill Hughes
Commissioner of Finance and Regional Treasurer

DATE: September 21, 2017

RE: **Regional Municipality of York – 2017 Credit Rating Update**

Both Moody's Investors Service and S&P Global Ratings recently re-affirmed their respective credit rating for the debt issued by the Regional Municipality of York.

Both commented favourably on the Region's financial management and noted that the fiscal strategy approved by Council was a positive credit factor.

These ratings contribute to York's ability to access the capital markets and to borrow at historically low rates.

Moody's maintains Aaa Rating with Stable Outlook

On August 28, 2017, Moody's re-affirmed its Aaa/Stable rating for York Region supported by:

- A high level of cash and investments
- Prudent and far-sighted fiscal management
- A track record of positive operating outcomes
- Its diversified and expanding economy

Moody's viewed as a credit positive York Region's focus on building its reserve levels, which would help minimize the need for future tax levy debt issuance. At the end of 2016, the Region's reserve balance stood at 93 per cent of net direct and indirect debt, which Moody's mentioned has improved every year since 2011.

Moody's also noted the Region has strong governance and management characteristics including: long-term planning for capital and operating budgets, a history of meeting fiscal targets, and adherence to conservative debt and investment management policies that limit its exposure to market-related risks. Furthermore, it also viewed York's commitment to continuously improve its budgeting framework and long-term planning as credit positives.

However, Moody's cautioned that the Region's debt burden is "currently one of the highest among rated Canadian municipalities" and that "demands from a growing population will continue to apply financial pressure to York's budget". They noted that the Region's debt burden is expected to remain high compared to its Aaa rated peers and that the "addition of any currently unplanned projects in the outer years of the capital plan that require debt financing would impact on the region's ability to impact its debt burden over the medium term". Moody's identified two factors that could lead to a future downgrade: an increase in debt issuances beyond current expectations and a decrease in the level of cash and investments.

S&P affirms AA+ Rating with Stable Outlook

On July 18th, 2017, S&P Global Ratings re-affirmed its AA+/Stable rating for York Region based on its considerable budgetary flexibility, excellent liquidity balances, a well-diversified economy, and strong financial management practices. However, S&P noted that the Region's large debt burden is constraining the rating. S&P said that operating and capital expenses were lower than they had expected for 2016. In addition they forecast that "stable tax revenue growth and high growth-related capital revenues will drive after-capital surpluses and help to mitigate the region's need to issue debt to pay for its large capital program" in their 2015-2019 base-case period.

S&P also highlighted that financial management strategies such as deferring capital projects where feasible and moving rate-supported programs to a full cost recovery reduces the Region's reliance on debt, a credit positive.

S&P noted that "York's credit profile is bolstered by its excellent liquidity balances that significantly exceed debt servicing requirements". The balance of reserves, investments, and cash balances is a key credit strength. S&P estimates that total adjusted cash and investment balances will exceed $2.0 billion in the next 12 months, which is "sufficient to cover 6.4 times the total debt service forecast for the same period".

S&P said that it could lower its credit rating in the future if York Region "generated lower-than-expected revenue, resulting in much weaker operating balances and material after-capital deficits of more than 10 per cent of total revenues on a sustained basis." The rating could also be lowered if the Region issued significantly more debt to advance its large capital plan such that the "debt burden surpassed 180 per cent of the consolidated operating revenues."

Finally, S&P noted that York's credit rating could be raised if its debt burden were to fall below "120 per cent of consolidated operating revenues past 2019 and interest costs fell below 5 per cent of operating revenue in the next two years, while after-capital results remained in surplus on average."

Comparison of York Region's credit rating

The chart below shows York Region's credit rating in comparison to other municipalities and the Province of Ontario.

Issuer	Moody's	S&P
York Region	Aaa	AA+
City of Toronto	Aa1	AA
Peel Region	Aaa	AAA
Halton Region	Aaa	AAA
Ottawa	Aaa	AA
London	Aaa	n/a
Province of Ontario	Aa2	A+

Ratings retrieved on August 28th, 2017 from Moody's and S&P website

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