CREDIT OPINION
30 September 2024

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.

Contacts

Adam Hardi, CFA +1.416.214.3636
Vice President-Senior Analyst
adam.hardi@moodys.com

Jonathan Holmes +1 647.417.6302
Ratings Associate
jonathan.holmes@moodys.com

Michael Yake +1.416.214.3865
Associate Managing Director
michael.yake@moodys.com

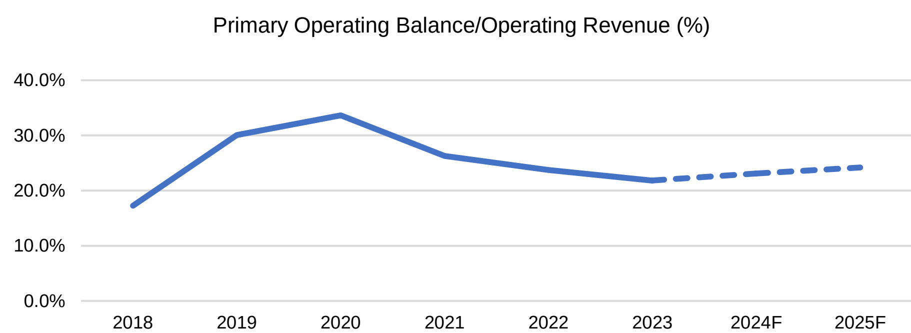
Regional Municipality of York (Canada)

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 which provide excellent coverage of debt and expenses. We view the region's governance as very strong governance which supports solid fiscal results with high levels of annual operating margins typically around 20-30%. The regional economy is broad and diversified and supports a growing tax base, which also benefits from continued robust population growth despite recent federal measures to curb immigration growth. While York's debt burden of 80% projected for 2024 is at the high end of Aaa-rated municipal peers in Canada, it has declined significantly over the last 5 years as the region continues to limit debt issuance for major capital projects.

Exhibit 1
York consistently posts strong fiscal results



Year ending December 31
Sources: York Region and Moody's Ratings

Credit strengths

- Excellent liquidity metrics and growing levels of cash and investments
- Diversified economy and strong population growth supports tax base and revenues
- Mature institutional framework governing municipalities in Ontario
- Robust fiscal planning cushions against cost pressures and adverse provincial changes

Credit challenges

- Elevated debt burden relative to peers given large-scale capital spending

Rating outlook

The stable outlook for York's rating reflects our view that the region will maintain significant operating surpluses supported by largely stable and predictable revenues, along with significant levels of wealth and liquidity which will allow the region to address ongoing cost pressures. Further, we continue to view the region's fiscal management as very strong, 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 materially 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)	2020	2021	2022	2023	2024F	2025F
Net Direct and Indirect Debt/Operating Revenue (%)	115.5	107.2	93.9	80.1	79.9	73.6
Primary Operating Balance/Operating Revenue (%)	33.6	26.2	23.7	21.8	23.1	24.2
Interest Payments/Operating Revenue (%)	4.7	4.3	4.0	3.4	3.4	3.2
Debt Service/Total Revenue (%)	11.8	19.2	3.7	3.3	8.2	7.6
Capital Spending/Total Expenditures (%)	31.7	22.0	21.2	20.2	21.2	27.7

Sources: York Region and Moody's Ratings

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) 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.

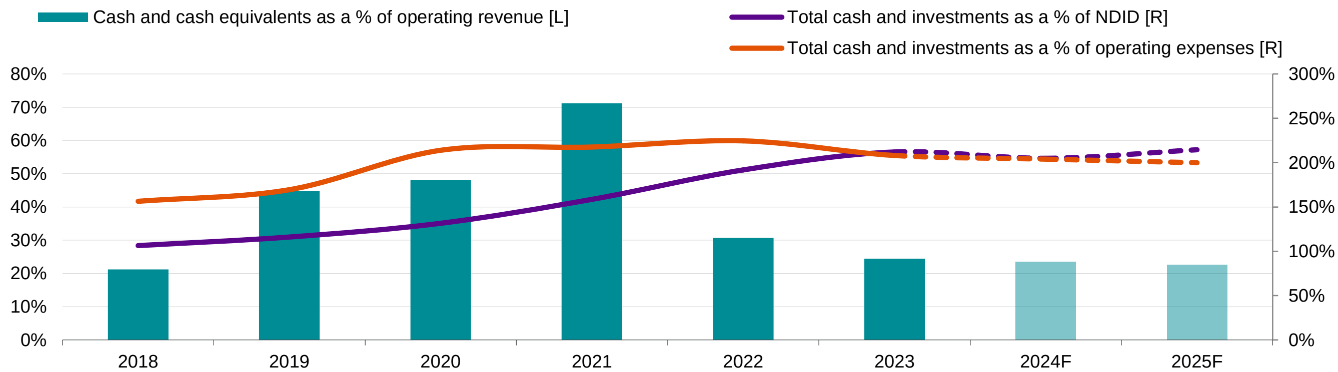
Excellent wealth metrics and growing levels of cash and investments

