MOODY'S INVESTORS SERVICE

CREDIT OPINION

30 November 2023

Update

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RATINGS

York, Regional Municipality of

Domicile	York, 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 York (Canada)

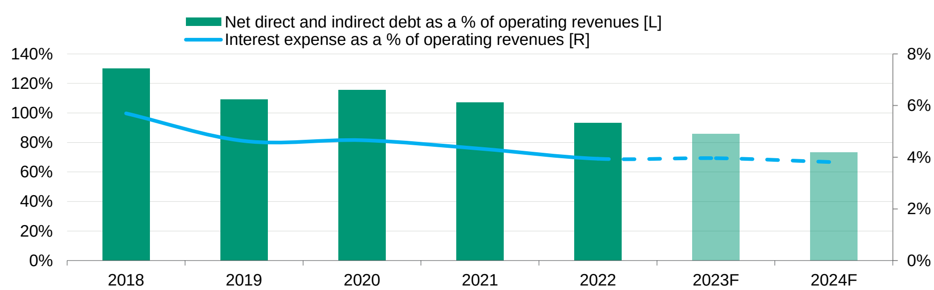
Update to credit analysis

Summary

The credit profile of the Regional Municipality of York (Aaa stable) reflects excellent liquidity with high levels of cash and investments, a solid governance framework and strong fiscal management. The regional economy is broad and diversified and supports a growing tax base, which coupled with robust population growth supports strong fiscal results. Reserve levels continue to grow and provide excellent coverage of debt and expenses. While York's debt burden of 86% projected for 2023 is at the high end of Aaa-rated municipal peers in Canada, the region continues to limit debt issuance and utilizes alternative funding sources for major capital projects.

Exhibit 1

York's declining debt burden is further supported by its strong debt affordability



Sources: York Region and Moody's Investors Service

Credit strengths

» Excellent wealth and liquidity with growing levels of cash and reserves

» Large, diversified economy and strong population growth supports regional tax base

» Mature and supportive institutional framework governing municipalities in Ontario

» Robust fiscal planning cushions against inflation cost pressures and provincial changes

Credit challenges

» Elevated debt burden relative to peers given large-scale capital spending, but below historical levels

Rating outlook

The stable outlook for York's rating reflects our expectation that the region will maintain its strong levels of wealth and continue implementing sound fiscal management practices, which will support balanced operating results over the next two years.

Factors that could lead to a downgrade

The rating could be downgraded if net direct and indirect debt rose above 110% of revenues on a sustained basis, or if significant operating pressures resulted in weaker fiscal results. A material decline in wealth and liquidity levels leading to lower coverage of operating expenses and debt could also put downward pressure on the rating.

Key indicators

Exhibit 2

Regional Municipality of York

(Year Ending 12/31)	2019	2020	2021	2022	2023F	2024F
Net Direct and Indirect Debt/Operating Revenue (%)	108.9	115.5	107.2	93.3	85.6	75.9
Gross Operating Balance/Operating Revenue (%)	25.4	29.0	21.9	20.3	20.8	21.2
Cash Financing Surplus (Requirement)/Total Revenue (%)	8.6	15.8	22.6	21.5	16.8	17.1
Interest Payments/Operating Revenue (%)	4.6	4.7	4.3	3.9	4.0	3.8
Debt Service/Total Revenue (%)	17.6	11.8	19.2	3.7	9.3	8.9
Capital Spending/Total Expenditures (%)	28.3	31.7	22.0	21.2	23.7	25.4
Self-financing Ratio	1.4	1.7	2.3	2.3	2.0	1.9

Sources: York Region and Moody's Investors Service

Detailed credit considerations

The credit profile of York, as expressed in its Aaa stable rating, combines (1) a baseline credit assessment (BCA) of aaa for the region and (2) the high likelihood of extraordinary support coming from the Province of Ontario (Aa3 positive) in the event that the region faced acute liquidity stress.

