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CREDIT OPINION
31 August 2020

Update

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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.

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Regional Municipality of Peel (Canada)

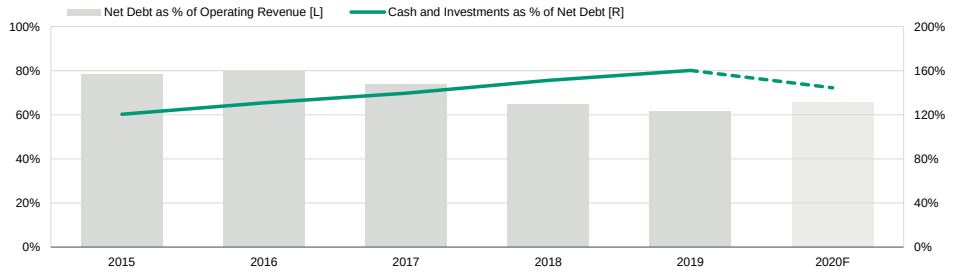
Update to credit analysis

Summary

The credit profile of the Regional Municipality of Peel (Aaa stable) reflects excellent liquidity, a diverse and robust economy and a very strong governance framework supported by prudent financial management practices. The region's healthy economic base and diversification provide a cushion against near-term pressures related to the coronavirus pandemic. Peel records high levels of cash and investments and a growing tax base which support its fiscal flexibility. The credit profile is challenged by high capital spending to support the needs of a growing population. We expect Peel will be able to manage these pressures through a combination of property tax and user fee increases, reserve drawdowns, and government transfers.

Exhibit 1

A low debt burden and strong liquidity support Peel's credit profile despite a modest weakening in 2020



Source: Moody's Investors Service, Peel's financial statements and 2020 operating budget

Credit strengths

» Robust economy and population growth support strong fiscal results

» Excellent liquidity profile

» Strong debt affordability supported by prudent debt management

» Strong governance within a supportive institutional framework

Credit challenges

» High capital spending driven by population growth

Rating outlook

The outlook is stable, reflecting our expectation of continued strong operating results, high debt affordability and excellent liquidity.

Factors that could lead to a downgrade

A material rise in the debt burden, a significant depletion of liquidity sources (cash and investments), or a material weakening in operating results would put downward pressure on the region's rating.

Key indicators

Exhibit 2
Regional Municipality of Peel
Year ending 12/31

Peel, Regional Municipality of	2014	2015	2016	2017	2018	2019
Net Direct Debt/Operating Revenue (%)	83.8	78.2	79.4	73.6	64.7	61.7
Gross Operating Balance/Operating Revenue (%)	8.4	10.6	10.7	9.0	14.0	11.9
Cash Financing Surplus (Requirement)/Total Revenue (%)	1.1	(1.2)	8.1	5.7	6.8	5.8
Interest Payments/Operating Revenue (%)	3.7	3.4	3.2	3.2	2.8	2.7
Debt Service/Total Revenue (%)	4.0	3.8	3.8	3.7	3.4	3.1
Capital Spending/Total Expenditures (%)	26.7	32.3	20.9	20.5	23.9	22.4
Self-Financing Ratio	1.1	1.0	1.5	1.3	1.3	1.3

Source: Moody's Investors Service, Peel Financial Statements

Detailed credit considerations

The credit profile of Peel, as expressed in its Aaa stable rating, reflects a baseline credit assessment (BCA) of aaa for the region and the likelihood of extraordinary support coming from the Province of Ontario (Aa3 stable) in the event that the region faced acute liquidity stress.

Baseline credit assessment

Robust economy and population growth support strong fiscal results

The region benefits from a strong economy and the consistent growth of its diversified service-based industry which is favoured by a comprehensive transportation network. Increased economic activity will be supported by a population that is expected to grow at a faster pace than the provincial average over the long term. These robust economic fundamentals will shelter the region from coronavirus-related and long-term fiscal pressures by prompting growth in predictable revenues like property taxes and user fees. These revenue sources, which account for nearly 60% of Peel's total revenue, have increased at an average annual rate of 4.5% over the past 5 years and will drive the majority of future revenue growth.

In line with the region's estimates, we project Peel's 2020 operating deficit to be CAD6 million or 0.2% of operating revenue. This largely reflects increased costs which are required to support the response to the coronavirus pandemic as the region's service portfolio includes long term care, paramedic services, public health, child care, housing support and homelessness. The deficit is also impacted by the waiving of waste management fees and the deferral of property tax collections. These effects are offset by savings of CAD28 million, increased residential water revenues of CAD11 million and federal transfers of CAD13 million. We have also incorporated an additional transfer of CAD28 million that is expected to be received from the federal government under its coronavirus support program for the region. Overall, we project that the impact of the pandemic on Peel's operations will be primarily contained to 2020 without material long-term credit implications.

The region, along with other Ontario municipalities, also faces manageable pressures related to changes in certain provincial transfers and funding structures, including cost sharing arrangements between the province and the region for public health and childcare, and the funding of certain programs and services. Included in the changes are the timing of when development charges (DCs) are payable. While this may impact the timing and level of debt requirements for Peel in the short and medium-term, we expect that the long-term impact will be broadly neutral.

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 by around 1.5% per year between 2009 to 2019, with international immigration accounting for a significant proportion of total growth. The province recently revised the region's population growth target to 2.05 million by 2041, a 4% increase.

Excellent liquidity profile

The region's track record of strong performance has lead to the accumulation of healthy reserve balances. This will give the region flexibility to manage planned expenditure increases related to general cost inflation, multi-year labour contracts and provincial funding changes as well as unexpected costs such as those stemming from the coronavirus pandemic. Peel's conservative budgeting practices will continue to support the region's ability to maintain sizeable reserves that provide a large financial cushion against potential funding shortfalls.

