MOODY'S
INVESTORS SERVICE

Credit Opinion: Peel, Regional Municipality of

Global Credit Research - 04 Mar 2011

Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Bonds -Dom Curr	Aaa

Contacts

Analyst	Phone
Jennifer A. Wong/Toronto	1.416.214.1635
David Rubinoff/London	44.20.7772.5454

Key Indicators

Peel, Regional Municipality of

	2005	2006	2007	[1]2008	2009
Net Direct Debt/Operating Revenue (%)	34.0	29.5	27.3	23.4	22.0
Gross Operating Balance/Operating Revenue (%)	19.7	19.7	18.8	17.1	11.5
Cash Financing Surplus (Requirement)/Total Revenue (%)	11.9	0.2	2.0	2.8	(12.5)
Interest Payments/Operating Revenue (%)	1.9	1.6	1.4	1.3	1.2
Debt Service/Total Revenue (%)	2.6	2.3	2.2	2.1	2.1
Capital Spending/Total Expenditures (%)	33.6	28.2	27.3	25.1	36.6
Self-Financing Ratio	1.3	1.0	1.1	1.1	0.6

[1] Accounting changes were introduced in 2009 and 2008 figures were also restated. These changes, however, make direct comparisons with prior years difficult.

Opinion

SUMMARY RATING RATIONALE

The Regional Municipality of Peel's Aaa debt rating reflects prudent and conservative fiscal policies, high levels of liquidity and a currently low, though increasing, debt burden. The rating also takes into consideration the region's diversified economy and strong population growth requiring increased capital expenditures leading to expected increases in the region's debt burden.

National Peer Comparisons

The Regional Municipality of Peel is rated at the high end of Canadian municipalities, whose ratings remain in a narrow range of Aaa to Aa2. The region's position relative to national peers reflects its low debt burden, high reserve levels and positive operating results. The institutional framework governing municipalities in Ontario is mature and well-developed, similar to that of other Canadian provinces where Moody's rates municipalities.

Credit Strengths

- Low debt burden and high levels of cash and investments

- Commitment to multi-year planning and prudent fiscal policy

- Consistent, positive operating results

- Mature, supporting institutional framework governing municipalities in Ontario

Credit Challenges

- Significant capital financing needs to support growth infrastructure

- Expected increases in debt burden over the medium term

Rating Outlook

The outlook for Peel's Aaa rating is stable.

What Could Change the Rating - Down

Given the fiscal discipline displayed by the administration, it is unlikely that conditions would deteriorate by a large enough margin, in the near term, to trigger a downgrade. Nevertheless, a sustained loss of discipline, leading to increases in debt issuance beyond current expectations, combined with a decrease in the region's liquidity level, would apply downward pressure to the rating.

Detailed Rating Considerations

The rating assigned to the Regional Municipality of Peel reflects the application of Moody's JDA rating methodology for regional and local governments. In accordance with this methodology, Moody's first establishes the baseline credit assessment (BCA) for Peel and then considers the likelihood of support from the Province of Ontario (Aa1, stable outlook) to avoid an imminent default by Peel, should this extreme situation ever occur.

Baseline Credit Assessment

The Regional Municipality of Peel's BCA of 1 (on a scale of 1 to 21, in which 1 represents the lowest level of credit risk) reflects the following factors:

Financial Position and Performance

The regional municipality's revenue base is stable and predictable, providing dependable cash flows to meet operating requirements. In addition, the regional municipality utilizes prudent and forward-looking fiscal policies and ten-year capital plans, which are updated annually. This supports a healthy operating balance, which has supported pay-as-you-go financing for capital projects.

Own-source property tax revenue accounts for approximately half of operating revenues, while government grants and user rates for water and sewer accounted for approximately 24% and 14% of operating revenues respectively in 2009. Property tax receipts and utility charges are relatively uncorrelated with the economic cycle, generating stable revenue flows in periods of economic expansion, as well as in slowdowns. While the growth of provincial grants to Ontario municipalities could slow down in light of the current fiscal challenges faced by the province, we do not believe that grants would be cut dramatically and there have been no indications toward this by the province. Between 2005 and 2008, operating revenues grew at a compound annual growth rate (CAGR) of 5.1%, driven primarily by strong growth in provincial grants and utility charges.

