

Research Update:

Regional Municipality of Peel Ratings Affirmed At 'AAA' On Strong Economic And Financial Position

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Overview

- Peel has, in our view, a well-diversified and robust economy, strong-but-declining cash and reserve balances, and low-but-rising debt levels.
- We are affirming our 'AAA' long-term issuer credit and senior unsecured debt ratings on the Regional Municipality of Peel.
- The stable outlook reflects our expectation that Peel's economy will continue to rebound from the recession and that DC revenues will rise in order to adequately support the increasing debt load.

Rating Action

On June 29, 2011, Standard & Poor's Ratings Services affirmed its 'AAA' long-term issuer credit and senior unsecured debt ratings on the Regional Municipality of Peel. The outlook is stable.

Rationale

The ratings on Peel, in the Province of Ontario (AA-/Stable/A-1+), reflect Standard & Poor's opinion of the region's well-diversified and robust economy and strong cash and reserve balances, although we expect that these balances are likely to decline in the near term. The ratings also reflect currently low debt levels that we expect to rise substantially in the near-to-medium term and operating performance that has weakened in recent fiscal years.

Peel, containing the lower tier municipalities of the City of Brampton (AAA/Stable/--), the Town of Caledon (not rated), and the City of Mississauga (AAA/Stable/--), is located on the western edge of the Greater Toronto Area (GTA) and has a population approaching 1.3 million. The region benefits from extensive transportation links, including Canada's largest airport, two national rail lines, and a network of Canada's largest highways that fully integrate it with the large employment base of the GTA and allow its highly export-oriented economy to access further markets.

Despite this, Peel was not immune to the recent recession. Peel's economy was hampered throughout 2008 and 2009, similar to other municipalities, particularly those with large manufacturing bases. The unemployment rate in those years was 6.7% and 10.8%, respectively, the former of which was higher than the provincial average. Signs of recovery were evident in 2010 with the

unemployment rate falling slightly to 9.9%. The total value of building permits rose almost 53% in 2010, with significant growth in residential permits, and continued to grow through the first quarter of 2011. 2010 was subsequently the first year since 2002 that saw an increase in housing starts, which rose 14%. This in turn has led to a modest increase in construction employment although this has yet to return to pre-recession levels.

Peel has maintained excellent liquidity levels although these have declined over the past two years. At Dec. 31, 2010, total free cash and liquid assets (Standard & Poor's adjusted) totaled 79% of operating expenditures during the year, down from 115% in 2008. Although this ratio compares favorably against that of many of Peel's similarly rated international and domestic peers, it has fallen consistently since 2003. The region expects that development charge (DC) reserve balances will continue to decrease in the near term to fund the front-loaded, growth capital plan but that they will recover in the medium term as development continues to ramp back up.

Peel's low debt levels historically have significantly enhanced its credit profile, although debt increased substantially in 2010 when the region issued C\$310 million in debt. This increased Peel's direct debt as a proportion of operating revenues to 42% in 2010 from 24% in 2009. Peel has also issued an additional C\$267 million so far in 2011 and about C\$457 million of these combined debentures were issued to fund the capital program whereas prior to 2010, all of the region's debt was associated with social housing and had been declining since 2001. Interest costs were 1.7% of operating revenues in 2010 and we expect that they will remain manageable at about 3.0%-4.0% of operating revenues over the next two years.

Outlook

The stable outlook reflects Standard & Poor's expectation that Peel's economy will continue to rebound from the recession such that DC revenues will rise in order to adequately support the increasing debt load. It also reflects the expectation that Peel will maintain strong cash and liquid investment balances, operating surpluses do not decline further, and that after-capital deficits do not increase further than currently forecasted. Downward pressure could be placed on the ratings if Peel issued more debt than expected or operating revenue growth is slower than forecast. A significant decline in liquidity levels could also result in a downgrade or a revision of the outlook to negative.

Related Criteria And Research

Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

Ratings List

Peel (Regional Municipality of)

Ratings Affirmed

Issuer credit rating

AAA/Stable/--

Senior unsecured

AAA

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