MOODY'S INVESTORS SERVICE

CREDIT OPINION
8 August 2023

Update

Send Your Feedback

RATINGS

Peel, Regional Municipality of

Domicile	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.

Contacts

Adam Hardi, CFA +1.416.214.3636
Vice President-Senior Analyst
adam.hardi@moodys.com

Seun Ayo-Elijah, CFA +1.416.214.3062
Associate Analyst
seun.ayo-elijah@moodys.com

Michael Yake +1.416.214.3865
Associate Managing Director
michael.yake@moodys.com

Marie Diron +44.20.7772.1968
MD-Global Sovereign Risk
marie.diron@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

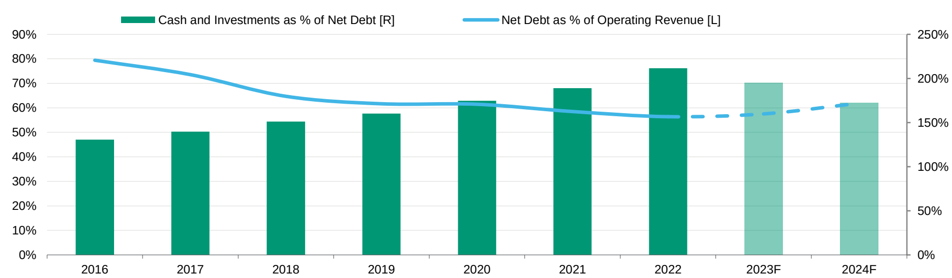
Regional Municipality of Peel (Canada)

Update following rating affirmation

Summary

The credit profile of the Regional Municipality of Peel (Aaa stable) reflects our view that significant bondholder protections remain despite recent legislative changes leading to the dissolution of Peel effective 1 January 2025. These bondholder protections include the joint and several obligations of all regional municipalities for the debentures, the equal ranking of municipal debentures to each other, and excellent liquidity levels. We expect that as part of the dissolution process, the Province of Ontario (Aa3 positive) will seek to maintain an orderly transition and will ensure some form of an equitable distribution of regional services, revenues and assets and liabilities. Peel's credit profile also reflects favourable economic trends which contribute to strong fiscal results. The region also maintains strong debt affordability and a low debt burden. Pressures arise from the current uncertainty regarding a range of restructuring matters related to the dissolution, high levels of capital spending, and operating pressures from cost escalation and provincial changes to development charges.

Exhibit 1
Peel's credit profile is supported by a low debt burden and ample liquidity coverage of debt



Sources: Regional Municipality of Peel and Moody's Investors Service

Credit strengths

» Robust bondholder protections remain despite the initiation of Peel's dissolution

» Excellent liquidity holdings provide additional bondholder security

» Continued strong revenue raising potential, supportive economic growth, and strong governance

» High debt affordability and modest debt levels

Credit challenges

» Operating pressures from cost escalation and provincial changes to development charges

Rating outlook

The outlook is stable which reflects our view that stable revenue sources and continued favourable economic fundamentals will support strong fiscal results and high levels of liquidity. The stable outlook also reflects Moody's assumption that the significant bondholder protections currently in place will not be materially impacted by the dissolution process.

Factors that could lead to a downgrade

A material rise in the debt burden above our current projections, along with a significant decline of liquidity, or a material weakening in operating results would put downward pressure on the region's rating. New developments during the dissolution process that would cause us to materially revise our current assumptions on bondholder protection could also lead to a rating downgrade.

Key indicators

Exhibit 2
Regional Municipality of Peel

Year ending 12/31	2019	2020	2021	2022	2023F	2024F
Net Direct and Indirect Debt/Operating Revenue (%)	61.7	61.5	58.5	56.4	57.5	61.9
Gross Operating Balance/Operating Revenue (%)	11.9	14.9	14.0	12.3	12.9	13.5
Cash Financing Surplus (Requirement)/Total Revenue (%)	5.8	8.5	9.9	10.0	8.6	8.6
Interest Payments/Operating Revenue (%)	2.7	2.7	2.6	2.4	2.3	2.4
Debt Service/Total Revenue (%)	3.1	3.0	8.8	2.6	3.9	3.8
Capital Spending/Total Expenditures (%)	22.4	22.2	16.9	21.4	18.9	18.0
Self-Financing Ratio	1.3	1.5	1.7	1.6	1.5	1.5

Sources: Regional Municipality of Peel and Moody's Investors Service

Detailed credit considerations

On August 3, 2023, we affirmed Peel's aaa baseline credit assessment (BCA) and Aaa senior unsecured debt ratings, with a stable outlook.