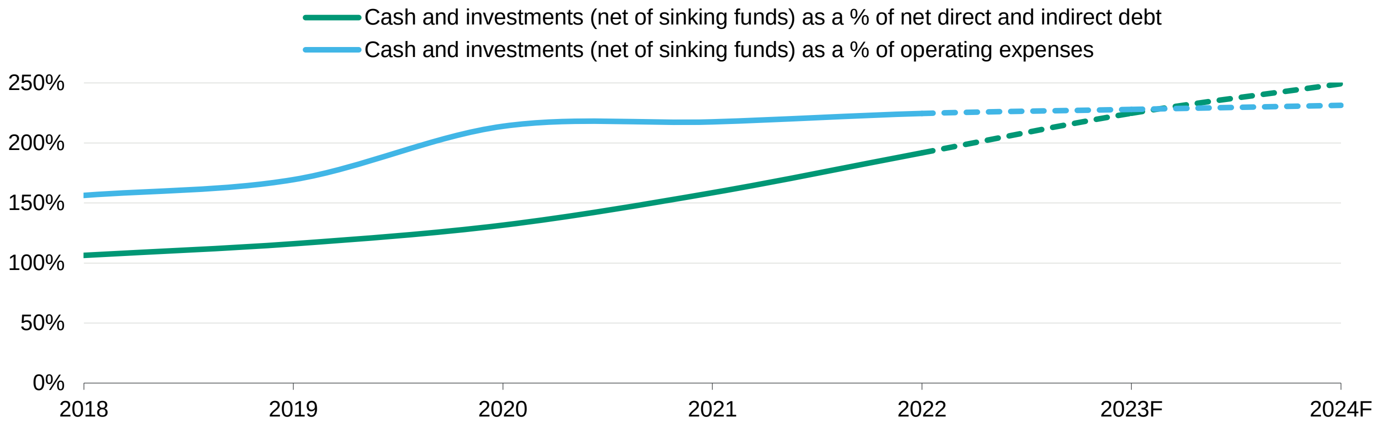
Excellent wealth and liquidity with growing levels of cash and reserves

York maintains excellent levels of wealth and liquidity which provides significant debt and expense coverage. Cash and investment balances (net of sinking funds) stood at CAD4.7 billion at year-end 2022, providing 192% coverage of net direct and indirect debt and 225% of annual operating expense. These liquidity coverage ratios are in-line with Aaa-rated municipalities in Canada. We expect that the region will continue to emphasize building up its reserves from operating surpluses to finance its capital plans and minimize its reliance on other sources, including direct debt financing, resulting in rising coverage ratios in 2023 and 2024.

Reserves include restricted reserves for asset replacement and growth capital, restricted reserves from development charges and corporate reserves which consist of discretionary reserves earmarked for specific purposes including for general/tax stabilization. York maintains tax and fiscal stabilization reserves of about 4% of operating revenues which the region has flexibility to drawdown on to manage in-year fiscal pressures. The region also maintains significant and growing sinking fund balances for debt repayment, which grew to CAD1.1 billion at year-end 2022, up from CAD857.3 million at year-end 2021.

The region employs a long-term approach when planning for liquidity needs. For 2023, approximately 1.5% of the annual tax levy increases are used to fund capital reserves. Additionally, an internal policy allows 100% of the region's supplementary tax revenue to be added to reserves at the end of each fiscal year. In addition to the cash and investments held by the region, liquidity is further improved through the presence of an unused CAD100 million line of credit with a Canadian bank.

Exhibit 3
York maintains high and rising levels of liquidity



Sources: York Region and Moody's Investors Service

Large, diversified economy and strong population growth supports regional tax base

York is home to a large diversified economy which leads to high levels of wealth and in turn high taxation revenues. The strong economic fundamentals of the region - continued population growth, high employment growth and an unemployment rate below the provincial and national average - will continue to support strong fiscal results. The region's economy has a significant presence in key sectors, including finance, insurance and real estate, professional, scientific and technical services, construction and manufacturing.

York has historically outperformed Ontario on a number of economic and labor market indicators, with favourable employment statistics, strong GDP growth and high GDP per capita. Nevertheless, the recent increase in interest rates, coupled with high inflation, have dampened economic growth, with a regional projection of 5.3% unemployment rate and 1.1% real GDP growth rate in 2023.

The region benefits from its proximity to the City of Toronto (Aa1 stable), Canada's largest commercial and financial center, its sound manufacturing base and its broad range of sectors such as technology, supply chain, business and financial services, construction, health care, food services and transportation.

