

**CREDIT OPINION**

29 August 2024

Update

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**RATINGS**

**Peel, Regional Municipality of**

Domicile	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 Peel (Canada)

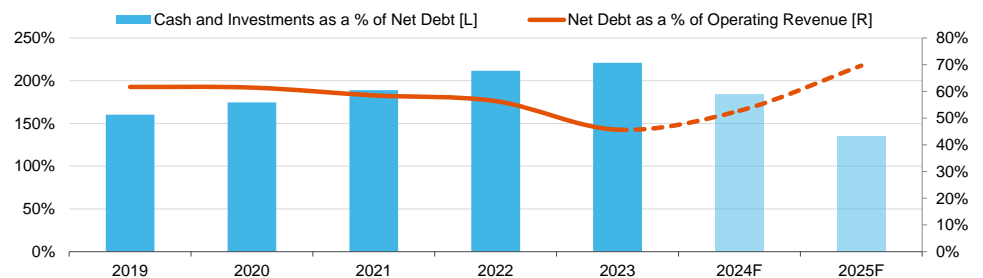
## Update to credit analysis

### Summary

The credit profile of the [Regional Municipality of Peel](#) (Aaa stable) reflects a growing local economy backed by strong population growth, and predictable revenue sources from stable property taxes and utility fees. The region maintains excellent reserves balances including long-term investments, which provide significant coverage of debt and expenses. We characterize the region's debt affordability as very high, along with moderate debt levels. Key pressures include inflationary pressures on expenses and high levels of capital spending which is needed to support growth-related infrastructure. Provincial legislative changes including curtailing development charge revenues pose additional challenges.

Exhibit 1

**Peel's credit profile is supported by a modest debt burden and high debt coverage**



Year ending December 31

Sources: Regional Municipality of Peel and Moody's Ratings

### Credit strengths

- » Solid operating results supported by a growing economy and strong governance
- » Sizable investment holdings provide ample coverage of debt and expenses
- » High debt affordability and modest debt levels

### Credit challenges

- » Cost pressures from growth-related capital spending, wage expenses and inflation
- » Provincial regulatory changes resulting in fiscal and governance challenges

### Rating outlook

The outlook is stable which reflects our view that predictable revenue sources and continued favourable economic fundamentals will support strong fiscal results and high levels of liquidity.

## Factors that could lead to a downgrade

A material rise in the debt burden above our current projections, along with a significant decline of liquidity, or a material weakening in operating results would put downward pressure on the region's rating.

## Key indicators

Exhibit 2

### Regional Municipality of Peel

(Year Ending 12/31)	2020	2021	2022	2023	2024F	2025F
Net Direct and Indirect Debt/Operating Revenue (%)	61.4	58.5	56.4	45.7	52.7	69.6
Primary Operating Balance/Operating Revenue (%)	17.7	16.5	14.7	13.8	13.4	13.3
Interest Payments/Operating Revenue (%)	2.7	2.6	2.4	2.1	2.2	2.5
Debt Service/Total Revenue (%)	3.0	8.8	2.9	3.8	2.7	3.3
Capital Spending/Total Expenditures (%)	22.2	16.9	21.4	23.8	29.6	28.0

Sources: Regional Municipality of Peel and Moody's Ratings

## Detailed credit considerations

The credit profile of Peel, as expressed in its Aaa stable rating, reflects a baseline credit assessment (BCA) of aaa for the region and our assessment of a high likelihood of extraordinary support coming from the [Province of Ontario](#) (Aa3 positive) in the event that the region faced acute liquidity stress.

Peel is located west of the [City of Toronto](#) (Aa1 stable), and is part of the Greater Toronto Area (GTA), Canada's largest industrial and commercial center. Peel's service-based industry mostly comprises businesses in the transportation, warehousing, real estate and professional services sectors and is benefited by a highly developed transportation network that connects local businesses to markets in southwestern Ontario and the United States. The region incorporates the City of Mississauga, the City of Brampton and the Town of Caledon. Peel has a population of approximately 1.5 million that has grown significantly over the last decade, with international immigration accounting for a significant proportion of total growth.

### Baseline credit assessment

#### Solid operating results supported by a growing economy and strong governance

Peel has a history of solid operating performance, with a primary operating balance totaling 13.8% of operating revenues in 2023. Although this falls below the median of 20.6% for Aaa-rated Canadian peers, we consider this to be a strong level. Operating performance is driven by revenue streams that remain largely protected from market events, including property taxes and user fees, which account for close to 60% of Peel's operating revenues, and reliable transfers from provincial and federal governments, which typically account for 25-30% of operating revenues.

