

Peel (Regional Municipality of)

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Major Rating Factors

Strengths

- Excellent-but-declining cash and reserve balances
- Very good and generally consistent operating performance
- Currently low debt
- Diversified and robust economy, although it has not been immune from the global recession

Weaknesses

- Expected significant rise in debt

Issuer Credit Rating

AAA/Stable/--

Rationale

The ratings on the Regional Municipality of Peel, in the Province of Ontario (AA-/Stable/A-1+), reflects Standard & Poor's Ratings Services' opinion of the region's excellent cash and reserve balances. Although these balances are likely to decline, we believe that they should exceed debt in the near term. The ratings also reflect currently low debt levels that could rise substantially in the medium-to-long term. The ratings also reflect a good operating performance and a diversified and robust economy.

Our view of the following factors supports the ratings:

- Superb-but-declining cash and reserve balances that were 125% of operating expenditure in 2008. These are similar to those of the previous year, but have declined from 184% in 2003. The region expects that internal borrowing for capital renewal and replacement-related expenditure should further reduce these balances. Nevertheless, Peel's consistently strong operating surpluses have to a large degree helped build a healthy cash and reserve cushion;
- Operating performances that we believe are very good. In 2008, Peel's operating surplus was about 19% of operating revenues, slightly higher than the 16% it had consistently reported in every year since 2003. After capital spending, the balance remained in surplus, although it declined to less than 2%. However, this is an improvement from 2003, from which point it had since been in deficit. In addition to expansion and funding asset life-cycle initiatives such as road maintenance, slumping economic conditions are stressing Peel's operations. There is greater need for the region's social services, such as income and employment support, and social housing. Lower commodity prices are pushing down revenues from sales of recyclable materials and waste management activities, by about 40% from 2008-2010. These revenues accounted for C\$27 million, or almost 2%, of total 2008 revenues. Also, lower water usage, especially in the industrial, commercial, and institutional sectors, has resulted in a C\$14 million deficit in the region's utility supported operations. We expect additional debt-servicing costs from the expected debt will also add operating pressure;
- Currently low debt. In 2008, Peel's debt was 26% of operating revenues. The debt is associated with social housing and has been declining since 2001. Debt service was a very manageable 2.5% of operating revenues ; and
- Peel's thriving economy. Despite the recent sluggishness, the economy is integrated with that of the Greater Toronto Area, and it is a transportation hub (home to Canada's largest airport, two national rail lines, and an

extensive network of Canada's largest highways). We believe these features should help its economy flourish even in the face of a global recession, although growth will likely moderate.

In our view, an expected significant rise in debt mitigates these strengths slightly. To prefinance costs of servicing land for growth that the region expects will occur out to 2031, Peel might issue a considerable amount of debt in 2010 and at least C\$1 billion in the medium term, under current conditions. This, in conjunction with expected declining cash and reserve balances, could eliminate the region's current net creditor position and place downward pressure on the rating. However, given Peel's current balance-sheet strength, we will assess the region's liquidity and revenues with the new debt and additional debt burden (that is, the principal and interest payments) as the region issues it.

In 2009, Peel's economy slowed even further from the sluggish pace of 2008, which is similar to the economies of many other municipalities. The unemployment rate rose to 10.8% from 6.6% the previous year, and above Ontario's 9.0%. Peel has exposure to the manufacturing sector. In 2009, employment in the sector decreased by 16,000 positions, to 16.8% of total employment, from 23.5% in 2004. The drop partially reflects the impact of a number of challenges that continue to affect the Canadian manufacturing sector, particularly the automotive industry. Peel's largest manufacturer, Chrysler LLC, filed for Chapter 11 bankruptcy in April 2009. After reorganization, it emerged under the name Chrysler Canada Inc., which as of January 2010 had 2,900 employees. This is down from the 4,300 the City of Brampton (AAA/Stable/--) plant employed as of May 2008. In addition, income support caseloads increased 28.5% in 2009. Except for 2007, they have risen every year since 2002.

Peel's construction sector also saw economic sluggishness. However, this partially reflects a maturing phase of the region's growth, as construction activities fell from 2002 peak levels. In 2009, building permit values declined 35%, following a 43% fall the previous year. Housing starts continued to retreat, by 49%; they have fallen an average of 10% a year since 2003. Even so, the region's tax assessment base, which directly drives its revenues, rose 7% in 2009, and has increased about 8% annually since 2003, although tax reassessments might have convoluted some of these figures.

Capital expenditures, liquidity, and debt

Peel's capital expenditure in 2008 was C\$435 million, or about 29% of total expenditures, which is similar to the previous year. The majority, about 46% went toward water and wastewater, down from 57% the previous year. Roads and transportation made up 20%. According to its capital plans for 2010-2019, Peel's expenditure will ramp up, peaking at C\$936 million in 2012.

