York Region

Office of the Commissioner
Finance Department

Memorandum

To: Regional Council

From: Bill Hughes
Commissioner of Finance and Regional Treasurer

Date: September 22, 2016

Re: **Regional Municipality of York – 2016 Credit Rating Update**

Moody's Investor Service and Standard and Poor's Global Ratings have both recently re-affirmed their credit rating for the debt issued by the Regional Municipality of York.

Both rating agencies comment favourably on the Region's financial management and have noted the Fiscal Strategy approved by Council as being a positive credit factor.

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

Moody's maintains Aaa Rating with Stable Outlook

On August 29, 2016, Moody's re-affirmed its Aaa/Stable rating for York Region supported by:

1. A high level of cash and investments;
2. Prudent and far-sighted fiscal management;
3. A track record of positive operating outcomes; and
4. Its diversified and expanding economy.

York Region's healthy liquidity profile sustains its Aaa/Stable rating, the highest rating granted to debt issuers by Moody's.

Moody's viewed York Region's focus on replenishing its reserve levels and continued avoidance of issuing tax-levy supported debt in the future as credit positives. At the end of 2015, the Region's reserve balance stood at 73 per cent of debt.

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

Moody's observed that York Region's economy continues to expand at a solid rate, and has resulted in rapid assessment growth. Low business tax rates compared to other municipalities in the GTA have helped attract new businesses, while the Region's 2015 unemployment rate of 5.8 per cent was lower than the GTA and Ontario averages.

However, Moody's also provided cautionary commentary, noting that debt levels under the 2015 capital plan "remain high for York Region's rating category". Moody's noted that "demands from a growing population will continue to apply financial pressure to York Region's budget", and that "depending on future increases in assessment values, financial pressures will likely necessitate a combination of tax increases, rate hikes, and savings from efficiencies or program changes". Moody's cautioned that "development charge collection can be impacted by substantial fluctuations in the economy". Nonetheless, Moody's expressed confidence that medium-term pressures will be successfully addressed through the budgetary process.

S&P affirms AA+ Rating with Stable Outlook

On July 29th, 2016, S&P Global Ratings re-affirmed its AA+/Stable rating for York Region based on its broad and very strong economy, exceptional liquidity, and very strong budgetary flexibility. The rating also reflects the Region's strong financial management and very low contingent liabilities. However, S&P noted that a "high debt burden and strong, but somewhat variable, budgetary performance" has constrained the credit rating. S&P defines budgetary performance as being the extent that net revenues received during the year exceed capital and operating expenditures.

S&P also highlighted that strong financial management is having a positive impact on York Region's credit profile. Good political and managerial strength has enabled the Region to enact structural changes as shown through the evolution of its long-term capital plan over the past several years, reflecting both revised growth estimates and greater financial discipline.

York Region's liquidity has been and is currently a key credit strength and S&P expects debt service coverage to remain exceptional during their outlook horizon. S&P estimates that total adjusted cash and investment balances will exceed $2.0 billion in 2017, which is "sufficient to cover almost eight times the total debt service forecast for the year".

S&P noted that factors that could cause it to lower its rating in the future would be if York Region generated lower-than-expected revenue or issued more debt than expected to finance the Region's large capital requirements. Also, S&P could lower its rating if budgetary performance weakened.

Finally, S&P believes that "the demand for new housing will remain strong, which should support the region's property tax and development charge revenues". Economic risks could include pressures on the transportation network, a material downturn in housing prices, and slower-than-expected population growth which would, by extension, impair property tax and DC revenue.

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 September 6th, 2016 from Moody's and S&P website

Bill Hughes
Commissioner of Finance and Regional Treasurer

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