

Research Update:

Regional Municipality of Peel Ratings Affirmed At 'AAA'; Outlook Remains Stable

October 1, 2020

Overview

- We expect the Regional Municipality of Peel will continue demonstrating prudent financial management, allowing it to keep generating healthy operating surpluses, despite pandemic-related operating pressures.
- The region's capital plan and associated borrowing will lead to small after-capital deficits through 2022 and an increasing debt burden in the medium term.
- We are affirming our 'AAA' long-term issuer credit and senior unsecured debt ratings on the region.
- The stable outlook reflects our expectation that the region will continue to generate healthy operating surpluses in the next two years and that after-capital balances will remain positive on average for 2018-2022.

Rating Action

On Oct. 1, 2020, S&P Global Ratings affirmed its 'AAA' long-term issuer credit and senior unsecured debt ratings on the Regional Municipality of Peel, in the Province of Ontario. The outlook is stable.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, a recovering economy will continue to support regional revenues and healthy operating surpluses, and limit after-capital balances to small deficits on a temporary basis and debt requirements such that the debt burden remains in line with forecasts. We also assume capital spending, which could lead to deficits in the next two years, will revert to long-run average levels after 2022.

We could lower the rating in the next two years if flat or declining revenues or higher spending led to after-capital deficits that are larger than we expect, or that will persist beyond 2022.

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Rationale

The slowdown in economic activity brought on by the COVID-19 pandemic and its associated restrictions will create a difficult operating environment for Peel in the next two years. We believe that the diverse local economy and prudent financial management will aid the region in its recovery and help maintain strong operating balances on average. We expect that the region's capital plan will lead to small after-capital deficits over the next two years that will revert to historical surpluses thereafter. Furthermore, we expect the region will issue debt to fund some capital spending, rather than making material drawdowns of its substantial financial resources.

Budgetary performance will weaken temporarily but will remain healthy and debt will remain manageable.

We expect Peel's operating balance will decline in 2020 as a result of COVID-19 before starting to recover. Nevertheless, we believe the impact will be limited, as management's actions to reduce operating expenditures and the receipt of at least C\$28 million in emergency operating funds (including for transit) through the federal Safe Restart Agreement will largely offset the increased expenditures incurred in 2020 from its health and human services in response to the pandemic. In our base-case scenario for 2018-2022, we expect operating balances to remain strong at 12.5% of operating revenues on average. We expect after-capital results will weaken to a small deficit as Peel continues with its capital plan in 2020-2022, but will average 0.9% of total revenues in 2018-2022. We expect that Peel will carefully manage capital expenditures to ensure they align with actual growth, and will defer growth-related capital projects as necessary if actual growth lags expectations.

Peel's sustained population growth continues to fuel the expansion of infrastructure and services, and also resulted in a significant increase in the region's debt load from 2009-2016. Since then, the debt burden has fallen; it was 68% of operating revenues in 2019, down from 86% in 2016. We expect the debt burden will return to previous levels, reaching 88% of operating revenues in 2022. Based on Peel's debt issuance plans, we expect the region to issue C\$650 million over 2020-2022 for its own purposes, and C\$190 million for lower-tier municipalities. We had previously applied a positive adjustment for lower-tier debt issued by the region; however, we no longer consider the lower-tier obligations to be a substantial portion of Peel's total debt burden and have removed the positive adjustment in this review. We expect Peel's interest costs will remain below 5% of operating revenues.

Years of strong budgetary balances and Peel's practice of transferring funds into capital reserves have led to exceptional liquidity, in our opinion, which helps reduce the need to finance the capital program with debt. We estimate the region's adjusted free cash and liquid assets will average C\$2.4 billion over the next 12 months, sufficient to cover almost 10x the estimated debt service. We expect this ratio will remain high over the outlook horizon. Supporting Peel's liquidity position is its strong access to external liquidity, aided by the region's regular issuance into public debt markets since 2010, its maintenance of benchmark issues, and the presence of a secondary market for Canadian municipal debt instruments.

A diverse economy supports Peel's revenues; very strong management and institutional framework also boost the ratings.

