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Research Update:

Regional Municipality of York 'AAA' Ratings Affirmed On Strong Economy And Liquidity; Outlook Stable

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Overview

- We are affirming our 'AAA' long-term issuer credit and senior unsecured debt ratings on the Regional Municipality of York.
- In our view, York has a highly diversified, dynamic economy that is well-integrated within the broader economy of the Greater Toronto Area.
- The region also has what we consider to be strong liquidity.
- The stable outlook reflects our expectation that the region's debt burden will not exceed capital-plan projections.

Rating Action

On May 26, 2011, Standard & Poor's Ratings Services affirmed its 'AAA' long-term issuer credit and senior unsecured debt ratings on the Regional Municipality of York, in the Province of Ontario (AA-/Stable/A-1+). The outlook is stable.

Rationale

The ratings on York reflect Standard & Poor's assessment of the following factors:

- York has a highly diversified, dynamic economy that is well-integrated within the broader economy of the Greater Toronto Area. The region has witnessed what we consider to be a prolonged period of rapid population growth and commercial development that have raised its total taxable assessment base a remarkable 42% from 2000-2010 (excluding market value reassessments). It also fared well through the global economic slowdown, since it maintained population and job growth, albeit at below-historical rates. In our view, York's diversification across business sectors, and diminishing reliance on manufacturing, should provide an element of economic stability in the medium term.
- The region has what we consider to be strong liquidity. We estimate it had free cash and liquid investments equal to about 330% of projected 2011 debt service as of April 30, 2011. It also had access to about C$500 million in development charge (DC) reserves, which it could access to address near-term liquidity demands. Moreover, we believe it maintains very strong access to the capital markets. Although the region continues to face significant cost pressures, we think its adherence to internal policies governing capital reserves should provide support to its liquidity in the medium term.

- We think York has posted sound operating results despite sustained cost pressures due to rapid economic development. Its operating surplus averaged 10% of operating revenues from 2006-2009, although it was 4% in 2009. The region has relied on DCs, other growth-related revenues, strict cost control, and savings from provincial uploading to address strong demand for new and expanded municipal soft services and infrastructure. We believe its continued focus on cost control should keep its operating margin sound in the near term.

The following factors partially offset these strengths:

- York continues to have a high debt burden relative to those of other 'AAA' international local and regional governments. We estimate its tax-supported debt stood at about C$1.3 billion at the end of 2009, or about 106% of consolidated operating revenues. We also estimate its debt could reach 117% of consolidated operating revenues by 2011, as it plans to continue using debentures to finance significant growth-related capital expenditures. Nevertheless, the forecast is in line with what we foresaw last year.
- We believe York's need to install certain infrastructure (such as water mains) ahead of development exposes it to an element of economic risk. For instance, a sharp cooling in the housing market could produce slower-than-expected development activity and, in turn, a temporary shortfall in DC collections, which the region expects to use to fund about three-quarters of its outstanding debt in 2011. In such circumstances, we think the region might have to temporarily redirect property tax revenues or other funds to help service DC-backed debentures, which could hinder its budgetary flexibility. However, we assume York would defer growth-related projects in response. We also understand the region will maintain a DC reserve balance equal to at least one years' worth of principal and interest on DC-backed debt. We further understand York could update its DC background study to incorporate sudden economic changes into its capital plans and DC rates if necessary.

Outlook

The stable outlook reflects our expectation that the region's debt burden will not exceed capital-plan projections. We also expect its liquidity position to remain strong, and its economy to continue to show strong growth despite some moderation from the elevated rates seen in recent years. Given York's already high debt burden, even a modest increase in forecast debt, or unexpected weakening in the economy or DC collections would put downward pressure on the ratings.

Related Criteria And Research

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

Ratings List

Ratings Affirmed

York (Regional Municipality of)	
Issuer credit rating	AAA/Stable/--
Senior unsecured debt	AAA

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.