

Research Update:

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

September 8, 2022

Overview

- The Regional Municipality of Peel benefits from solid budgetary performance with high operating balances and manageable capital expenditures, as well as from very high liquidity.
- We are affirming our 'AAA' long-term issuer credit and senior unsecured debt ratings and maintaining our stable outlook on the region.

Rating Action

On Sept. 8, 2022, 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' expectations that, in the next two years, the region will continue to implement strong long-term financial planning policies such that its budgetary performance remains very strong, generating after-capital surpluses. We expect the debt burden, excluding debt on lent to the region's lower-tier municipalities, will slightly increase to about 52% of operating revenues by 2024 as Peel continues with its capital plan. In addition, we estimate that its liquidity position will remain very high, with the debt service coverage ratio staying well above 100% over the next two years.

Downside scenario

We could lower the ratings in the next two years if flat or declining revenues or higher spending led to sustained after-capital deficits of more than 5% of total revenues and we expected additional borrowings to increase the debt burden, excluding on-lending, to more than 60% of operating revenues.

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Rationale

The ratings reflect Peel's diverse and wealthy economy, which fared relatively well during the COVID-19 pandemic. In addition, the region's budgetary performance has not deteriorated because tax revenues have continued to flow, management implemented adequate actions to offset the lower revenue and increased costs, and the region received additional support from higher levels of government. As a result, we expect the region will continue to generate strong operating balances and after-capital surpluses as it executes its capital plan in the next two years. New debt issuance related to the capital plan will increase Peel's debt burden, although we expect it will remain manageable, with debt service coverage ratios of more than 100% in our forecast horizon.

Economy and financial management are very strong, while institutions remain very supportive.

Peel is on the western side of the Greater Toronto Area (GTA) and contains the local municipalities of Brampton and 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, which fully integrates it with the GTA's large employment base and allows good access to other markets. Peel's diverse economy benefits from its proximity to and integration with the GTA. Although municipal GDP data are unavailable, we believe that Peel's GDP per capita is higher than the national level, which we estimate will be about US\$56,000 in 2022, based on the region's high income levels.

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 long-range asset management and capital financing plans, guides the annual budget, which includes a multiyear outlook with reasonable revenue and expense assumptions. Peel carefully tracks development trends to ensure that its capital strategy remains aligned with actual growth and can defer growth-related capital spending as necessary. In addition, we believe management has taken adequate measures to offset some of the revenue loss and higher expenditures from the pandemic.

As do other Canadian municipalities, Peel 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, therefore, debt burdens, on average, are low relative to those of global peers and growth over time has been modest.

Budgetary performance will remain very strong and debt will remain manageable.

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In our base-case scenario for 2020-2024, we expect operating balances will remain robust at 15% of operating revenues, on average. To date, the pandemic has not resulted in deterioration in the region's budgetary performance because tax revenues have continued to flow, management implemented adequate actions to offset the lower revenue and increased costs, and the region received additional support from higher levels of government. We expect an after-capital surplus of 4% of total revenues, on average, in 2020-2024 as Peel carries out its capital plan. We believe that the region 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.

In 2022-2024, Peel plans to issue about C\$962 million in debt on behalf of its lower-tier municipalities as well as to fund part of its capital projects. As a result, we expect tax-supported debt, which includes both the region's debt as well as the on-lent debt to Peel's lower-tier municipalities, will increase to about 72% of operating revenues at year-end 2024, up from 60% at year-end 2021. We expect that, excluding on-lending, the region's debt burden will represent 52% of operating revenues in 2024. We believe that Peel's lower-tier municipalities are able to support their obligations and will reimburse the region for all principal and interest payments as they come due. We have applied a positive adjustment to recognize that there is a lower credit risk associated with this debt. Interest costs accounted for about 3% of operating revenues in 2021 and we expect they will slightly increase but remain below 5% during our two-year outlook horizon.

In our view, Peel's liquidity is a key credit strength. We estimate total free cash in the next 12 months will be enough to cover more than 12x the estimated debt service for the period. We expect this ratio will remain well above 100% during the outlook horizon. Supporting the liquidity position is the region's strong access to external liquidity, aided by regular issuance into public debt markets, maintenance of benchmark issues, and the presence of a secondary market for Canadian municipal debt instruments.

Key Statistics

Table 1

Regional Municipality of Peel -- Selected Indicators

(Mil. C\$)	--Fiscal year-end Dec. 31--					
	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenues	2,227	2,449	2,678	2,577	2,629	2,729
Operating expenditures	1,946	2,033	2,225	2,261	2,266	2,353
Operating balance	281	417	453	316	363	376
Operating balance (% of operating revenues)	12.6	17.0	16.9	12.3	13.8	13.8
Capital revenues	340	284	331	339	348	351
Capital expenditures	552	559	453	622	642	662
Balance after capital accounts	68	141	332	33	69	65
Balance after capital accounts (% of total revenues)	2.7	5.2	11.0	1.1	2.3	2.1
Debt repaid	108	111	230	129	134	152
Gross borrowings	75	200	248	138	407	417
Balance after borrowings	35	230	350	41	342	330

Table 1

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

(Mil. C\$)	--Fiscal year-end Dec. 31--					
	2019	2020	2021	2022bc	2023bc	2024bc
Direct debt (outstanding at year-end)	1,522	1,609	1,618	1,562	1,768	1,960
Direct debt (% of operating revenues)	68.3	65.7	60.4	60.6	67.3	71.8
Tax-supported debt (outstanding at year-end)	1,522	1,609	1,618	1,562	1,768	1,960
Tax-supported debt (% of consolidated operating revenues)	68.3	65.7	60.4	60.6	67.3	71.8
Interest (% of operating revenues)	3.3	3.1	2.6	2.8	3.2	3.6
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	61,469	58,016	65,186	69,471	70,786	71,954

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.

Ratings Score Snapshot

Table 2

Regional Municipality of Peel -- 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 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook Canada Q3 2022: Near-Term Growth To Slow Amid Faster Rate Hikes And Surging Inflation, June 27, 2022
- Institutional Framework Assessments For International Local And Regional Governments, June 15, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 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

Ratings Affirmed

Peel (Regional Municipality of)

Issuer Credit Rating AAA/Stable/--

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Ratings Affirmed

Senior Unsecured	AAA
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