

MEMORANDUM

To: Members of Committee of the Whole

From: Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer

Date: August 11, 2020

Re: Regional Municipality of York – 2020 Credit Rating Update

Credit rating agencies have re-affirmed their respective ratings for York Region

Recently both S&P Global Ratings and Moody's Investors Service have re-affirmed their respective credit ratings for the debt issued by the Regional Municipality of York (Moody's – Aaa/ S&P – AA+).

S&P's AAA rating is the highest rating available to an issuer. It means that the issuer's capacity to meet its financial obligations is extremely strong. The next highest rating is a AA+ rating where the '+' indicates that it is a notch above the AA rating. Moody's rating scale is similar in that an Aaa rating is the highest rating available followed by an Aa1, Aa2, etc.

Of particular note is the fact that S&P maintained a positive outlook for the Region despite the negative effects of the COVID-19 pandemic. Two consecutive years of 'positive outlook' is an important indicator of a potential future return to a triple A rating.

Superior credit ratings are important to the Region as they allow access to capital market financing at the lowest cost possible. However, securing York's credit rating this year has taken on added significance as other governments have been downgraded or put on negative outlook due to fiscal pressure from the COVID-19 pandemic. York Region's continued commitment to financial sustainability and prudent fiscal planning have been important elements in maintaining its superior credit ratings.

The credit rating agencies expect that the risks related to the COVID-19 pandemic will be mitigated by the Region's strong management and budgetary flexibility

The Region's exposure to the COVID-19 pandemic is viewed by both credit rating agencies as a risk that could result in fiscal pressures, stemming from increased demand for government services and infrastructure spending, which in turn could elevate the debt burden.

However, the opinion of both rating agencies is that York's strong financial management, stable property tax base and budgetary flexibility in part attributable to prudent saving in operating reserves will help cushion the impact and help guide it through this difficult economic time to maintain financial sustainability.

S&P Global Ratings re-affirmed the Region's AA+ rating with a positive outlook for the second consecutive year

This is the second consecutive year of a positive outlook issued by S&P Global Ratings. It reflects the possibility that, despite the pandemic, York's rating could return to triple A should economic growth continue to support a larger assessment base, and should growth-related capital revenue continue to support the Region's evolving capital program.

However, S&P cautioned that the outlook could be revised back to stable "if, in the future, management's commitment to fiscal sustainability weakened in the face of slower economic growth or a desire for elevated capital spending, resulting in weaker-than-expected operating balances, sustained after-capital deficits, or a rising debt burden that kept interest expense above 5% of revenues."

Moody's Investors Service maintains Aaa rating with stable outlook

Moody's has issued its highest credit rating for the Region of York for the 20th consecutive year.

They highlighted the following factors to support the credit rating for York: a high level of cash and investments; ability to generate strong operating outcomes; strong debt affordability supported by a low interest rate environment; and the ability to generate predictable revenues supported by a wealthy and diverse tax base.

However, Moody's has advised that they will be meeting with York Region (and other municipal clients) again in the fall to assess whether or not there has been any material financial changes resulting from COVID-19.

York Region's credit rating is among the highest compared to other governments

The table below shows York Region's credit rating in comparison to other peer municipalities, some Provinces and Canada.

Table 1: A Comparison of the Region's Credit Rating to Peers, 2019-2020

Issuer	Moody's		S&P	
	2019	2020	2019	2020
York Region	Aaa	Aaa	AA+	AA+
City of Toronto	Aa1	Aa1	AA	AA
Peel Region	Aaa	Aaa	AAA	AAA
Halton Region	Aaa	Aaa	AAA	AAA
City of Ottawa	Aaa	Aaa	AA	AA
Province of Ontario	Aa3	Aa3	A+	A+
Province of Quebec	Aa2	Aa2	AA-	AA-
Province of British Columbia	Aaa	Aaa	AAA (stable)	AAA (negative)
Province of Alberta	Aa2	Aa2	A+ (stable)	A+ (negative)
Province of Manitoba	Aa2	Aa2	A+ (positive)	A+ (stable)
Province of Newfoundland and Labrador	A1 (stable)	A1 (negative)	A (stable)	A (negative)
Province of Prince Edward Island	Aa2	Aa2	A (positive)	A (stable)
Canada	Aaa	Aaa	AAA	AAA

Table 1: Last updated July 31, 2020. The outlook is presented only where it has changed from 2019 to 2020

Laura Mirabella
Commissioner of Finance

Bruce Macgregor
Chief Administrative Officer

Attachments (2)
eDOCS #11393072