

MEMORANDUM

To: Regional Chair Emmerson and Members of Regional Council
From: Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer
Date: October 29, 2019
Re: Regional Municipality of York – 2019 Credit Rating Update

Moody's Investors Service and S&P Global Ratings have recently re-affirmed their respective credit ratings for the debt issued by the Regional Municipality of York (Moody's – Aaa/ S&P – AA+). S&P has also revised their credit outlook for the Region from stable to positive, indicating that the rating could be raised within the next two years.

Both credit rating agencies commented favourably on the Region's strong economy, high liquidity balances, and prudent fiscal and financial management. S&P's upgrade of the outlook reflects their view that the Region's commitment to fiscal sustainability and improved capital planning may result in solid budgetary surpluses and reduced debt issuances in the future.

These credit ratings contribute to the Region's ability to access the capital markets and to borrow at low interest rates.

Moody's maintains Aaa Rating with Stable Outlook

On October 9, 2019, Moody's re-affirmed its Aaa/Stable rating for York Region supported by:

- A robust level of dedicated reserves which provide liquidity strength
- A diverse tax base and population growth which supports strong operating performance and cushions provincial funding pressures
- A strong governance and management and supportive institutional framework

Moody's commented positively about York Region's focus on building reserve levels, which it noted helps minimize the reliance on other sources of financing, including external debt. Moody's also highlighted the Region's considerable flexibility in using its reserves noting that the Region's total reserves balance has increased steadily since 2011. Moody's states that it expects further improvement in York Region's liquidity profile in the future.

Moody's also noted that the Region, along with other Ontario municipalities, face challenges related to proposed changes to certain provincial transfers and funding structures. Moody's understand that this may impact the timing and level of debt requirement for York in the short and medium-term, although they expect that the long-term impact will be broadly neutral; in part due to York's sufficient liquidity and flexibility to adapt its budget to offset these funding shortfalls.

As in previous years, Moody's remarked that the Region's debt burden remains "elevated" when compared to other Aaa-rated Canadian municipalities. Given planned expansions of the regional transportation network and a proposed extension of the Yonge subway line, Moody's expects that York's capital spending will remain elevated.

Lastly, Moody's identified two factors which could put downward pressure on York's credit rating: a material decline in liquidity without a corresponding decline in debt or a sustained increase in the debt burden.

S&P affirms AA+ Rating with Outlook revised from Stable to Positive

On July 29th, 2019, S&P Global Ratings re-affirmed its AA+ rating and revised the outlook to positive. The positive outlook reflects the possibility that, in the next two years, S&P could raise the rating to AAA should economic growth support a larger assessment base and that a high level of development charge revenue is available to support York's capital program.

Conversely, S&P could revise the outlook back to stable if, in the next two years, management's commitment to fiscal sustainability weakened in the face of slower economic growth or a desire for elevated capital spending, resulting in a rising debt burden.

In addition, S&P commented positively about York Region's financial management strategies such as better aligning infrastructure development with the timing and distribution of population growth, and the policy of using taxes and user-rates to build asset-replacement reserves for nongrowth-related infrastructure. The Region's commitment to the fiscal strategy, which successive regional councils have endorsed, further supports S&P's assessment of York's "very strong" financial management.

As in previous years, S&P noted that "excellent liquidity balances, which significantly exceed debt servicing requirements, strengthen York's credit profile".

Comparison of York Region's Credit Rating

The chart below shows York Region's credit rating in comparison to other municipalities and the Province of Ontario.

Issuer	Moody's	S&P
York Region	Aaa	AA+
City of Toronto	Aa1	AA
Peel Region	Aaa	AAA
Halton Region	Aaa	AAA
Ottawa	Aaa	AA
London	Aaa	n/a
Province of Ontario	Aa3	A+

Table 1 Last Updated October 15 2019

For further information on this memo, please contact Edward Hankins, Director of Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

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

Bruce Macgregor
Chief Administrative Officer

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