Peel's expense base is also predictable and has generally grown more slowly than revenues in recent years, helping to ensure the posting of generally positive operating results. Between 2005 and 2008, operating expenses grew at a CAGR of 4.2%, driven essentially by expense growth for public safety and environmental services. Social and family services, environment services and public safety each represent about one-quarter of operating expenses. Unlike some other regional municipalities in Ontario, regional transit services are not the responsibility of the regional municipality but rather lie with the local municipalities. While Peel has experienced some pressures on its social assistance budget as more people have accessed these programs during the recent economic downturn, the announced phase-in of provincial uploading of social assistance costs will aid Peel in managing these costs. In recognition of this rise in social assistance costs, the regional municipality has allocated extra operating funds to support these continued pressures.

In 2009, total revenues declined by 1.8%, primarily due to a decline in government grants, which were relatively strong in 2008, and fall in revenue related to recycling, which was impacted by the economic downturn. Total expenses grew at 8.2%, driven by increases across a variety of categories, with the largest impacts from social and family services and public safety. Nevertheless, overall, the surplus for the year was a strong 10.0% of revenues, down from an exceptional 19.6% in 2008.

Debt Profile

Peel's net direct and indirect debt measured 20.2% of total revenues at December 31, 2009, consisting primarily of mortgage debt related to the regional municipality's housing corporation. Peel's debt burden is considered low when compared to national and international peers. Accordingly, debt service expenses are low, consuming a minimal 2.1% of total revenues in 2009. In 2010, the regional municipality issued C$310 million in debentures, which would bring their net direct and indirect debt to roughly 35%-40% of total revenues, which is still considered relatively low. The regional municipality's low debt burden and low debt service expenses increase its fiscal flexibility, enhancing its ability to address fiscal pressures.

The regional municipality's latest ten-year capital plan (2011-2019) calls for total capital expenditures of C$5.2 billion, of which C$2.4 billion is identified for tax-supported expenditures and C$2.7 billion is identified for rate-supported expenditures. The bulk of the proposed expenditures are to be financed by reserves. Peel projects borrowing needs of C$1.4 billion over six years in support of its capital plan and to replenish drawdowns in its development charge reserves. The region, however, typically underspends its capital budget, owing to construction delays, environmental assessment requirements and other timing issues. If the current capital plan comes to fruition, we anticipate that net direct and indirect debt would rise to roughly 80% of total revenues by 2015. As a reflection of Peel's financial flexibility, we consider the debt issuance related to the current capital plan will remain manageable within the current fiscal framework.

The regional municipality has also issued debentures for the Town of Caledon, and Peel and its lower tier municipalities of Mississauga, Brampton and Caledon are jointly and severally liable for debentures issued for any lower tier municipality. Nonetheless, the City of Mississauga and the City of Brampton do not presently have any debenture debt and furthermore the lower tier municipalities generally post balanced operations characterized by high operating margins, generating pay-as-you-go financing for capital projects, and hold significant reserves.

At the end of 2009, Peel's cash and investments net of short-term liabilities and sinking funds provided more than three times coverage of net direct and indirect debt, providing a measure of security for debenture holders; with the debenture issuance in 2010 we estimate that this was still a robust 1.8 times coverage at the end of 2010. While these reserves are earmarked for specific items, they provide liquidity and strengthen Peel's credit profile. Peel's cash and investments are invested conservatively in money market and debt securities issued by highly-rated Canadian federal, provincial and municipal governments as well as chartered banks.

Governance and Management Factors

Similar to other highly rated municipalities in Ontario, Peel displays strong governance and management characteristics. In addition to long-term planning for capital and operating budgets and a history of meeting fiscal targets, management adheres to conservative debt and investment management policies, thus limiting the region's exposure to market-related risks. These fiscal management measures are also supported by comprehensive, transparent and timely fiscal reporting.

