Research Update:

Regional Municipality of Peel 'AAA' Ratings Affirmed Amid Dissolution; Outlook Remains Stable

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Overview

- The Hazel McCallion Act (Bill 112) dissolving the Regional Municipality of Peel has no immediate impact on the region's credit quality, in our view.
- We think the region's prudent financial management and track record of strong fiscal performance will continue to support the rating, even with the uncertainty about dissolution and the impact of recent changes to Ontario cities' ability to fund themselves with development charges.
- We will continue to view the region as a going concern until dissolution is complete.
- We affirmed the 'AAA' rating on the region and maintained the stable outlook.

Rating Action

On Sept. 25, 2023, S&P Global Ratings affirmed its 'AAA' long-term issuer credit rating on the Regional Municipality of Peel. The outlook remains stable.

Outlook

The stable outlook reflects our expectation that the region's credit profile will continue to benefit from its growing tax base and strong financial management, despite a reduced ability to collect development charges (DC) to fund capital works. Uncertainty about the loss of development revenue creates the potential for additional pressure on budgetary performance and flexibility, but that is not currently our base-case expectation.

The stable outlook also reflects our expectation that the region's successors (the lower-tier municipalities) will continue to pay the region's outstanding debt without interruption post-dissolution.

Downside scenario

We could lower the rating if the region's budgetary performance and flexibility were to deteriorate significantly--for example, if it were unable to make up for the loss of DC revenue with corresponding tax or utility rate increases. We could also lower the rating if we were to perceive a significant deterioration in management's ability to manage or respond to the dissolution or other legislated changes.

Rationale

A robust economic rebound in 2022 has positioned the Peel region well for slowing growth this year and next. We believe the region's prudent financial management and planning practices will continue to support positive financial performance and extremely strong liquidity, although we expect pressure on budgetary flexibility and cash reserves as a result of reduced DC revenue. We do not forecast significant changes in the region's overall debt burden prior to dissolution.

Strong management and a stable economic base will allow the region to manage through dissolution

On June 6, 2023, the Ontario government passed the Hazel McCallion Act (Bill 112), which will dissolve the Regional Municipality of Peel effective Jan. 1, 2025, and make Brampton, Caledon, and Mississauga single-tier municipalities. The province has appointed a five-member transition board to provide recommendations to the minister of municipal affairs and housing regarding the changes to the municipalities.

In our opinion, the Peel region's strong financial management policies and practices, including its track record of planning and managing for change, will support its very strong credit quality through the transition. We believe that elevated turnover in key staff and administrative functions increases management and execution risk; however, we consider that the region's well-established management policies and experienced staff mitigate that risk over the next two years.

We expect that the region will continue to operate as a going concern until dissolution is final, and we consider that the process could take longer to complete than the timeline set forth in legislation. Debt issued by the Peel region is a joint and several obligation of the region and lower-tier municipalities, and we understand that the region acts as a paying agent for all the debt. We anticipate that the region's successor(s) will continue payments without disruption; however, some uncertainty remains about how the debt will be administered post-dissolution. We will evaluate post-dissolution payment arrangements for additional administrative or credit risks associated with the jointly supported obligations.

As the broader Canadian economy slows, we expect that Peel's economy will face a similar slowdown in the medium term. Its emphasis on manufacturing, trade, and logistics could expose it to slowing U.S. growth more than peers, although we believe that there could be upside for the auto sector in the long term as demand and investment in electric vehicles continue to grow.

We expect that a growing population and shrinking labor force will increase service needs throughout the region. Peel's business sector and tax base face some risks related to shifting work and commute patterns, although we consider that the region's trade and manufacturing orientation somewhat offsets exposure to declining values in the office sector.

Like other Canadian municipalities, the Peel region benefits from an extremely predictable and supportive local and regional government framework. It has high institutional stability and systemic extraordinary support in times of financial distress. Through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses.

Although provincial governments mandate a significant proportion of municipal spending, they also provide operating fund transfers and impose fiscal restraint through legislative requirements to pass balanced operating budgets. Municipalities generally can match expenditures well with revenue and maintain high reserves to fund capital spending.