The credit profile of Peel, as expressed in its Aaa stable rating, reflects a BCA of aaa for the region and the likelihood of extraordinary support coming from the Province of Ontario in the event that the region faced acute liquidity stress.

Peel is located west of the City of Toronto (Aa1 stable), and is part of the Greater Toronto Area (GTA), Canada's largest industrial and commercial center. Peel's service-based industry mostly comprises businesses in the transportation, warehousing, real estate and professional services sectors and is benefited by a highly developed transportation network that connects local businesses to markets in southwestern Ontario and the United States. The region incorporates the City of Mississauga, the City of Brampton and the Town of Caledon. Peel has a population of approximately 1.5 million that has grown significantly over the last decade, with international immigration accounting for a significant proportion of total growth.

Recent developments regarding Peel's dissolution and related uncertainties

The Province of Ontario recently introduced legislation (Bill 112) that will dissolve the two-tier region of Peel and make the City of Mississauga, the City of Brampton and the Town of Caledon that currently comprise the region as independent single-tier municipalities effective Jan 1, 2025.

In July 2023, the province also appointed a five-member transition board to make recommendations on a range of restructuring matters related to the dissolution, although there have been no substantive decisions / recommendations made at this stage. As a result, there is uncertainty regarding a range of restructuring matters related to the dissolution, including on the continued provision of services and how the region's assets and liabilities will be divided.

Baseline credit assessment

Robust bondholder protections remain despite the initiation of Peel's dissolution

Despite the dissolution process, we believe that significant bondholder protections will remain, including the joint and several obligations of municipalities for the debentures, the equal ranking of municipal debentures to each other, and our view that the Province of Ontario will seek to maintain an orderly transition during the dissolution.

Under the Ontario municipal act (2001), all debentures issued by a regional municipality are the direct, joint and several obligations of the regional municipality and its lower-tier municipalities. In our view, it is most likely that current joint and several obligations that are currently shared between the region and the underlying municipalities will become the joint and several obligations of independent municipalities of Mississauga, Brampton and Caledon.

The Ontario municipal act also stipulates that all municipal debentures rank equally to each other, and as a result we do not believe that current Peel debenture holders would be disadvantaged in terms of priority ranking relative to future bonds issued by the municipalities.

Further, the new legislation requires that all four governments of Peel (the regional government and three current lower-tier municipalities) adjust new transactions and commitments so that they do not unreasonably affect another municipality. We also expect that the province will seek to maintain an orderly transition, including ensuring continued protections for existing debenture holders, in order to minimize any capital market disruptions and potential reputational damage to the province.

Excellent liquidity holdings provide additional bondholder security

Peel's conservative budgeting practices and its track record of strong performance have allowed it to build up sizeable reserves which provide a large financial cushion against fiscal pressures. We expect that as part of the dissolution process, the province will ensure some form of an equitable distribution of regional assets and liabilities, including its significant accumulated debenture sinking funds (CAD413 million at year-end 2022). When combined with the existing liquidity of the constituent municipalities, which we currently do not factor into our liquidity calculation, these levels will provide continued strong bondholder protections.

The region's liquidity includes rising levels of cash and investments which reached CAD3.3 billion at year-end 2022 and covered 2.1x net direct and indirect debt and 1.4x operating expenditures. These levels are in line with the liquidity metrics of Aaa-rated Canadian municipalities, and exceed the liquidity levels of most Aaa-rated global municipal peers.

Over the last decade, the region has emphasized preserving liquidity against debt balances, expenditure increases related to general cost inflation, multi-year labour contracts, resulting in the highest cash and investment balances at end of the 2022 since 2011.

Continued strong revenue raising potential, supportive economic growth, and strong governance

Revenues at the regional and municipal level remain largely protected from market events given the stability of revenue sources including property taxes and user fees (these account for close to 60% of Peel's total revenue). Despite the dissolution of Peel, we do not expect that the collective revenue raising ability of new single-tier municipalities will be negatively impacted post-dissolution. Similar to our view on the distribution of regional assets and liabilities, we expect that the majority of the region's revenue raising potential will be redistributed among Mississauga, Brampton and Caledon.

The region and its constituent municipalities also benefit from high immigration levels and a strong economy despite slower projected growth for 2023 and 2024, and a consistent growth of a diversified service-based industry. As a result, we expect that the region will be able to maintain strong financial outcomes in line with historical trends, with gross operating balances averaging 13.4% of revenue between 2018 and 2022.

Peel's operating results are also supported by strong governance and management including transparent and timely fiscal reporting, similar to other highly rated municipalities in Ontario. Although the lack of clarity about how shared services would be reallocated following Peel's dissolution (or what other specific changes of regional responsibilities will be proposed) creates governance uncertainty for the region, the region's long-term operating and capital planning reflect going concern budgeting since it will need to continue providing regional services benefitting the lower-tier municipalities despite the dissolution. In our view, Peel has significant capacity to reduce or adjust operating revenues and spending and modify capital plans as necessary.

