

RESEARCH

Research Update: Regional Municipality of Peel 'AAA' Rating Affirmed On Manageable Debt; Outlook Stable

Publication date: 09-Mar-2006
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Credit Rating: AAA/Stable/--

Rationale

On March 9, 2006, Standard & Poor's Ratings Services affirmed its 'AAA' long-term issuer credit rating on the Regional Municipality of Peel (Peel), located in the province of Ontario, based on its exceptional level of liquidity; manageable debt level, which is expected to remain stable in the next five years; and strong, robust economy. The outlook is stable.

In 2004, Peel's cash and equivalents were in excess of C\$1 billion. Nevertheless, its liquid holdings are expected to diminish over a five-year time horizon as during this time Peel intends to draw down its reserves to fund its capital expansion, mainly related to water, sewer, and road infrastructure. Peel's direct debt was 44.1% of operating revenues in 2004, and is expected to remain at about this level within the next five-year horizon. This debt is all related to mortgages on social housing assets, which generate revenue streams for servicing the debt. Peel's debt service is very low compared to similarly rated peers.

Peel's operating balance was 15.9% of operating revenues in 2004. Although this has weakened since 2001, it is still considered healthy and consistent with the rating. Like those of most Ontario municipalities, Peel's operating balances have come under pressure in recent years largely due to the province's downloading to municipalities such responsibilities as social housing and ambulance services, while simultaneously raising performance standards for these services. Continued softening operating surpluses and lower expected liquidity levels could place Peel's net creditor position, and therefore its rating, under pressure. Nevertheless, historically superior surpluses have enabled Peel to build its strong balance sheet, and maintain its long-standing position as a strong net creditor.

Outlook

The stable outlook reflects Standard & Poor's expectation that Peel's debt level will remain modest and that liquidity will not significantly drop below expected levels as the region proceeds through its capital expansion. The outlook also reflects the expectation that Peel's operating surpluses will not significantly drop below current levels. Not meeting any of the above expectations could exert downward pressure on the rating.

Ratings List

Peel (Regional Municipality of)

Rating Affirmed
Issuer credit rating AAA/Stable/--

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