Growth-related water and sewer projects will account for most of the expenditure, up to 68% by 2012. It will account for about 50% of the total 2010-2019 expenditures. About C\$216 million should be recovered from neighboring Regional Municipality of York (AAA/Stable/--), which Peel has partnered with, for a couple of these projects. In total, the region expects to recover about C\$400 million (or 8%) of its total expenditure during 2010-2019 from York and Peel's lower tier municipalities (Brampton, the Town of Caledon, and the City of Mississauga [AAA/Stable/--]).

Due to the economic slump, development charge (DC) revenues declined sharply, and were substantially below budget in both 2008 and 2009. Management also attributes this to DC rates that did not reflect rapid price increases in construction and construction materials. Peel could borrow from its reserves to fill this largely unforeseen gap. However, this would further erode its cash and liquid assets given that the region's reserves have already declined from funding replacement and renewal-related capital spending. But, prolonged internal borrowing is unsustainable.

Furthermore, much of the growth-related construction (mostly for water and sewer) is large-scale and must accommodate current and forecast population growth. The region has indicated that it must borrow for these projects and recover the associated DC revenues in the future, which would service the debt. We believe there could be some moderate medium-to-long-term risk related to DC revenues recovering from their current lower growth levels and from construction price indexes being revised lower, which would lower the DC rate. Our projections indicate that by 2012, Peel's debt could exceed its cash and liquid investment balances (excluding deferred revenues such as DCs), and the region could lose its net creditor position.

All of Peel's existing debt represents mortgages for social housing. The Social Housing Reform Act, 2000, transferred the ownership and responsibility for the administration of provincial public housing to Peel, as a local housing corporation. Although the region plans to expand its social housing units in a few years, it indicated that it would likely finance this through reserves and provincial money.

Not included in the debt ratios above are debentures issued for the Town of Caledon, at C\$20 million in 2008. Debentures issued by any lower tier municipality are direct, joint, and several obligations of the region and area municipalities within. Starting in 2013, Mississauga plans to debt-finance a small-but-increasing portion of its annual capital budget.

Outlook

The stable outlook reflects Standard & Poor's expectation that Peel's economy will not encounter a prolonged slump. This is particularly important given that the region's expected DC revenues are likely in part tied to economic performance, especially population, employment, and housing starts growth. The outlook also reflects our expectations that Peel will maintain strong cash and liquid investment balances and that its operating surpluses will not diminish significantly, helping to replenish some of the expected cash and investment draw-down. We also expect that the debt burden from significantly higher debt levels will be manageable and largely supported by DC revenues. Not meeting some of these expectations, or significantly greater-than-expected debt issuance, could lower the ratings.

Regional Municipality of Peel--Financial And Economic Statistics					
Financial statistics (%)	2008	2007	2006	2005	2004
Operating balance/operating revenue	18.9	16.1	16.8	15.9	15.9
After-capital expenditure balance/total revenue	1.9	(1.9)	(0.4)	(9.6)	(5.7)
Capital expenditure/total expenditure	28.5	29.1	30.1	35.7	33.6
Direct debt/operating revenue	26.4	30.7	33.5	38.7	42.4
Debt service/total revenue	2.5	1.6	1.9	2.1	2.5
Net direct debt*/operating revenue	(74.9)	(73.6)	(78.3)	(93.2)	(74.7)
Cash and committed facilities/operating expenditure	124.8	147.1	159.6	184.1	173.0
Economic statistics					
Population summary	% aged 14 years or younger¶¶	% aged 65 years or older¶¶	Median age¶¶		
Population	21	9	35.6		

Regional Municipality of Peel--Financial And Economic Statistics (cont.)

	2009	2008	2007	2006	2005
Total population	1,290,000	1,263,000	1,240,000	1,204,469	1,181,124
Population (% change)¶	2.1	1.9	3.0	2.0	N/A
Unemployment rate (%)	10.8	6.6	6.9	6.4	7.0
Assessment base (% change)§	7.1	7.5	1.6	2.7	15.2

*Direct debt minus cash and equivalents. ¶Annualized Statistics Canada data. §Includes both unit growth and market value changes. **2009 population figure are from the Financial Information Return. ¶¶Based on 2006 Census data. N/A--Not applicable.

Ratings Detail (As Of April 15, 2010)***Peel (Regional Municipality of)**

Issuer Credit Rating AAA/Stable/--

Issuer Credit Ratings History

29-Jul-2002	<i>Foreign Currency</i>	AAA/Stable/--
29-Mar-2001		AA+/Stable/--
17-Jan-1997		NR/--/--
29-Mar-2001	<i>Local Currency</i>	AAA/Stable/--
17-Jan-1997		NR/--/--
27-May-1994		AAA/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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