High debt affordability and modest debt levels

The region issues debt for its own purposes as well as on behalf of its lower-tier municipalities which currently must borrow long-term debt through the region. The majority of Peel's debt is issued for financing regional water and wastewater infrastructure, with approximately 85% of outstanding debt constituting regional debt, and 15% constituting debt on behalf of lower-tier municipalities. Although at this time the distribution of the region's long-term debt post-dissolution is uncertain, we expect that the liabilities – and its assets - will be divided proportionally between the municipalities.

The region benefits from high debt affordability and modest levels of debt. The region maintains a prudent debt management strategy, including a low reliance on short-term debt financing and maintaining limits on debt servicing costs (provincially capped at 25% of revenue). The debt maturity profile is well distributed, with predictable and manageable debt maturities. Net direct and indirect debt measured 56.4% of operating revenue in 2022, a consistent decline since 2013.

In recent years, the region has aimed to limit its reliance on long-term debt financing for its long-term capital plans, with relatively low levels of debt financing projected as it often prioritizes other funding sources, including reserves or pay-as-you-go capital financing. We expect that during the dissolution process the region will continue its practice of issuing some debt to fund capital projects, but look at alternative funding sources including internal liquidity to minimize debt issuance.

The region's debt affordability is also very strong, with interest expense measuring 2.4% of operating revenue in 2022. We expect that controlled debt increases will curb material increases in the interest burden.

Operating pressures from cost escalation and provincial changes to development charges

Peel's need to fund growth and maintenance infrastructure on a going concern basis will retain pressure on capital spending and on securing funding, especially as we project that labour and material costs will remain elevated in 2023 and part of 2024. At the same time, continued population growth over the next decade for the region and its constituent municipalities will be a key driver of infrastructure spending.

While the region benefits from multi-year collective agreements with the majority of its labour force, we anticipate upward pressure on salary demands and therefore on regional spending as these contracts expire. We expect that collective agreements negotiated during the dissolution process may incorporate some form of successorship provisions that will allow these contracts to survive and become contracts with the single-tier municipalities.

The province also made legislative changes in November 2022 restricting local governments' ability to impose development charges on certain projects, in order to encourage multi-unit projects and affordable housing. The region estimates the total impact of these changes could amount to CAD200 million in lost revenue annually over the next 10 years, although the province has indicated that it may compensate municipal governments for lost revenues due to this change.

Extraordinary support considerations

While Peel's BCA of aaa already places the region in the Aaa rating bracket, we also consider the likelihood of extraordinary support coming from the Province of Ontario to prevent a default by Peel. Moody's assigns a high likelihood of extraordinary support based on our assessment of the risk to the province's reputation as a regulator of municipalities and incentive for the provincial government to minimize the risk of potential disruptions to capital markets if Peel, or any other municipality were allowed to default.

ESG considerations

Peel's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3
ESG Credit Impact Score

CIS-2
Neutral-to-Low

NEGATIVE IMPACT
POSITIVE IMPACT

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

Peel'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 4
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-2** issuer profile score (IPS) reflects an absence of material exposure to environmental risks. The region is not exposed to significant climate risks and neither spending nor revenue are materially impacted by environmental changes. In addition, green and sustainability initiatives are in place to improve urban design and reduce carbon emissions, as evidenced by the region's plan to reduce GHG emissions by 2030 to 45% below 2010 levels.

Social
Peel's **S-2** IPS reflects low exposure to social risks. 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.

Governance
The **G-1** IPS reflects Peel's very strong budget and fiscal management practices and strong institutional framework. The region is subject to balanced budget legislation and utilizes prudent financing planning giving a forward-looking view to potential 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).

For details of our rating approach, please refer to the methodology Regional and Local Governments, 16 January 2018.

Exhibit 5

Regional Municipality of Peel

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	104.39%	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				**1.75**	**30%**	**0.53**
Operating Margin [2]	1	13.13%	12.5%			
Interest Burden [3]	3	2.46%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	3	56.40%	25%			
Debt Structure [5]	1	3.50%	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						**1.79 (2)**
Systemic Risk Assessment						**Aaa**
Suggested BCA						**aa1**
Assigned BCA						**aaa**

[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 2022.

Ratings

Exhibit 6

Category	Moody's Rating
PEEL, REGIONAL MUNICIPALITY OF	
Outlook	Stable
Senior Unsecured -Dom Curr	Aaa

Source: Moody's Investors Service

REPORT NUMBER 1375990

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454