The region also benefits from high immigration levels and a strong economy. Despite slower growth in 2023, which was driven by global macro pressures, we expect that the region will be able to maintain strong financial outcomes in line with historical results during 2025 to 2028. The region also benefitted from strong population growth of 1.2% in 2023, above the average of 0.9% for the preceding 10 years, which was largely driven by immigration. Peel projects its population to grow to approximately 2.3 million by 2051 from 1.5 million currently. This averages to 1.7% growth per year, supported by provincial and federal immigration targets despite recently announced federal caps on immigration. Additionally, Peel's service-based economy is also attractive for immigration, which provides job opportunities across diverse industries including transportation, warehousing, real estate and professional services.

Peel's operating results are also supported by strong governance and management including transparent and timely fiscal reporting, similar to other highly rated municipalities in Ontario. In our view, Peel has significant capacity to reduce or adjust operating revenues and spending and modify capital plans as necessary.

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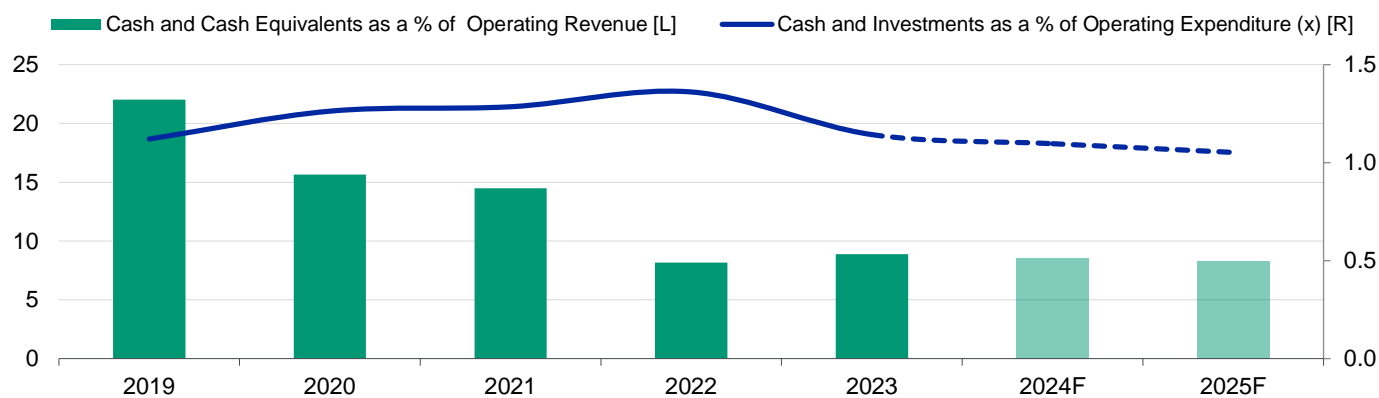
### Sizable investment holdings provide ample coverage of debt and expenses

Peel's conservative budgeting practices and its track record of strong performance have allowed it to build up sizeable reserves which provide a large financial cushion against fiscal pressures. The region's total cash and investments grew to CAD3.2 billion in 2023, largely driven by growth in the region's investment portfolio. Total cash and investments provide substantial coverage of net direct and indirect debt (2.2x in 2023) and operating expenses (1.1x), which are in-line with Aaa-rated Canadian peers.

Over the last few years, the region has gradually repositioned a portion of its cash and cash equivalents into long-term investments to maximize returns. Although this resulted in a decline in the liquidity ratio (total cash and cash equivalents as a % of operating revenue) to 8.7% at FYE 2023 from 37.5% at FYE 2017 (and below the median for Aaa-rated Canadian peers of 22.7%), we classify the region's overall cash and investment holdings as very strong. We expect that Peel will be able to continue building up its long-term reserves from positive cash flows from operating surpluses.

Exhibit 3

### Despite reduced holdings of cash and cash equivalents, substantial investment reserves provide a boost liquidity that provides strong coverage of debt and expenses



Year ending December 31

Sources: Regional Municipality of Peel and Moody's Ratings

### High debt affordability and modest debt levels

The region issues debt for its own purposes as well as on behalf of its lower-tier municipalities which currently must borrow long-term debt through the region. The majority of Peel's debt is issued for financing regional water and wastewater infrastructure, with approximately 85% of outstanding debt constituting regional debt, and 15% constituting debt on behalf of lower-tier municipalities.