York maintains excellent levels of wealth with rising cash/cash-equivalent and long-term investment balances (net of sinking funds) which stood at CAD5.2 billion at year-end 2023. These levels provided 212% coverage of net direct and indirect debt and 208% of annual operating expense, at the upper end of Aaa-rated domestic and global peers. 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 2024 and 2025.

Reserves include discretionary 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 needs. The region also maintains significant and growing sinking fund balances for debt repayment, which grew to CAD1.3 billion at year-end 2023, up from CAD718.3 million at year-end 2019.

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 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 a CAD100 million line of credit (unused) with a Canadian bank.

Exhibit 3
York maintains high levels of liquidity and coverage ratios
(fiscal years ending Dec 31)



Cash, cash equivalents and investments are net of sinking funds
Sources: York Region and Moody's Ratings

Diversified economy and strong population growth supports tax base and revenues

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 regional economy has a significant presence of 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.

The region also 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 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 the province is currently undertaking a review of several two-tier regional governments within the province, including York, to assess the division of roles and responsibilities between the different tiers of government. While we do not expect that the province will alter the two-tier structure of the region, the outcome of the review remains uncertain, and any material change in the regional structure or the region's financial responsibilities could have material implications on our credit assessment of York.

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 cost pressures and adverse provincial changes

The region's operating profile is supported by stable and predictable revenues which tend not to fluctuate with economic changes. Combined, these flows account for approximately two-thirds of operating revenues 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). Primary operating balances averaged 27.1% of operating revenue in the 5 year period from 2019-2023, with our projection of an average 23.6% across 2024 and 2025.

Management adheres to conservative investment and debt policies, limiting exposure to market-related risks and ensuring relatively smooth and predictable debt service costs. These financial management measures are also supported by comprehensive, transparent and timely financial reporting that is typical of governments in advanced industrial countries.

Inflationary cost pressures and rising wage demands continue to necessitate rising operating and capital expenses. However, 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 region's property tax increase of 3.75% in 2024 has exceeded the historical average and aims to address rising costs.

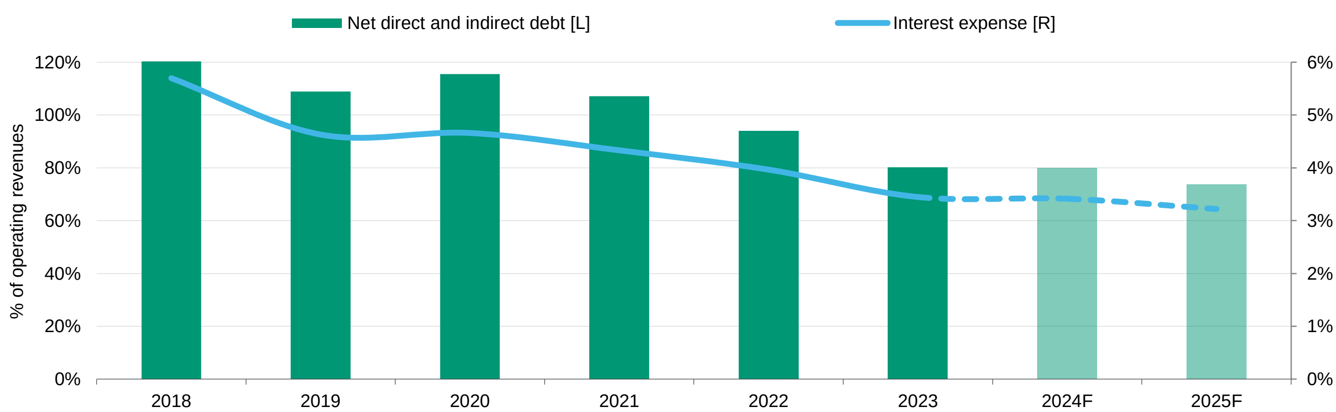
The province also made legislative changes in November 2022 restricting local governments' ability to impose development charges on certain projects, in order to encourage multi-unit projects and affordable housing. The region estimates the total impact of these changes could amount to CAD0.7 billion in lost revenue over 10 years. Recently, the province reversed some of these changes, which we expect will reduce the adverse impact on the region's future operating results.

