MOODY'S INVESTORS SERVICE

CREDIT OPINION
14 December 2022

Update

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RATINGS

York, Regional Municipality of

Domicile	York, Ontario, Canada
Long Term Rating	Aaa
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Regional Municipality of York (Canada)

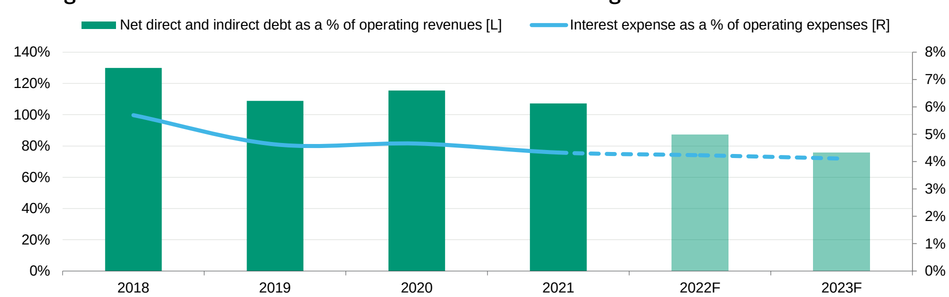
Update to credit analysis

Summary

The credit profile of the Regional Municipality of York (Aaa stable) reflects strong governance and prudent fiscal management. A large and diversified economy underpins growth in the regional tax base which, along with stable and predictable revenue sources and significant provincial and federal funding, support strong fiscal outcomes, and shelter the region from fiscal pressures relating to the pandemic and high inflation. Rising levels of wealth and liquidity ensure healthy growth in reserves and coverage of debt and expenses. York's debt burden is elevated relative to many Aaa-rated municipal peers, although the region's debt mitigation strategy has ensured a decline in the debt burden from 145% in 2016 to an estimated 87% in 2022. Increased new borrowing over the next few years for capital projects including the subway extension could put upward pressure on debt levels.

Exhibit 1

The region's debt reduction efforts have resulted in a declining debt burden from elevated levels



Sources: York Region and Moody's Investors Service

Credit strengths

» Excellent wealth and liquidity with growing levels of cash and reserves

» Large and diversified economy supports regional tax base

» Strong governance and mature institutional framework

» Stable revenue sources, cost controls and government funding cushion fiscal pressures

Credit challenges

» Elevated debt burden relative to peers given large-scale capital spending, but below historical levels

Rating outlook

The stable outlook reflects our view that the region will maintain strong levels of wealth and prudent fiscal management which will support balanced operating results over the next two years despite modest operating challenges from the pandemic and high inflation.

Factors that could lead to a downgrade

The rating could be downgraded if net direct and indirect debt rose above 110% of revenues on a sustained basis, or if significant operating pressures resulted in weaker fiscal results. A material decline in wealth and liquidity levels leading to lower coverage of operating expenses and debt could also put downward pressure on the rating.

Key indicators

Exhibit 2

Regional Municipality of York

(Year Ending 12/31)	2017	2018	2019	2020	2021	2022F
Net Direct and Indirect Debt/Operating Revenue (%)	140.3	130.0	108.9	115.5	107.2	87.3
Gross Operating Balance/Operating Revenue (%)	17.9	11.6	25.4	29.0	21.9	18.7
Cash Financing Surplus (Requirement)/Total Revenue (%)	4.9	15.4	8.6	15.8	22.6	2.6
Interest Payments/Operating Revenue (%)	6.0	5.7	4.6	4.7	4.3	4.2
Debt Service/Total Revenue (%)	15.3	5.3	17.6	11.8	19.2	9.8
Capital Spending/Total Expenditures (%)	31.8	15.3	28.3	31.7	22.0	40.1
Self-financing Ratio	1.2	2.2	1.4	1.7	2.3	1.1