We classify debt affordability as very high, along with modest levels of debt. The region maintains a prudent debt management strategy, including a low reliance on short-term debt financing and maintaining limits on debt servicing costs (provincially capped at 25% of revenue). The debt maturity profile is well distributed, with predictable and manageable debt maturities over the next 30 years. Net direct and indirect debt stood at 45.7% of operating revenue in 2023, a consistent decline since 2013. The region also maintains significant debenture sinking funds (CAD475 million at year-end 2023), which supports its capacity to repay upcoming maturities.

In recent years, the region has aimed to limit its reliance on long-term debt financing as it prioritizes other funding sources, including reserves or pay-as-you-go capital financing. Given the recent pressures stemming from rapid population growth, an increased need to fund capital projects to meet the growing demand for regional services has resulted in upward pressure on the debt burden, which we anticipate could rise between 60-70% over the next 2-3 years, levels that are broadly consistent with Aaa-rated peers.

The region's debt affordability is also very strong, with interest expense measuring 2.1% of operating revenue in 2023. Although we expect an increased need for debt issuance over the next two years, controlled debt increases in a declining interest rate environment will curb material increases in the interest burden, maintaining interest expenses as a % of operating revenues to below 3% over the next 2-3 years.

**Cost pressures from growth-related capital spending, wage expenses and inflation**

The region's need for increased services to support a growing population, including social and emergency services, will continue to put upward pressure on expenses. Growth remains robust driven by the region's prime location in the Greater Toronto Area and continued growth in international immigration. Social expenditures (social services and housing) and emergency services (including police and paramedic) will be necessary to address social pressures, and will continue to weight on the total expenditures of the region.

The need to fund growth and maintain infrastructure will also exert pressure on capital spending. Cost escalation and rising capital needs are evidenced in the region's 10-year capital budget for 2024-2033, which includes a combined CAD20.4 billion in spending, significantly above the previous 10-year plan aggregate (CAD14.5 billion for 2023-2032).

The region also faces cost escalation pressures from rising salaries and benefits which currently make up approximately 40% of total expenses, and therefore represent one of the key drivers of expense increases. Further, a court decision to strike down the province's Bill 124, which limited public sector employee wage increases to 1% per year annually for three years starting in 2019/2020, has resulted in retroactive expenses. The province has previously indicated that it expects to reimburse public sector entities for these retroactive payments, although specific allocations have not yet been announced.

**Provincial regulatory changes resulting in fiscal and governance challenges**

The province also made legislative changes in November 2022 restricting local governments' ability to impose development charges on certain projects, in order to encourage multi-unit projects and affordable housing. The region estimates the total impact of these changes could amount to CAD1.2 billion in lost revenue over 10 years beginning in 2023, although the province has indicated that it may compensate municipal governments for lost revenues due to this change.

Additional provincial changes include the recent expansion of 'strong mayor' powers to fast-growing municipalities, including all three lower-tier municipalities of the region. Although granting these powers does not meaningfully change the governance of these municipalities, it increases the risk of indirect intervention by the province in municipal affairs by restricting some of the additional powers conditional on their use to advance provincial priorities.

In May 2023, the Province of Ontario introduced legislation (Bill 112) that would dissolve the two-tier region of Peel and make the City of Mississauga, the City of Brampton and the Town of Caledon that currently comprise the region as independent single-tier municipalities. In December 2023, a provincial review of the two-tier municipal structure was completed and determined that the dissolution of regional municipalities was not cost effective, confirming that there are no major changes to Peel's structure to be expected in the near future. However, the province continues to examine ways to achieve efficiencies within the two-tier municipal structure, which may impact the division of responsibilities between the region and the lower-tier municipalities.