Peel is on the western side of the GTA and contains the local municipalities of Brampton and

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Mississauga, as well as the Town of Caledon. The region hosts an extensive transportation network, including Canada's largest airport, two national rail lines, and some of the nation's largest highways, that fully integrates it with the GTA's large employment base and allows good access to other markets.

We believe Peel's economy will contract in 2020 and begin to recover over the next two years as social distancing measures ease. We view the pandemic as a temporary shock, and believe that Peel will be relatively insulated based on its diverse economy, proximity to and integration with the GTA, high average household income, and estimated GDP per capita in line with that of the national economy at about US\$42,000 in 2019. Our very strong economic assessment reflects our belief that, despite the pandemic and associated restrictions, Peel's diverse economy will continue to support GDP per capita growth in line with that of Canada. The region also benefits from good growth. Peel estimates its population was about 1.49 million in 2019, a slight increase of 10,300 people or just less than 1% year over year.

Peel's robust financial management practices are broadly in line with those of other GTA regional municipalities and contribute to our view of the region's high creditworthiness. The region's strategic plan, together with its long-range asset management and capital financing plans, guides its annual budget, which includes a multiyear outlook with reasonable revenue and expense assumptions. The region carefully tracks development trends to ensure that its capital strategy remains aligned with actual growth, and can defer growth-related capital spending as necessary. We expect the region will respond to the pandemic with cost-containment strategies, while exploring additional revenue sources, in order to maintain operating and after-capital balances near historical levels.

Like other Canadian municipalities, Peel operates under a very predictable and well-balanced institutional framework. The provincial government imposes fiscal restraint through legislative requirements to pass balanced operating budgets. At the same time, provincial-municipal relationships have been more dynamic than the federal-provincial one, largely because municipal governments are established through provincial statute and not the constitution. In that regard, we expect Peel's relationship with Ontario will continue to be supportive.

Key Statistics

Table 1

Regional Municipality of Peel--Selected Indicators

(Mil. C\$)	--Fiscal year ended Dec. 31--					
	2017	2018	2019	2020bc	2021bc	2022bc
Operating revenues	2,007	2,176	2,227	2,255	2,366	2,462
Operating expenditures	1,753	1,817	1,946	2,015	2,092	2,183
Operating balance	254	359	281	240	274	278
Operating balance (% of operating revenues)	12.7	16.5	12.6	10.6	11.6	11.3
Capital revenues	278	315	340	252	287	307
Capital expenditures	464	559	552	534	575	595
Balance after capital accounts	68	115	68	(42)	(14)	(10)
Balance after capital accounts (% of total revenues)	3.0	4.6	2.7	(1.7)	(0.5)	(0.4)

Research Update: Regional Municipality of Peel Ratings Affirmed At 'AAA'; Outlook Remains Stable

Table 1

Regional Municipality of Peel--Selected Indicators (cont.)

(Mil. C\$)	--Fiscal year ended Dec. 31--					
	2017	2018	2019	2020bc	2021bc	2022bc
Debt repaid	100	104	108	100	197	131
Gross borrowings	39	53	75	200	270	320
Balance after borrowings	7	64	35	58	59	179
Direct debt (outstanding at year-end)	1,604	1,554	1,522	1,624	1,761	2,164
Direct debt (% of operating revenues)	79.9	71.4	68.3	72.0	74.4	87.9
Tax-supported debt (outstanding at year-end)	1,604	1,554	1,522	1,624	1,761	2,164
Tax-supported debt (% of consolidated operating revenues)	79.9	71.4	68.3	72.0	74.4	87.9
Interest (% of operating revenues)	3.6	3.3	3.3	3.0	3.1	3.5
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	58,591	60,011	61,291	57,181	60,677	63,026

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

Regional Municipality of Peel--Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	1
Budgetary performance	1
Liquidity	1
Debt burden	3
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 14, 2020. An interactive version is available at <http://www.spratings.com/sri>

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Related Research

- S&P Global Ratings Definitions, Aug. 7, 2020
- Canada's Economy Faces A Patchy Recovery, June 29, 2020
- Public Finance System: Canadian Municipalities, May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Research Update: Regional Municipality of Peel Ratings Affirmed At 'AAA'; Outlook Remains Stable

Ratings Affirmed

Peel (Regional Municipality of)

Issuer Credit Rating AAA/Stable/--

Senior Unsecured AAA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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