Mature and supportive institutional framework governing municipalities in Ontario

The region's credit profile benefits from strong governance which is supported by comprehensive, transparent and timely financial reporting. The region utilizes prudent and forward-looking fiscal policies including multi-year operating budgets and 10-year capital plans which are updated annually. This allows pressures to be identified early on, supporting strong operating and consolidated results and utilization of pay-as-you-go and other financing approaches for capital projects during a period of consistent population growth.

The institutional framework governing municipalities in Ontario is mature and highly developed. The division of roles and responsibilities between the province and municipalities is clearly articulated. Although changes to the institutional framework have occurred at a measured pace historically, the province is currently conducting a review of York to assess whether the two-tier regional structure remains appropriate. The review coincides with the review of several other regions in Ontario, and follows the province's recent decision to dissolve the Regional Municipality of Peel (Aaa stable) by the end of 2024.

Provincial legislation dictates a high degree of oversight, including limits on debt servicing costs, while the region maintains significant flexibility to manage pressures through its operating and capital budgets. Debentures can only be issued to fund capital infrastructure projects, a large portion of which is repaid primarily through development charges on new property developments. Further, under The Municipal Act (2001), all debentures issued by a regional municipality are the direct, joint and several obligations of the regional municipality and its lower-tier municipalities.

Robust fiscal planning cushions against inflation cost pressures and provincial changes

Property taxes and user fees, which tend not to fluctuate with economic changes, account for approximately two-thirds of operating revenues (68.7% in 2022) and will drive the majority of future revenue growth. Taxable property assessments have grown significantly in recent years and the region retains some flexibility to raise user fees, given relatively low rates compared to the rest of the Greater Toronto Area (GTA). Gross operating surpluses averaged 21.6% of operating revenue in the 5 year period from 2018-2022, and we project similar levels in 2023 and 2024.

The current high level of inflation, which we expect will remain above historical trend levels in 2023 and part of 2024, will put upward pressure on both operating and capital expense levels, including labour and materials costs. Nevertheless, the region's budget and long-term capital planning addresses these challenges through a combination of property tax increases, development charges, reserves and debt financing.

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 at least CAD0.7 billion in lost revenue over the next 10 years, although the province has indicated that it will compensate municipal governments for lost revenues due to this change. In addition, we expect that the region's strong fiscal management practices will help it navigate any financial challenges that may arise from these changes.

Elevated debt burden relative to peers given large-scale capital spending, but below historical levels

York's debt burden is elevated relative to Aaa-rated peers in Canada (median of 45.9% in 2022), despite a gradual decline projected at approximately 86% for 2023. Continued population growth over the next decade will remain a key driver of infrastructure spending, which limits the ability of the region to reduce its reliance on debt significantly faster. Growth remains robust driven by the region's prime location in the Greater Toronto Area and the anticipated influx of international immigrants.

The continued need to fund growth and maintain infrastructure will exert pressure on capital spending and debt levels, given planned expansions of the regional transportation network, including bus rapid transit and the proposed extension of the Yonge subway line from Toronto to Richmond Hill. The region's 10-year capital plan for 2023-2032 totals CAD9.9 billion, which includes CAD1.0 billion regional capital contribution for the Yonge North Subway Extension, with a total current cost estimate of CAD5.6 billion for the subway. The region charges a special tax levy of 1% for 2023 to build reserves for the project. We project that the total costs could rise given general cost escalation of building subways, and given inflationary pressures on labour and materials costs, although the region estimates its share to be fixed. A further rise in costs, in the absence of a cap on the region's cost share, would be credit negative.

Debt financing of the capital plan for the region amounts to CAD3.3 billion, a significant amount and nearly one third of the capital plan, with the majority of debt issuances planned for 2025-2032. While the debt levels will continue to rise through the capital plan, growth in the sinking funds which we deduct to arrive at the net direct and indirect debt as well as revenue growth in line with historical trends will limit growth in the debt burden. We also expect that an increase in new borrowing will be balanced by the region's prioritization of other capital funding sources, including reserves and pay-as-you-go capital financing in order to limit the growth in debt.