Economic Fundamentals

The Regional Municipality of Peel is located on the west side of the Greater Toronto Area (GTA), Canada's largest industrial and commercial centre. It is comprised of the City of Mississauga, the City of Brampton and the Town of Caledon. Peel's economic base is diverse and benefits from a comprehensive transportation network connecting local businesses to markets in southwestern Ontario, the United States and elsewhere. Peel has recorded strong population growth in recent years, with the population increasing to approximately 1.3 million in 2009, from roughly 1.0 million in 2000. According to provincial forecasts, Peel's population is expected to expand to over 1.6 million by 2031. The population is relatively young and educated with over half the working age population having attained university or college education.

Peel's regional economy is diversified, with about three-quarters of regional employment in various service industries. The economy also benefits from the location of Pearson International Airport in the region - the largest airport in Canada - which is a significant regional employer and also supports related industries such as transportation and warehousing. While Peel's unemployment rate in 2010 was higher than that of Toronto (9.9% vs 9.3%), this partly reflected higher participation in the labour force. Employment increased 7.1% in 2010.

Operating Environment

The national operating environment in which Peel operates is typical of advanced industrial economies, characterized by high GDP per capita, low GDP volatility, and high ranking on the World Bank's Government Effectiveness Index, all of which suggest a minimal level of systemic economic, financial and political risk. As evidenced by Canada's record of continued economic expansion and political stability, the macroeconomic environment is robust and federal government institutions are responsive. Accordingly, the conditions that have historically preceded national crises associated with widespread defaults of regional and local government are not present in Canada.

Institutional Framework

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. Historically, changes to the institutional framework have occurred at a measured, evolutionary pace, following discussions between both parties. Nevertheless, in certain cases, changes have occurred more rapidly.

Peel'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 Peel to manage pressures as they arise.

Extraordinary Support Considerations

While the Regional Municipality of Peel's BCA of 1 already places the municipality in the Aaa rating bracket, the JDA methodology also considers the likelihood of extraordinary support coming from the provincial government (Aa1, stable outlook) to prevent a default by Peel. Moody's assigns a very high likelihood of extraordinary support, reflecting our assessment of the risk to Ontario's reputation as a regulator of municipalities if Peel were to default.

Moody's rating committee also assigns a high default dependence level, reflecting a medium level of provincial fiscal transfers, distinct own source revenues and the overlap of the economies of Peel and the province.

Output of the Baseline Credit Assessment Scorecard

In the case of Peel, the BCA scorecard (presented below) generates an estimated BCA of 2, close to the BCA of 1 assigned by the rating committee.

The BCA scorecard, which generates estimated baseline credit assessments from a set of qualitative and quantitative credit metrics, is a tool used by the rating committee in assessing regional and local government credit quality. The credit metrics captured by the scorecard provide a good statistical gauge of stand-alone credit strength; however, the estimated BCAs generated by the scorecard do not substitute for rating committee judgments regarding individual baseline credit assessments, nor is the scorecard a matrix for automatically assigning or changing these assessments. Concomitantly, scorecard results have limitations in that they are backward-looking, using historical data, while the assessments are forward-looking opinions of credit strength. Moreover, the limited number of variables included in the scorecard cannot fully capture the breadth and depth of our analysis. Nevertheless, the performance statistics captured in the scorecard are important and, in general, higher ratings can be expected among issuers with the highest rankings from the scorecard.

ABOUT MOODY'S SUB-SOVEREIGN RATINGS

National and Global Scale Ratings

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".mx" for Mexico. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance published in August 2010 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings."

The Moody's Global Scale rating for issuers and issues allows investors to compare the issuer's/issue's creditworthiness to all others in the world, rather than merely in one country. It incorporates all risks relating to that country, including the potential volatility of the national economy.

Country Ceilings for Foreign Currency Obligations

Moody's assigns a ceiling for foreign-currency bonds and notes to every country (or separate monetary area) in which there are rated obligors. The ceiling generally indicates the highest rating that can be assigned to a foreign-currency denominated security issued by an entity subject to the monetary sovereignty of that country or area. In most cases, the ceiling will be equivalent to the rating that is (or would be) assigned to foreign-currency denominated bonds of the government. Ratings that pierce the country ceiling may be permitted, however, for foreign-currency denominated securities benefiting from special characteristics that are judged to give them a lower risk of default than is indicated by the ceiling. Such characteristics may be intrinsic to the issuer and/or related to Moody's view regarding the government's likely policy actions during a foreign currency crisis.