Sources: York Region and Moody's Investors Service

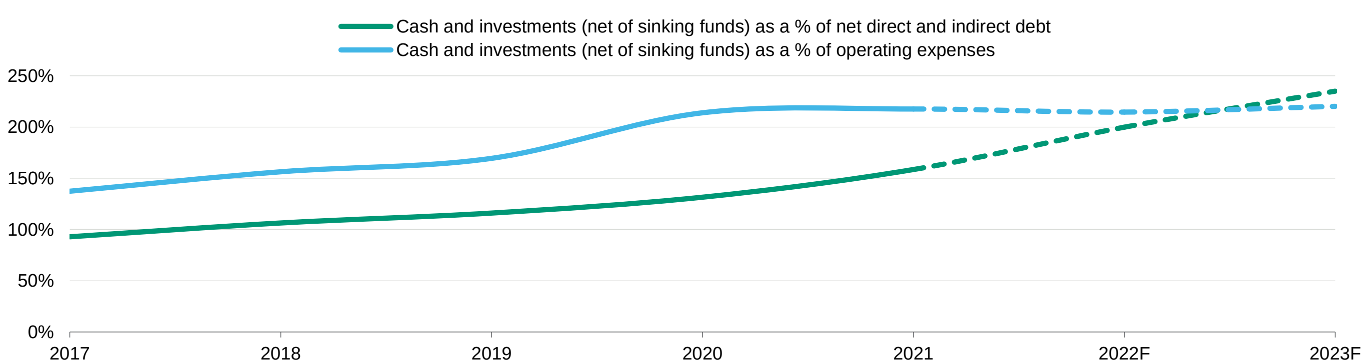
Detailed credit considerations

The credit profile of York, as expressed in its Aaa stable rating, combines (1) a baseline credit assessment (BCA) of aaa for the region and (2) the high likelihood of extraordinary support coming from the Province of Ontario (Aa3 stable) in the event that the region faced acute liquidity stress.

Excellent wealth and liquidity with growing levels of cash and reserves

York maintains excellent levels of wealth and liquidity which provides significant debt and expense coverage. Cash and investment balances (net of sinking funds) stood at CAD4.3 billion at year-end 2021, providing 159% coverage of net direct and indirect debt and 218% of annual operating expense, in-line with Aaa-rated Canadian municipalities. We expect that the region will continue to emphasize building up its reserves from operating surpluses to finance its capital plans and minimize its reliance on other sources, including direct debt financing, resulting in rising coverage ratios.

Exhibit 3



Sources: York Region and Moody's Investors Service

Reserves include restricted reserves from development charges and discretionary reserves earmarked for specific purposes including for general/tax stabilization. York maintains tax and fiscal stabilization reserves of about 4% of operating revenues, providing it with some buffer against pandemic related pressures. The region also maintains significant and growing sinking funds balances for debt repayment, which grew to CAD857 million at year-end 2021, with our projection of approximately CAD1 billion at year-end 2022.

The region employs a long-term approach when planning for liquidity needs. For 2021 and 2022, approximately 1.5% of the annual tax levy increases are used to fund capital reserves. Additionally, an internal policy allows 100% of the region's supplementary tax revenue to be added to reserves at the end of each fiscal year.

Large and diversified economy supports regional tax base

York is home to a large diversified economy which leads to high levels of wealth and in turn high taxation revenues. The strong economic fundamentals of the region - continued population growth, high employment growth and an unemployment rate below the provincial and national average - will continue to mitigate the fiscal impacts related to the coronavirus pandemic.

York has historically outperformed Ontario on a number of economic and labor market indicators, with favourable employment statistics, strong GDP growth and high GDP per capita. The region projects that the unemployment rate will average 5.4% for 2022, representing a continued improvement relative to 2021 and below the projected provincial unemployment rate of 6.1%. For 2023, the region expects a modest improvement in regional unemployment rate to 5.3%. The region also projects real GDP growth of 4.7% for 2022 given the continued economic rebound throughout the year, although we project slower growth for 2023 as high inflation and interest rates could hinder a further rebound. A slower economic growth in 2023 may also cause the unemployment rate to exceed the rate currently projected by the region.

The region benefits from its proximity to the City of Toronto (Aa1 stable), Canada's largest commercial and financial center, its sound manufacturing base and broad range of sectors such as technology, supply chain, business and financial services, construction, health care, food services and transportation.