Reserves and reserve funds totaled CAD2.1 billion, or 98% operating expenses for 2019. While some liquidity sources are earmarked as reserves for specific purposes and may not be readily available in a short time, they represent a source of liquidity if needed.

Beyond 2020 we expect Peel to maintain a robust liquidity profile, based on continued strong gross operating balances and growth in reserves. The region's cash and investments reached CAD2.4 billion at the end of 2019, reflecting a growth of 29.6% over the last five years. Cash and investments covered around 160% of net direct and indirect debt in 2019, the highest coverage rate since 2010.

Strong debt affordability supported by prudent debt management

The region also 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). Continued low interest rates also contribute to Peel's strong debt affordability, resulting in a low interest burden (interest payments to operating revenue) of 2.7% in 2019, down from a high of 4.1% in 2013. We expect that the interest burden will remain less than 3% of revenue over the next three years as a result of declining debt and continued low interest rates.

The region also limits its reliance on long-term debt financing for its capital plans. For its 2020-2029, CAD9.4 billion capital plan, debt financing will be limited to 3% of funding needs.

Strong governance within a supportive institutional framework

Peel's operating results are supported by strong governance and management, similar to other highly rated municipalities in Ontario. Peel's forward-looking planning allows it to identify a variety of ways to mitigate the effects of the pandemic, including reducing or adjusting operating spending and modifying long term capital plans and deferring capital spending as necessary. With a history of meeting fiscal targets, the region adheres to conservative debt and investment management policies, thus limiting exposure to market-related risks. These fiscal management measures are also supported by comprehensive, transparent and timely fiscal reporting.

The region utilizes prudent and forward-looking fiscal policies and 10-year capital plans, which are updated annually. This allows pressures to be identified early on, supporting the generation of positive results and utilization of pay-as-you-go and other financing approaches for capital projects during a period of consistent population growth. The region augments these projections with other long-term forecasting to identify other areas of pressure, including a 20-year rate-supported capital plan to assess capital reserve adequacy.

Peel's creditworthiness also benefits from the stability inherent in the provincial institutional framework. Despite the noted changes in provincial cost-sharing arrangements, provincial legislation dictates a high degree of oversight, while the region maintains significant flexibility to manage pressures through its operating and capital budgets.

High capital spending driven by population growth

Similar to other municipalities that have experienced periods of high population growth, the region will continue to face financial pressures from elevated capital expenditures. Steady population growth in the region over the next 10 years will lead to increased demand for governmental services and infrastructure, putting financial pressure on the budget and capital plan. Nevertheless, the

region's long-term planning strategy supports it in addressing these challenges through a combination of property tax increases, development charges, reserves and debt financing.

The region's current 10-year, CAD9.4 billion capital plan for 2020-2029 includes significant infrastructure spending to meet the needs of a growing population. The capital plan will primarily support water, wastewater and transportation initiatives and with the region's expectation that it will be funded almost entirely from reserves (46%) and development charges (45%). The reliance on debt financing will be limited, at only around 3% (CAD282 million) of the capital plan.

A pandemic-related slowdown and delay in construction activity will dampen DC revenues in 2020 and 2021. Nevertheless, the region is currently reviewing DC-funded capital projects in order to maintain financial flexibility, with some projects potentially reduced in scope or deferred to future years. This will reduce related spending in the early years of the capital project and align it with updated revenue expectations.

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

How environmental, social and governance risks inform our credit analysis of Peel

Moody's takes into account the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Peel, we assess the materiality of ESG to the credit profile as follows:

Environmental considerations are not material to the credit profile and risk is therefore low. The region's infrastructure and economic base are not subject to material risks stemming from environmental concerns. As a result, neither spending nor revenue are expected to be materially impacted by environmental changes at this time.

Social risks are low and not material to the credit profile. The region provides public emergency services including police and paramedic, but these services do not face material risks given predictable demographic trends which allows for long-term forecasting of service requirements. We regard the coronavirus outbreak as a social risk given the implications for public health, however the credit impact from the pandemic is low as the majority of related expenses are the responsibility of the province and not the region.

Governance considerations are material to the credit profile, but overall governance risk is low. Peel exhibits very strong governance characteristics which leads to a low risk level. The region utilizes prudent financing planning which enables it to identify potential pressures early on and 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.

Further details are provided in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks.

Rating methodology and scorecard factors

The assigned BCA of aaa is close to the scorecard-indicated outcome of aa1. The scorecard-indicated outcome 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 about our rating approach, please refer to Rating Methodology: Regional and Local Governments published January 2018.

Exhibit 3

Regional Municipality of Peel

Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Scorecard						
Factor 1: Economic Fundamentals						
Economic strength	5	98.56	70%	3.8	20%	0.76
Economic volatility	1		30%			
Factor 2: Institutional Framework						
Legislative background	1		50%	1	20%	0.20
Financial flexibility	1		50%			
Factor 3: Financial Performance and Debt Profile						
Gross operating balance / operating revenues (%)	1	12.09	12.5%	1.75	30%	0.53
Interest payments / operating revenues (%)	3	2.80	12.5%			
Liquidity	1		25%			
Net direct and indirect debt / operating revenues (%)	3	61.70	25%			
Short-term direct debt / total direct debt (%)	1	4.40	25%			
Factor 4: Governance and Management						
Risk controls and financial management	1			1	30%	0.30
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						**1.79(2)**
Systemic Risk Assessment						**Aaa**
Suggested BCA						**aa1**

Source: Moody's Investors Service

Ratings

Exhibit 4

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

Source: Moody's Investors Service

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