**Extraordinary support considerations**

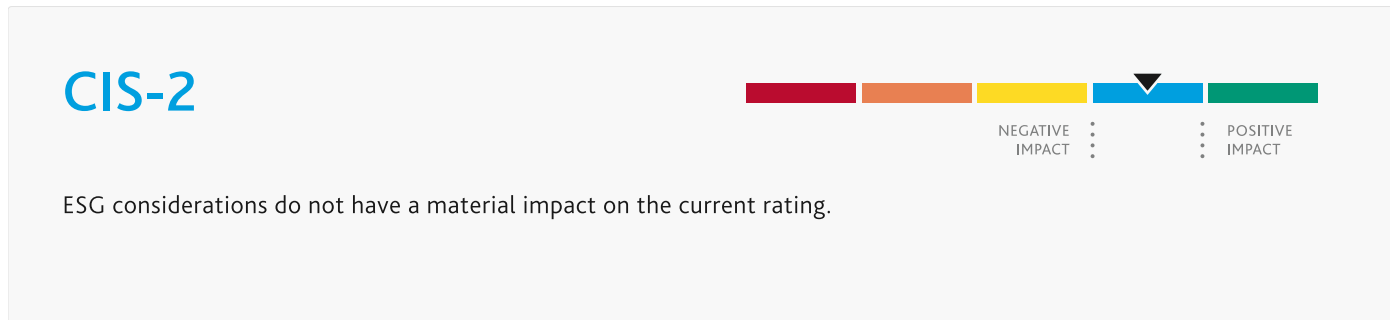
While Peel's BCA of aaa already places the region in the Aaa rating bracket, Moody's assigns a high likelihood of extraordinary support based on our assessment of the risk to the province's reputation as a regulator of municipalities and incentive for the provincial government to minimize the risk of potential disruptions to capital markets if Peel, or any other municipality were allowed to default.

## ESG considerations

Peel, Regional Municipality of's ESG credit impact score is CIS-2

Exhibit 4

### ESG credit impact score



Source: Moody's Ratings

The **CIS-2** Credit Impact Score for Peel reflects a low impact of ESG considerations on the ratings.

Exhibit 5

### ESG issuer profile scores



Source: Moody's Ratings

#### Environmental

The **E-2** issuer profile score (IPS) reflects a low exposure to climate risks and neither spending nor revenue are materially impacted by environmental changes.

#### Social

The **S-2** social IPS reflects mitigated risks related to the provision of 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.

#### Governance

The **G-1** governance IPS reflects Peel's very strong budget and fiscal management practices and strong institutional framework. The region is subject to balanced budget legislation and utilizes prudent financing planning giving a forward-looking view to potential 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 adheres 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 in line with the BCA scorecard-indicated outcome of aaa. For details about our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#), 28 May 2024.

Exhibit 6

### Peel, Regional Municipality of Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
<b>Factor 1: Economy</b>					<b>25%</b>	<b>0.98</b>
Regional Income [1]	2.55	59045.99	15%	0.38		
Economic Growth	9.00	baa	5%	0.45		
Economic Diversification	3.00	aa	5%	0.15		
<b>Factor 2: Institutional Framework and Governance</b>					<b>30%</b>	<b>0.30</b>
Institutional Framework	1.00	aaa	15%	0.15		
Governance	1.00	aaa	15%	0.15		
<b>Factor 3: Financial Performance</b>					<b>20%</b>	<b>1.47</b>
Operating Margin [2]	6.08	13.80%	10%	0.61		
Liquidity Ratio [3]	11.17	8.89%	5%	0.56		
Ease of Access to Funding	6.00	a	5%	0.30		
<b>Factor 4: Leverage</b>					<b>25%</b>	<b>1.08</b>
Debt Burden [4]	3.42	45.66%	15%	0.51		
Interest Burden [5]	5.70	2.10%	10%	0.57		
<b>Preliminary BCA Scorecard-Indicated Outcome (SIO)</b>						<b>(3.83) aa3</b>
<b>Idiosyncratic Notching</b>						<b>1.0</b>
<b>Preliminary BCA SIO After Idiosyncratic Notching</b>						<b>(2.83) aa2</b>
<b>Sovereign Rating Threshold</b>						<b>Aaa</b>
<b>Operating Environment Notching</b>						<b>1.5</b>
<b>BCA Scorecard-Indicated Outcome</b>						<b>(1.33) aaa</b>
<b>Assigned BCA</b>						<b>aaa</b>

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars

[2] Primary Operating Balance / Operating Revenue

[3] Cash and Cash Equivalents / Operating Revenue

[4] Net Direct and Indirect Debt / Operating Revenue

[5] Interest Payments / Operating Revenue

Source: Moody's Ratings; Fiscal 2023.

## Ratings

Exhibit 7

Category	Moody's Rating
<b>PEEL, REGIONAL MUNICIPALITY OF</b>	
Outlook	Stable
Baseline Credit Assessment	aaa
Senior Unsecured -Dom Curr	Aaa

Source: Moody's Ratings

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