S&P Global Ratings

RatingsDirect®

Regional Municipality of York

July 28, 2022

PRIMARY CONTACT

Jennifer Love, CFA
Toronto
1-416-507-3285
jennifer.love
@spglobal.com

SECONDARY CONTACT

Adam J Gillespie
Toronto
1-416-507-2565
adam.gillespie
@spglobal.com

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Diverse and wealthy local economy will support the Region of York's creditworthiness	York's strong operating balances and after-capital surpluses will increase the region's reserves.
A growing population and assessment base support the region's revenue growth	The region's large capital program will be partially debt financed; however, the debt burden will remain stable.
Supportive institutions and strong financial management support York's creditworthiness.	The region will continue contributing to reserves and maintain exceptional liquidity.

S&P Global Ratings' long-term issuer credit rating on the Regional Municipality of York (York) is 'AAA.' We expect the region's wealthy and diverse economy will continue to foster economic stability. We expect the region's revenues, spurred by stable property tax revenue, will continue to exhibit steady growth and remain fairly resilient to economic shocks. We expect York will continue posting strong operating and after-capital balances, while limiting debt issuance to fund growth-related capital. The region is a net creditor, and we expect it will maintain exceptional liquidity during our outlook horizon.

Outlook

The stable outlook reflects our expectation that, in the next two years, a diverse and wealthy economy will continue to support development in the region, fueling strong budgetary surpluses; and that a high level of growth-related capital revenues will also support the capital program. We expect this will help maintain after-capital surpluses and mitigate the need for external financing such that York's tax-supported debt burden will remain below 120% of consolidated operating revenues through 2024, and its interest burden will be below 5% of consolidated operating revenues. Furthermore, we expect the region will carefully monitor growth and development charge collections to ensure capital spending remains consistent with population growth.

Downside scenario

Although we consider it unlikely, we could lower the ratings if York generated lower-than-expected revenue, resulting in much weaker operating balances and sustained, material after-capital deficits of more than 10% of total revenues, and we believed the region's flexibility to raise revenues was constrained. We could also lower the ratings if a similar scenario resulted in lower operating balances, constrained revenue generation, and rising debt that led to an interest burden above 5% of revenues. Both scenarios would likely lead to a lower financial management score.

Rationale

The ratings reflect York Region's diverse and wealthy economy, which fared relatively well during the pandemic. Economic growth has resumed and the region expects its GDP will surpass 2019 levels in 2022. In 2021, the region again reported strong revenues, supported by its stable property tax base, which makes up almost 50% of revenues. It also prudently maintained cost-mitigation strategies and benefited from federal and provincial funding in 2021. The ratings also reflect York's steady debt levels and low interest burden, which the region has maintained despite the pandemic. In 2021, York posted a C$786 million adjusted operating surplus and an after-capital surplus of C$489 million, reducing the need for external funding. The region continues to limit new debt issuance to fund growth-related spending and maintain net debt below its 2017 peak. The region's interest costs remain below 5% of consolidated operating revenue and York's liquidity is exceptional. The ratings also reflect the region's strong financial management, which we believe will continue to adapt the capital plan and related expenses to align with fluctuations in population growth.

A diverse economy supports York's revenues; very strong management and institutional framework also boosts the region's creditworthiness.

Our very strong economic assessment reflects our belief that York's diverse and wealthy economy will continue to support GDP per capita above the national average and growth in line with that of Canada. York's economy benefits from its proximity to and integration with the City of Toronto. York has a broad economy, with a notable technology cluster, and we believe the region's diversification should continue to support revenue growth through business cycles. The region boasts the sixth-largest municipal population in Canada, with an estimated 1.23 million residents in 2021, as well as a sizable employment base of 643,279 jobs. Recent population growth has been manageable, in the 1%-2% range annually. Building activity and assessment increases have been robust and will continue to support regional revenues. Assessment increases has averaged about 1.7% annually over the past five years.