Strong governance and mature institutional framework

The region's credit profile benefits from strong governance which is supported by comprehensive, transparent and timely fiscal reporting. The region utilizes prudent and forward-looking fiscal policies including multi-year operating budgets and 10-year capital plans which are updated annually. This allows pressures to be identified early on, supporting strong operating and consolidated results and utilization of pay-as-you-go and other financing approaches for capital projects during a period of consistent population growth.

York's creditworthiness also benefits from the overall stability of the provincial institutional framework. Despite the noted changes in provincial cost-sharing arrangements, provincial legislation dictates a high degree of oversight, including limits on debt servicing costs, while the region maintains significant flexibility to manage pressures through its operating and capital budgets. Debentures can only be issued to fund capital infrastructure projects, a large portion of which is repaid primarily through development charges on new property developments.

Stable revenue sources, cost controls and government funding cushion fiscal pressures

Property taxes and user fees, which tend not to fluctuate with economic changes, account for approximately two-thirds of operating revenues (68% in 2021) and will drive the majority of future revenue growth. The stability in revenue sources, along with cost controls and significant financial support from the provincial and federal governments, has enabled the region to be largely resilient to expense and revenue pressures from the coronavirus pandemic.

Taxable property assessments have grown significantly in recent years and the region retains some flexibility to raise user fees, given relatively low rates compared to the rest of the Greater Toronto Area (GTA). Gross operating surpluses averaged 21.2% of operating revenue in the 2017-2021 period, and we project similar levels in 2022 and 2023. The region posted an operating surplus of CAD554.5 million in 2021, which reflects a combination of expense mitigation efforts and provincial and federal COVID support.

The current high level of inflation, which we expect will remain above historical trend levels in 2022 and part of 2023, will put upward pressure on both operating and capital expense levels, including labour and materials costs. Nevertheless, the region's budget and long-term capital planning addresses these challenges through a combination of property tax increases, development charges, reserves and debt financing.

The region, along with other Ontario municipalities, also faces manageable pressures related to changes in certain provincial transfers and funding structures, including cost sharing arrangements between the province and the region for public health and childcare, and the funding of certain programs and services. The implementation of some changes were delayed given the province's intention to avoid further fiscal pressure to municipalities during the pandemic, which results in uncertainty in the timing of implementation.

Elevated debt burden relative to peers given large-scale capital spending, but below historical levels

York's debt burden is elevated relative to Aaa-rated peers, despite a gradual decline from 145% in 2016 to approximately 107% in 2021. The elevated level reflects York's heavy investment in infrastructure between 2008 and 2016 to support the rapid growth of the population. Continued population growth over the next decade will remain a key driver of infrastructure investment, which limits the ability for the region to reduce its reliance on debt significantly faster. Growth remains robust driven by the region's prime location in the Greater Toronto Area and the anticipated influx of international immigrants.

The continued need to fund growth and maintain infrastructure will exert pressure on capital spending and debt levels, given planned expansions of the regional transportation network, including bus rapid transit and the proposed extension of the Yonge subway line from Toronto to Richmond Hill. The region's 10-year capital plan for 2022-2031 totals CAD9.5 billion, which includes CAD1.12 billion regional capital contribution for the Yonge subway extension, with a total current cost estimate of CAD5.6 billion for the subway. We project that these costs could further rise given general cost escalation of building subways, and given inflationary pressures on labour and materials costs. A special tax levy of 1% for 2022 is included to build reserves for the project. A further rise in costs, in the absence of a cap on the region's cost share, would be credit negative.

Debt financing of the capital plan amounts to CAD3.2 billion, a significant amount and nearly one third of the capital plan, with the majority of debt issuances planned for 2024-2028. As a result, we project that the net debt will continue to improve in 2022-2023 and will be within a band of 80-90% of revenues in 2024-2028 as the increase in new borrowing will be balanced by the region's prioritization of other capital funding sources, including reserves and pay-as-you-go capital financing in order to limit the growth in debt.

Extraordinary support considerations

Moody's assigns a high likelihood of extraordinary support from the Province of Ontario, reflecting Moody's assessment of the incentive provided to the provincial government of minimizing the risk of potential disruptions to capital markets if York, or any other Ontario municipality, were to default.