Elevated debt burden relative to peers given large-scale capital spending

York's debt burden is at the upper end of Aaa-rated peers in Canada (median of 40.7% in 2023), despite our projection of a gradual decline to approximately 80% for 2024. Continued population growth over the next decade - even if the pace of growth changes given recent federal immigration policy changes - will remain a key driver of infrastructure spending which necessitates significant new debt issuance.

While the high levels of debt issuance adds to interest expense pressure, we view debt affordability as very strong, with our projection of interest expense remaining below 4% of operating revenue over the next five years.

Exhibit 4
York's debt burden is high but improving, supported by strong debt affordability



Sources: York Region and Moody's Ratings

The continued need to fund growth and maintain infrastructure exerts pressure on future 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 2024-2033 totals CAD11.6 billion, which includes CAD1.12 billion regional capital contribution for the Yonge North Subway Extension, with a total current cost estimate of CAD5.6 billion for the subway. 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 CAD2.7 billion, a significant amount and nearly one quarter of the capital plan, with the majority of debt issuances planned for 2027-2033. 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.

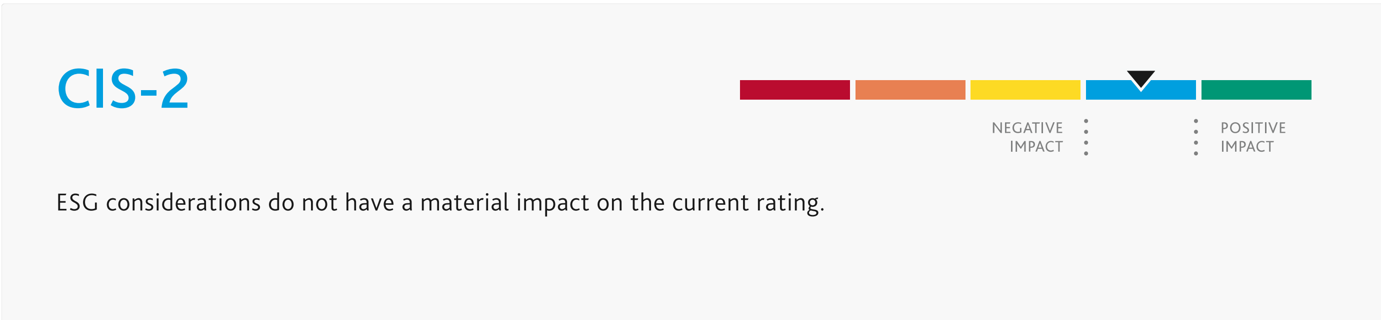
Extraordinary support considerations

While York's BCA of aaa already places the region in the Aaa rating bracket, we also consider the likelihood of extraordinary support coming from the Province of Ontario to prevent a potential default by York. We consider 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 York or any other municipality were allowed to default.

ESG considerations

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

Exhibit 5
ESG credit impact score



Source: Moody's Ratings

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

Exhibit 6
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), given predictable demographic trends which allow for long-term forecasting of service requirements and therefore manageable expenses. The majority of health expenses are the responsibility of the province and not the region.

Governance

The **G-1** issuer profile score reflects 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 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 7

York, Regional Municipality of

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					**25%**	**0.99**
Regional Income [1]	2.58	58907.23	15%	0.39		
Economic Growth	9.00	baa	5%	0.45		
Economic Diversification	3.00	aa	5%	0.15		
Factor 2: Institutional Framework and Governance					**30%**	**0.60**
Institutional Framework	1.00	aaa	15%	0.15		
Governance	3.00	aa	15%	0.45		
Factor 3: Financial Performance					**20%**	**0.53**
Operating Margin [2]	2.86	21.83%	10%	0.29		
Liquidity Ratio [3]	1.90	24.34%	5%	0.09		
Ease of Access to Funding	3.00	aa	5%	0.15		
Factor 4: Leverage					**25%**	**1.67**
Debt Burden [4]	5.71	80.10%	15%	0.86		
Interest Burden [5]	8.18	3.45%	10%	0.82		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						**(3.79) aa3**
Idiosyncratic Notching						**2.0**
Preliminary BCA SIO After Idiosyncratic Notching						**(1.79) aa1**
Sovereign Rating Threshold						**Aaa**
Operating Environment Notching						**1.5**
BCA Scorecard-Indicated Outcome						**(1.00) aaa**
Assigned BCA						**aaa**

[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 8

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

Source: Moody's Ratings

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454