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 asset replacement reserves and is proactively raising funds for subway extensions 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 global peers and growth over time has been modest.

Strong revenue generation and related budgetary surpluses support creditworthiness, while we expect the debt burden will remain stable in the next two years.

York's revenues remained strong in 2021, despite some fiscal impacts from the pandemic. In response to the pandemic-related impacts, the region employed cost-mitigation strategies and received support from other levels of government, which led to continued strong operating and after-capital balances. About half of regional revenues come from property taxes, which we view as very stable, and they have been resilient during economic shocks. We expect the region will continue generating stable operating balances averaging almost 30.5% of operating revenues in our base-case scenario for 2020-2024. Furthermore, these surpluses should support York's capital plans and result in after-capital surpluses of about 11.3% of total revenues, on average, during the same period. 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 regional revenue generation, if necessary.

The region is preparing for an eight kilometer extension of the Yonge Subway line north to Richmond Hill. This project will be managed by Metrolinx, but the region has budgeted C$1.12 billion to fund its share. York has incorporated the related capital spending beginning in 2022, and plans to partially fund this project via a dedicated 1% levy. We expect annual surpluses, dedicated funding, and strong reserves will continue to fund the region's capital plan and reduce York's reliance on debt funding. We expect capital spending will average about C$830 million per year through 2025, with spending focused on roads, transit (including the subway expansion), and, to a lesser degree, water and wastewater. The current 10-year capital plan allocates C$9.5 billion to capital projects, of which 33% will be debt-financed. Management expects reserves will contribute the bulk of capital funding. We expect York's debt burden (net of sinking funds) will remain stable at 88% of consolidated operating revenue in 2023. Over the past few years, York's interest burden has fallen and now averages close to 4% of operating revenues. In addition, the region's debt burden represents less than five years of operating surpluses, which further mitigates our assessment of the debt burden.

Historically, the region's rising population and assessment values have supported York's 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.

York demonstrates exceptional liquidity, with liquidity balances that significantly exceed debt servicing requirements. We believe that cash and investment balances (excluding long-term net sinking funds and deferred revenue) will total about C$3.8 billion in the next 12 months, sufficient to cover more than 1,335% the total debt service forecast. 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. Although the region's capital expenditure plans could cause near-term liquidity to fluctuate, we expect ongoing efforts to build capital reserves will support the liquidity position in the next two years.

Regional Municipality of York Selected Indicators

Mil. C$	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	2,537	2,614	2,659	2,741	2,829	2,922
Operating expenditure	1,837	1,670	1,873	1,936	2,009	2,093
Operating balance	700	944	786	804	820	829
Operating balance (% of operating revenue)	27.6	36.1	29.6	29.4	29.0	28.4
Capital revenue	170	88	209	404	194	153
Capital expenditure	637	668	506	752	709	942
Balance after capital accounts	233	364	489	456	305	40

Regional Municipality of York Selected Indicators

Balance after capital accounts (% of total revenue)	8.6	13.5	17.0	14.5	10.1	1.3
Debt repaid	162	177	206	214	215	220
Gross borrowings	349	410	300	7	165	439
Balance after borrowings	420	596	582	249	255	259
Direct debt (outstanding at year-end)	2,833	2,904	2,711	2,474	2,452	2,572
Direct debt (% of operating revenue)	111.7	111.1	102.0	90.3	86.7	88.0
Tax-supported debt (outstanding at year-end)	2,833	2,904	2,711	2,474	2,452	2,572
Tax-supported debt (% of consolidated operating revenue)	111.7	111.1	102.0	90.3	86.7	88.0
Interest (% of operating revenue)	5.0	4.7	4.3	3.9	3.9	4.1
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	46,328.7	43,258.3	51,987.9	56,006.4	58,012.8	58,081.4

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 11, 2022. 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- Credit Conditions North America Q3 2022: Credit Headwinds Turn Stormy, June 28, 2022

Ratings Detail (as of July 28, 2022)*

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.