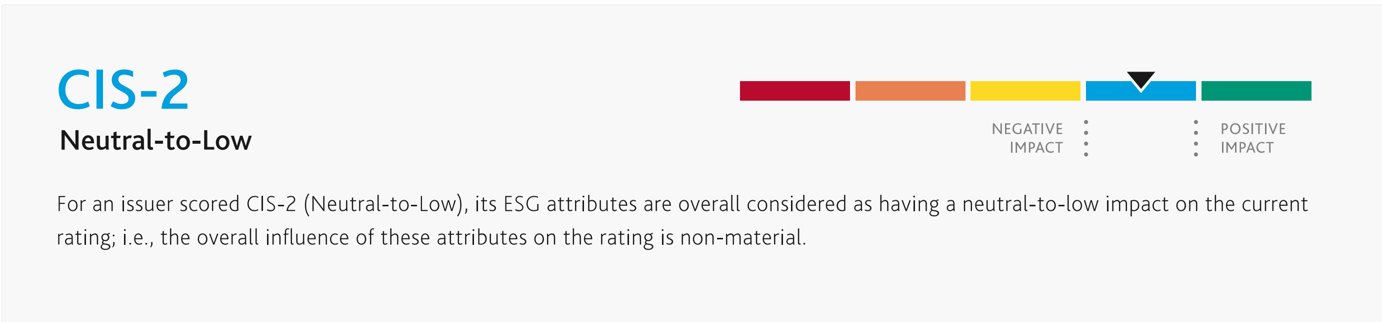
Extraordinary support considerations

Moody's assigns a high likelihood of extraordinary support from the Province of Ontario, reflecting Moody's assessment of the incentive provided to the provincial government of minimizing the risk of potential disruptions to capital markets if York, or any other Ontario municipality, were to default.

ESG considerations

York's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4
ESG Credit Impact Score



Source: Moody's Investors Service

York's **CIS-2** ESG Credit Impact Score reflects low exposure to environmental and social risk considerations, and a very strong governance profile.

Exhibit 5
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

The **E-2** issuer profile score (IPS) reflects low exposure to environmental risks. Located in Southern Ontario, York region is occasionally subjected to heavy snowfall in the winter and sporadic flooding due to its proximity to several watersheds. However, these weather events do not pose significant risks to the region's infrastructure or economic base. The region has a comprehensive Climate Change Action Plan in place which aims to reduce greenhouse gas emissions and also seeks to increase the region's resilience and capacity to withstand and respond to current and future climate events.

Social

York's **S-2** IPS reflects the region's low exposure to social risks. The region's residents have high levels of education and access to basic services. Furthermore, the region provides public services such as public safety (police and paramedic) and environmental services (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. Rising housing affordability issues from a surge in immigration exert some spending pressure on the region, although provincial and federal support offsets some of the cost pressures.

Governance

The **G-1** IPS reflects the region's very strong budget and fiscal management practices and strong institutional framework. The region is subject to balanced budget legislation and has a forward-looking view to identify 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 close to the scorecard-indicated BCA of aa1. The scorecard-indicated BCA of aa1 reflects (1) an idiosyncratic risk score of 2 (presented below) on a 1 to 9 scale, where 1 represents the strongest relative credit quality and 9 the weakest; and (2) a systemic risk score of Aaa, as reflected in the sovereign bond rating of the Government of Canada (Aaa stable).

Exhibit 6

York, Regional Municipality of

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				**3.80**	**20%**	**0.76**
Economic Strength [1]	5	97.51%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				**1**	**20%**	**0.20**
Legislative Background	1		50%			
Financial Flexibility	1		50%			
Factor 3: Financial Position				**2.50**	**30%**	**0.75**
Operating Margin [2]	1	22%	12.5%			
Interest Burden [3]	5	4.16%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	5	93.35%	25%			
Debt Structure [5]	1	5.73%	25%			
Factor 4: Governance and Management				**1**	**30%**	**0.30**
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						**2.01 (2)**
Systemic Risk Assessment						**Aaa**
Suggested BCA						**aa1**
Assigned BCA						**aaa**

[1] Local GDP per capita as % of national GDP per capita
[2] Gross operating balance by function/operating revenues
[3] (Adjusted) interest expenses/operating revenues
[4] Net direct and indirect debt/operating revenues
[5] Short-term direct debt/total direct debt
Source: Moody's Investors Service; Fiscal 2022.

Ratings

Exhibit 7

Category	Moody's Rating
YORK, REGIONAL MUNICIPALITY OF	
Outlook	Stable
Senior Unsecured -Dom Curr	Aaa
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

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