



Office of the Commissioner
Finance Department

MEMORANDUM

To: Members of Committee of the Whole

From: Jason Li, CPA, CA
Acting Commissioner of Finance and Regional Treasurer

Date: August 25, 2021

Re: Regional Municipality of York – 2021 S&P Credit Rating Upgrade

S&P Global Ratings has upgraded its credit rating for York Region to AAA

On July 29, 2021, S&P Global Ratings (S&P) upgraded their credit rating for The Regional Municipality of York from AA+ to AAA, with stable outlook. S&P cited the Region's exceptionally strong finances, steady debt levels, and falling interest burden.

The AAA rating is the highest that S&P can give to an issuer, and is awarded for investment-grade debt that has a high level of creditworthiness with the strongest capacity to repay investors.

Superior credit ratings allow the Region access to capital market financing at the lowest possible cost and attract more investors through increased investor confidence. Obtaining AAA credit rating this year is a very significant achievement for the Region as some other governments have been downgraded or received negative outlook rating due to the impact of the COVID-19 pandemic.

York Region regained its AAA rating after seven years of AA+ ratings

Historically strong financial performance allowed York Region to maintain AAA rating from S&P over 13 consecutive years up to 2014. S&P rated the Region AA+ in 2014-2018 primarily due to high debt burden and fluctuating budgetary performance. Since the Region's debt has been decreasing since 2018 and financial results strengthened, the rating was upgraded to AA+ with positive outlook in 2019 and maintained in 2020.

These achievements have been made possible through Council decisions to limit spending and increase reserve balances. Prior to 2014, the Region's peak outstanding debt was forecasted to

reach over \$5 billion by 2020. However, as a result of the measures taken as part of the Regional Fiscal Strategy, the total net outstanding debt peaked at \$2.9 billion in 2017 and is forecasted to continue to decline in the coming years.

York continues to benefit from high liquidity and budgetary flexibility, credit rating upgrade reflects improved debt assessment

In 2020, the Region continued to generate strong revenues and maintain exceptional liquidity. S&P highlights that in recent years, the Region implemented fiscal strategies around capital asset investments and spending, which have resulted in large asset replacement reserves and lower debt issuance. Accompanied by decreasing interest burden, these factors resulted in AAA rating.

The stable outlook is based on the following expectations by S&P for the coming years:

- The Region's diverse economy will continue to support revenue growth resulting in strong budgetary surpluses that will help fund the capital plan
- The Region will continue to adapt the capital plan and related costs to align with fluctuations in population growth and development charge collections
- The Region continues to limit new debt issuance to fund growth-related spending and maintain net debt below its 2017 peak of \$2.9 billion
- Interest costs will remain stable relative to revenue

At the same time S&P cautioned that the ratings could be lowered if the Region generated lower-than-expected revenue, resulting in much weaker operating balances and after-capital deficits of more than 10% of total revenues. S&P noted that the ratings could also be lowered if a similar scenario resulted in lower operating balances, and rising debt that led to an interest burden above 5% of revenues.

Risks related to the COVID-19 are being mitigated by the Region's strong management and budgetary flexibility

The COVID-19 pandemic presented several risks that could result in fiscal pressures for municipalities due to higher demand for government services and infrastructure spending, which could increase spending and elevate the debt burden.

The Region has maintained strong budgetary performance despite the pandemic. S&P commended the Region's prudently imposed cost-mitigation strategies to further support budgetary balances, leading to very high operating and after capital balances. S&P also noted that the municipality benefited from federal and provincial funding in 2020.

It is expected that in the next two years, a recovering economy will continue to support development in the Region, fueling strong budgetary surpluses. York Region has a stable property tax base and savings in operating reserves which will continue to help cushion the Region's financial performance from the remaining impacts of COVID-19.

York Region's credit rating compares favourably among other governments

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

Table 1: A Comparison of the Region's Credit Rating to Peers, 2020-2021

Issuer	Moody's		S&P	
	2020	2021	2020	2021
York Region	Aaa	Aaa	AA+	AAA
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 (negative)	AA+
Province of Alberta	Aa2	Aa3	A+ (negative)	A
Province of Manitoba	Aa2	Aa2	A+	A+
Province of Newfoundland and Labrador	A1 (negative)	A1 (negative)	A (negative)	A (negative)
Province of Prince Edward Island	Aa2	Aa2	A	A
Canada	Aaa	Aaa	AAA	AAA

Table 1: Last updated July 29, 2021. The outlook is shown only where it is different from "stable" as it is the default outlook.

Jason Li

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