MOODY'S INVESTORS SERVICE

CREDIT OPINION
8 February 2022

Update

Rate this Research

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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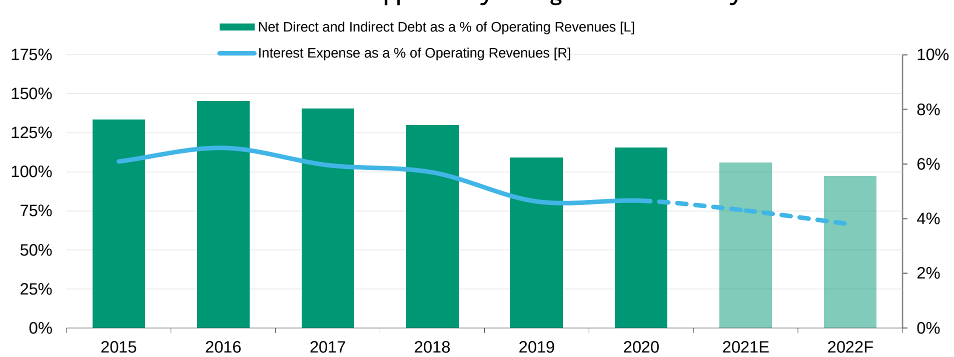
Regional Municipality of York (Canada)

Update following assignment of P-1 rating

Summary

The credit profile of the Regional Municipality of York (Aaa stable) reflects strong liquidity, prudent fiscal management and a solid governance framework. York's large and diversified economy supports growth in its tax base which allows the region to generate strong fiscal outcomes, and continues to provide a buffer against COVID-related fiscal pressures. York's credit profile is pressured by a debt burden that is elevated relative to Aaa-rated peers. We project that the debt burden -- which has gradually declined from 145% in 2016 -- will be within a band of approximately 95-105% over the next five years as the 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.

Exhibit 1
York's debt burden is elevated but is supported by strong debt affordability



Sources: York Region, Moody's Investors Service

Credit strengths

» Excellent liquidity profile with growing levels of cash and reserves

» Large and diversified economy supports the region's tax base

» Operating framework supports continued strong fiscal outcomes

» Mature and supportive institutional framework

Credit challenges

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

Rating outlook

The stable outlook reflects our view that the region will maintain strong levels of liquidity and prudent fiscal management which will allow it to post balanced operating results over the next two years despite modest operating challenges from the pandemic.

Factors that could lead to a downgrade

A sustained increase in the debt burden, weak operating results and/or material decline in liquidity leading to low coverage of operating expenses and debt could put downward pressure on the region's rating.

Key indicators

Regional Municipality of York

(Year Ending 12/31)	2016	2017	2018	2019	2020	2021E
Net Direct and Indirect Debt/Operating Revenue (%)	145.2	140.3	130.0	109.0	115.5	105.8
Gross Operating Balance/Operating Revenue (%)	20.5	17.9	11.6	25.4	29.0	29.5
Cash Financing Surplus (Requirement)/Total Revenue (%)	11.3	4.9	15.4	8.6	15.8	10.4
Interest Payments/Operating Revenue (%)	6.6	6.0	5.7	4.6	4.7	4.3
Debt Service/Total Revenue (%)	12.7	15.3	5.3	17.6	11.8	11.1
Capital Spending/Total Expenditures (%)	33.6	31.8	15.3	28.3	31.7	-
Self-financing Ratio	1.4	1.2	2.2	1.4	1.7	-

Sources: York Region, Moody's Investors Service

Detailed credit considerations

On February 3, 2022 we assigned a P-1 short-term debt rating to the region's max. CAD500 million promissory notes program.

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 stable) in the event that the region faced acute liquidity stress.

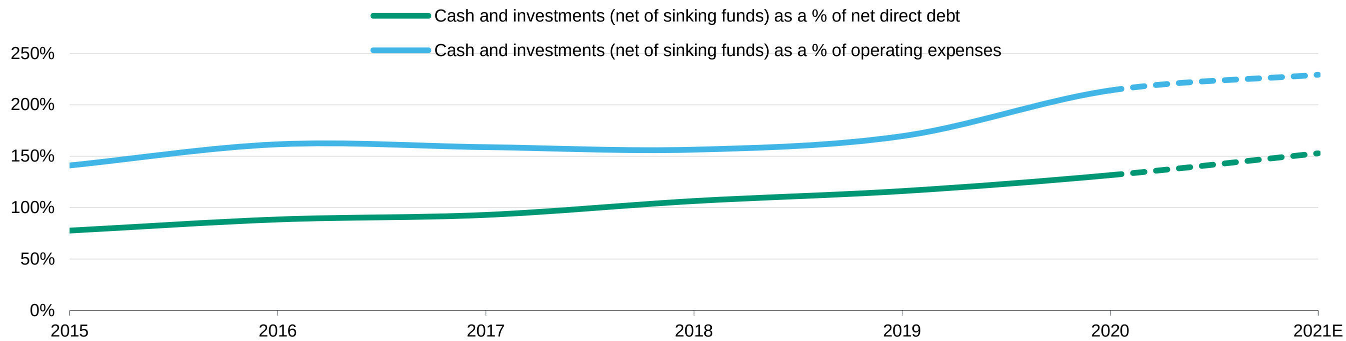
Excellent liquidity profile with growing levels of cash and reserves

York maintains excellent liquidity which provides significant debt and expense coverage. We estimate that cash and investment balances (net of sinking funds) stood at CAD4.2 billion at year-end 2021, providing 153% coverage of net direct and indirect debt and 229% of annual operating expense, the highest levels in over 15 years and consistent with most Aaa-rated Canadian municipalities.