Baseline Credit Assessment

Moody's baseline credit assessment incorporates the government's intrinsic credit strength and accounts for ongoing operating subsidies and transfers from the supporting government. In effect, the baseline credit assessment reflects the likelihood that a local government would require extraordinary support.

Extraordinary Support

Extraordinary support is defined as action taken by a supporting government to prevent a default by a regional or local government (RLG) and could take different forms, ranging from a formal guarantee to direct cash infusions to facilitating negotiations with lenders to enhance access to needed financing. Extraordinary support is described as either low (0% - 30%), moderate (31% - 50%), high (51% - 70%), very high (71% - 95%) or fully supported (96% - 100%).

Default Dependence

Default dependence reflects the likelihood that the credit profiles of two obligors may be imperfectly correlated. Such imperfect correlation, if present, has important diversifying effects which can change the joint-default outcome. Intuitively, if two obligors' default risks are imperfectly correlated, the risk that they would simultaneously default is smaller than the risk of either defaulting on its own.

In the application of joint-default analysis to RLGs, default dependence reflects the tendency of the RLG and the supporting government to be jointly susceptible to adverse circumstances leading to defaults. Since the capacity of the higher-tier government to provide extraordinary support and prevent a default by an RLG is conditional on the solvency of both entities, the more highly dependent -- or correlated -- the two obligors' baseline default risks, the lower the benefits achieved from joint support. In most cases, the close economic links and/or overlapping tax bases and/or close intergovernmental fiscal arrangements between different levels of government result in a moderate to very high degree of default dependence.

Default dependence is described as either low (0% - 30%), moderate (31% - 50%), high (51% - 70%) or very high (71% - 100%).

Rating Factors

Peel, Regional Municipality of

Baseline Credit Assessment Scorecard - 2009	Value	Score	Sub-Factor Weighting	Sub-Factor Total	Factor Weighting	Total
Factor 1: Operating Environment						
National GDP per capita (PPP basis, $US)	38,328	1	50.0%	1.50	50.0%	0.75
National GDP Volatility (%)	2.8	3	25.0%			
National Govt Effectiveness Index (World Bank)	1.78	1	25.0%			
Factor 2: Institutional Framework						
Predictability, Stability, Responsiveness	1	1	50.0%	1.00	10.0%	0.10
Fiscal Flexibility (A): Own-Source Revenues	1	1	16.7%			
Fiscal Flexibility (B): Spending	1	1	16.7%			
Fiscal Flexibility (C): Extent of Borrowing	1	1	16.6%			
Factor 3: Financial Position & Performance						
Interest Payments/Operating Revenue (%)	1.3	1	25.0%	5.00	10.0%	0.50
Cash Financing Surplus(Req)/Total Revenue (%)	-6.1	12	25.0%			
Gross Operating Balance/Operating Revenue (%)	14.1	6	25.0%			
Net Working Capital/Total Expenditures	74.4	1	25.0%			
Factor 4: Debt Profile						
Net Direct and Indirect Debt/Operating Revenue	22.0	1	50.0%	1.00	10.0%	0.10
Short-Term Direct Debt/Direct Debt (%)	4.7	1	25.0%			
Net Debt/Operating Revenue Trend	-10.6	1	25.0%			
Factor 5: Governance & Management						
Fiscal Management	1	1	40.0%	1.00	10.0%	0.10
Investment & Debt Management	1	1	20.0%			
Transparency & Disclosure (A)	1	1	15.0%			
Transparency & Disclosure (B)	1	1	15.0%			
Institutional Capacity	1	1	10.0%			
Factor 6: Economic Fundamentals						
Regional or Local GDP pc PPP - estimated ($US)	37,100	1	100.0%	1.00	10.0%	0.10
Estimated BCA						**2**