Financial performance will remain strong even as economic activity slows, while the dissolution and housing legislation could soften borrowing expectations

Despite slower growth and increasing wage pressure through 2024, we expect that Peel will continue to post strong operating surpluses and moderate surpluses after capital expenditures over the next two years. In 2023, the region implemented the highest net increase in tax levies that it has ever approved (6.7%) to ensure that revenue remains in line with expenditures.

The region's capital spending plan projects increases in the next two years that are related to investment in the Peel Regional Police and in housing. We believe the region's flexibility to reduce or delay some capital spending will enable it to respond in the short term to any reductions in DC. Still, uncertainty regarding both the dissolution and the impact of legislation limiting Ontario municipalities' ability to collect development charges to finance growth (Bill 23) could dampen or delay growth-related investments compared with the current long-term capital plan.

We project tax-supported debt will grow to just over 60% of revenue in 2025 from 54% in 2023, driven primarily by borrowing on behalf of lower-tier municipalities. Excluding on-lent debt, we see the region's debt burden as being closer to 40% in 2025.

We believe Peel will continue to develop and execute budgets that meet regional and provincial priorities and preserve financial sustainability. We expect it will adapt its capital and borrowing plans as needed to respond to the uncertainty surrounding the dissolution and to the changes in its revenue-generating capacity.

Meanwhile, the province's accelerated housing targets are putting pressure on the region to increase housing-related investment even as the region's ability to fund housing-enabling infrastructure is reduced. The province has promised to make municipalities whole for their ability to fund housing-enabling infrastructure, although it has not yet clarified how it will do so.

We consider that the impact of Bill 23 could affect the region's ability to collect and reserve development charges in the future. Still, we expect that it will maintain very strong liquidity, in excess of 100% of the next 12 months' debt service. As of December 2022, available cash and investments totaled C$2.3 billion. We consider the region's access to capital markets and domestic bank financing to be strong, and we think that access to financing will not weaken materially as a result of the dissolution process.

Key Statistics

Table 1

Regional Municipality of Peel--Selected indicators

	--Year ended Dec. 31--					
(Mil. C$)	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	2,449	2,678	2,706	2,836	2,974	3,115
Operating expenditures	2,033	2,225	2,304	2,432	2,543	2,671
Operating balance	417	453	402	404	431	444
Operating balance (% of operating revenue)	17.0	16.9	14.9	14.2	14.5	14.3
Capital revenue	284	331	395	423	423	358
Capital expenditures	559	453	591	551	685	579
Balance after capital accounts	141	332	206	276	169	223
Balance after capital accounts (% of total revenue)	5.2	11.0	6.7	8.5	5.0	6.4
Debt repaid	111	230	115	121	128	144
Gross borrowings	200	248	73	153	230	640
Balance after borrowings	230	350	164	308	271	719
Direct debt, outstanding at year-end	1,609	1,618	1,578	1,535	1,561	1,964
Direct debt (% of operating revenue)	65.7	60.4	58.3	54.1	52.5	63.1
Tax-supported debt, outstanding at year-end	1,609	1,618	1,578	1,535	1,561	1,964
Tax-supported debt (% of consolidated operating revenue)	65.7	60.4	58.3	54.1	52.5	63.1
Interest (% of operating revenue)	3.1	2.6	2.7	3.0	3.3	4.2
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	58,139	65,651	71,478	72,770	74,307	76,101

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable.

Ratings Score Snapshot

Table 2

Regional Municipality of Peel--Ratings score snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	1

Table 2

Regional Municipality of Peel--Ratings score snapshot (cont.)

Key rating factors	Scores
Budgetary performance	1
Liquidity	1
Debt burden	2
Stand-alone credit profile	aaa
Issuer credit rating	AAA

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published July 15, 2019, we explain the steps we follow to derive the global-scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

- Sovereign Risk Indicators, July 10, 2023. An interactive version is available at www.spratings.com/sri

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook Canada Q3 2023: A First-Half Resurgence Will Give Way To An Inevitable Slowdown, June 26, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- Comparative Statistics: Local And Regional Government Risk Indicators: Canadian LRGs' Buoyant Fiscal Performance Will Persist Despite High Inflation And Near-Term Headwinds, Sept. 20, 2023

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the

Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Peel (Regional Municipality of)	
Issuer Credit Rating	AAA/Stable/--
Peel (Regional Municipality of)	
Senior Unsecured	AAA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.