ESG considerations

York's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4
ESG Credit Impact Score

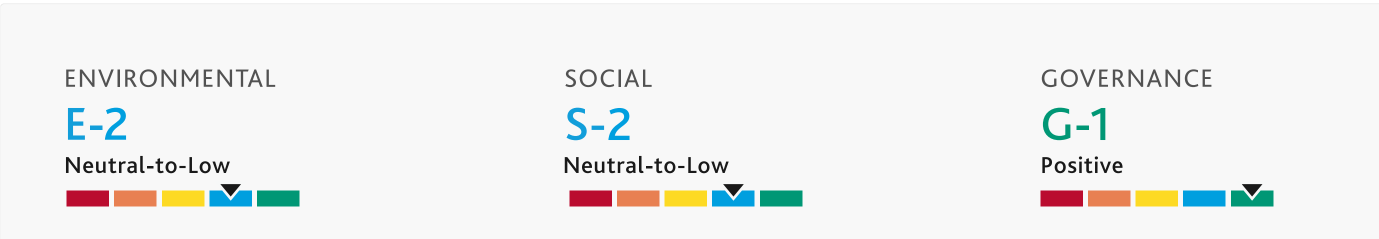
CIS-2
Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

The Region of York's ESG Credit Impact Score is neutral-to-low (**CIS-2**) reflecting neutral-to-low exposure to environmental and social risks and a positive governance profile.

Exhibit 5
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

The E issuer profile score is neutral-to-low (**E-2**). The local government sector overall has low exposure to environmental risks. The region is not exposed to significant climate risks and neither spending nor revenue are materially impacted by environmental changes.

Social

York's S issuer profile score is neutral-to-low (**S-2**). The region provides public services such as public safety (police and paramedic) and environmental (water and waste collection), but these services do not face material risks given predictable demographic trends which allow for long-term forecasting of service requirements. The region's residents have high levels of education and have access to basic services. The credit impact of the coronavirus pandemic has implications for public health, however the credit impact to the region is low given that the majority of related expenses are the responsibility of the province and not the region.

Governance

The positive G issuer profile score (**G-1**) reflects York's very strong budget and fiscal management practices and strong institutional framework. The region is subject to balanced budget legislation and has a forward-looking view to identify budget challenges with the ability to adjust plans on a timely basis to mitigate any credit implications. The region provides transparent, timely financial reports including forward-looking fiscal policies, annual operating budgets and 10-year capital plans which are updated annually and adhere to strict policies on debt and investment management.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of aaa is close to the scorecard-indicated BCA of aa1. The scorecard-indicated BCA of aa1 reflects (1) an idiosyncratic risk score of 2 (presented below) on a 1 to 9 scale, where 1 represents the strongest relative credit quality and 9 the weakest; and (2) a systemic risk score of Aaa, as reflected in the sovereign bond rating of the Government of Canada (Aaa stable).

Exhibit 6

York, Regional Municipality of

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				**3.80**	**20%**	**0.76**
Economic Strength [1]	5	99.42%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				**1**	**20%**	**0.20**
Legislative Background	1		50%			
Financial Flexibility	1		50%			
Factor 3: Financial Position				**3**	**30%**	**0.90**
Operating Margin [2]	1	24.43%	12.5%			
Interest Burden [3]	5	4.47%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	7	107.16%	25%			
Debt Structure [5]	1	5.86%	25%			
Factor 4: Governance and Management				**1**	**30%**	**0.30**
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						**2.16 (2)**
Systemic Risk Assessment						**Aaa**
Scorecard-Indicated BCA Outcome						**aa1**
Assigned BCA						**aaa**

[1] Local GDP per capita as % of national GDP per capita
[2] Gross operating balance by function/operating revenues
[3] (Adjusted) interest expenses/operating revenues
[4] Net direct and indirect debt/operating revenues
[5] Short-term direct debt/total direct debt
Source: Moody's Investors Service; Fiscal 2021.

Ratings

Exhibit 7

Category	Moody's Rating
YORK, REGIONAL MUNICIPALITY OF	
Outlook	Stable
Senior Unsecured -Dom Curr	Aaa
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

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