We also expect that the region will continue to emphasize increasing the amount of reserves available to finance its capital plan and minimize reliance on other sources, including direct debt financing. We project that these balances will continue to increase and provide rising coverage ratios given continued growth in reserves from operating surpluses and modest expense and debt growth.

Exhibit 3

York maintains high and improving levels of liquidity



Sources: York Region, Moody's Investors Service

Reserves include restricted reserves from development charges and discretionary reserves earmarked for specific purposes including for general/tax stabilization. The region maintains tax and fiscal stabilization reserves of about 4% of operating revenues, providing it with some buffer against pandemic related pressures. The region also maintains significant and growing sinking funds balances for debt repayment, with an estimated CAD840 million at year-end 2021.

The region employs a long-term approach when planning for liquidity needs. For 2021 and 2022, 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.

Large and diversified economy supports the region's 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 mitigate the fiscal impacts related to the coronavirus pandemic.

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. The region projects that real GDP grew by 5.9% in 2021 and an estimated 5.5% in 2022 given a continued economic rebound, following a 5.6% decline in 2020. At the same time, the unemployment rate is also projected to have improved to 6.8% in 2021 and estimated at 5.5% in 2022, following a rise in the rate to 8.0% in 2020 as a result of a moderate economic slowdown during the pandemic.

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

Operational framework supports continued strong fiscal outcomes

Revenues remain largely protected from market events including the coronavirus pandemic, and expense pressures are mitigated both through COVID-related expense control measures and financial support from the provincial and federal governments. As a result, in our view the region faces manageable pressures resulting from the pandemic without material long-term credit implications.

York benefits from taxable property assessment growth and has flexibility to raise user fees, given relatively low rates compared to the rest of the Greater Toronto Area (GTA). Property taxes and user fees, which tend not to fluctuate with economic changes, account for approximately two-thirds of operating revenues (67% in 2020) and will drive the majority of future revenue growth.

The region estimated the combined operating impact of the coronavirus, before mitigants, at CAD187 million in 2020 (around 7% of operating revenue) with an estimate of CAD238 million in 2021 (9%). Operating impacts result from lost transit fees and fines, water and wastewater rate deferral and additional costs incurred for service delivery in response to the pandemic. The region relies on a combination of expense mitigation efforts, the use of contingency funds and stabilization reserves to cover the fiscal impact, as well as provincial and federal COVID support which totalled CAD90 million in 2020 and is estimated at CAD180 million in 2021 and therefore cover a significant component of fiscal shortfalls.

Mature and supportive institutional framework

Fiscal management measures are supported by comprehensive, transparent and timely fiscal 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.

York's creditworthiness benefits from the stability inherent in the provincial institutional framework. Provincial legislation dictates a high degree of oversight, including limits on debt servicing costs, while policy flexibility, on both the revenue and expenditure sides of the ledger, helps York to manage pressures as they arise. Debentures can only be issued to fund capital infrastructure projects, a large portion of which is repaid via development charges on new property developments and utility rates.

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

York's debt burden is elevated relative to Aaa-rated peers, despite a gradual decline from 145% in 2016 to an estimated 106% in 2021. The elevated level reflects York's heavy investment in infrastructure between 2008 and 2016 to support the rapid growth of the population. While growth has slowed compared to that period, it remains robust driven by the region's prime location in the Greater Toronto Area.

The continued need to fund growth and maintenance infrastructure will maintain pressure on capital spending and debt levels, which will remain elevated given planned expansions of the regional transportation network, including bus rapid transit and the announced extension of the Yonge subway line from Toronto to Richmond Hill. Continued population growth over the next decade will remain a key driver of infrastructure investment, which limits the ability for the region to reduce its reliance on debt significantly faster.

Debt financing of the CAD9.5 billion capital plan for 2022-2031 amounts to CAD3.2 billion, a significant amount and nearly one third of the capital plan, with the majority of debt issuances planned for 2024-2028. We project that the debt burden will be within a band of approximately 95-105% over the next five years as the 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, REGIONAL MUNICIPALITY OF's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4
ESG Credit Impact Score

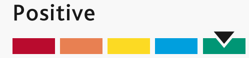
CIS-2
Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

York's ESG Credit Impact Score is neutral-to-low (**CIS-2**) reflecting neutral-to-low exposure to environmental and social risks and a positive governance profile.

Exhibit 5
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	**S-2**	**G-1**
Neutral-to-Low	Neutral-to-Low	Positive
		

Source: Moody's Investors Service

Environmental

The E issuer profile score is neutral-to-low (**E-2**). The local government sector overall has low exposure to environmental risks. The region is not exposed to significant climate risks and neither spending nor revenue are materially impacted by environmental changes.

Social

York's S issuer profile score is neutral-to-low (**S-2**). The region provides public services such as public safety (police and paramedic) and environmental (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. The region's residents have high levels of education and have access to basic services. The credit impact of the coronavirus pandemic has implications for public health, however the credit impact to the region is low given that the majority of related expenses are the responsibility of the province and not the region.

Governance

The positive G issuer profile score (**G-1**) reflects York'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	100.67%	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				**3**	**30%**	**0.90**
Operating Margin [2]	1	25.46%	12.5%			
Interest Burden [3]	5	4.80%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	7	115.49%	25%			
Debt Structure [5]	1	5.21%	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						**2.16 (2)**
Systemic Risk Assessment						**Aaa**
Suggested BCA						**aa1**

[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 2020.

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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