This Analysis provides an in-depth discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings and opinion are provided on Moodys.com.

July 2003

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York, Regional Municipality of

Financial and Debt Profile

PRUDENT FINANCIAL PLANNING LEADS TO SIGNIFICANT FLEXIBILITY

The Regional Municipality of York continues to post positive financial results due to prudent fiscal policies and experienced management. Cost pressures associated with program enhancements such as increased community policing and expanded transit services are managed effectively so as not to threaten the strong financial status of the region. Furthermore, the challenges associated with Local Services Realignment (LSR) were dealt with effectively and while the region remains at risk of rising social services costs in the event of a prolonged economic slowdown, contingencies have been made. The recommencement of contributions to the Ontario Municipal Employees Retirement System (OMERS) following a four-and-a-half-year holiday did not impact the region's financial position negatively as savings generated by the holiday were used to fund non-recurring items – sick leave and vacation liabilities, etc. – rather than adding to its spending base. These non-recurring items are now fully funded, or almost fully funded, and the region has reallocated the spending back to the OMERS contributions.

York uses a rolling two-year budgeting process to better plan for new challenges as they develop. Prudent policies remain in place to ensure that spending does not grow beyond the region's funding capacity. Reserves have been established for several projected needs and contingencies thereby insulating the region's finances against unanticipated occurrences. In general, the region manages its reserves closely, developing targets for each reserve fund and ensuring that these targets are met. Reserves and reserve funds totaled over C$392 million (104% of net direct and underlying debt at the end of 2002). In addition, development charges that are now reported as deferred revenue rather than reserves total another C$387 million (103% of net direct and underlying debt). Combined, these funds registered an increase of 11.8% over 2001.

Contributing to the region's credit quality is the financial strength of the nine member municipalities that remit property tax and utility charge requisitions to the region. The sound financial position of area municipalities and their record of uninterrupted payment make requisitions a reliable source of income.

Tax levels in the region are the lowest, on average, in the Greater Toronto Area (GTA). This implies that the region remains competitive and also that there is room to increase rates should the need arise.

ACTIVE CAPITAL PLAN BUT DEBT BURDEN TO REMAIN MODEST

The overall debt level of the region is low and the multi-year capital plan approved by regional council will be easily managed given the existing debt burden. The region's capital plan reflects both the needs of the growing population and a reliance on pay-as-you-go financing. The current 10-year plan calls for capital spending of over C$4.8 billion. The largest single component of the plan is the transit budget with forecast expenditures of C$2.2 billion, a substantial portion of which is related to the multi-year rapid transit project described below. It must be noted that, typically, the region under-spends its capital budget by a wide margin due to various construction delays, environmental assessment requirements, etc.

Of the total C$4.8 billion, about C$1.9 billion would be debentured; the majority of the costs would be covered by development charges, reserves, tax levy, etc. Issuance of debentures of this magnitude, over this timeframe, would be easily accommodated given the region's current low debt burden.

Transportation is a key issue for the region. Local transit operations were taken over from the area municipalities on January 1, 2001. The region absorbed the costs associated with operating and maintaining transit thereby providing a boon for area municipalities. This decision was taken not out of largesse, but to improve the coordination of transit operations within the region. This will allow authorities to provide better services, reduce rush-hour congestion and, in the long-term, moderate the impact of the growing population on expensive transportation infrastructure. The additional cost of assuming this service was offset somewhat by the provincial decision to re-assume responsibility for GO Transit operations beginning in 2002.

York has recently announced its intention to develop, over time, a rapid transit system that would interface with the transit systems of adjoining regions (Peel and Durham) and the City of Toronto. The intention is for the project to proceed in stages as funding is made available and as transportation needs continue to grow. The region has secured funding from both the provincial and federal governments for the first phase of the project. Each partner will contribute C$50 million that will be invested in a number of "Quick Start" transit projects, particularly to improve transportation corridors along Highway 7, Yonge Street and to and from the City of Toronto. Further phases of the project will be rolled-out as population density and demand for transit services increases. The region will pursue further cost-sharing arrangements with higher levels of government for subsequent phases. Furthermore, the region has entered into an agreement with a private sector consortium forming a partnership to develop transportation infrastructure. Multiple phases of the rapid transit plan have been built into the region's 10-year capital plan but the magnitude and timing of the region's transit investments remain fluid.

LONG TERM PLANNING TO GUIDE DECISION MAKING

While the growing assessment base provides ample resources, the growing population provides the challenge of ever increasing demands for services. The region continues to think long-term and has developed a 25-year plan (Vision 2026) that will guide decision making in the years to come. The planning document considers the demands likely to be placed on all the key functions of the region including infrastructure, social services, and social housing. These latter "social" functions were downloaded onto municipalities by the provincial government on January 1, 1998 in exchange for the province taking on more responsibility for education funding. This was a key element of the LSR initiative of the province.

All regional municipalities in the GTA and the city of Toronto are responsible for a portion of the total social services and social housing costs incurred in the GTA. This "pooling of responsibilities" was also part of the LSR initiative of the province. York Region contributes approximately C$80 million per year into the pool as its share of the total costs (by far exceeding its expenditure within regional borders).

Economic Profile

A WEALTHY AND GROWING POPULATION

York Region joins with Durham, Peel, Halton and the City of Toronto to make up the Greater Toronto Area (GTA), home to some 5 million residents and the centre of Canada's industrial and commercial heartland. York's population continues to grow rapidly and in 2002 is estimated to have reached 826,000, an increase of 4.3% over 2001. The high rate of population growth is expected to continue due to York Region's relative attractiveness. York enjoys several advantages including transportation (access to Toronto and the main commercial shipping routes in and out of the GTA), a diverse economy with a number of industries, and a variety of communities and lifestyles. Not only is the population of the municipality growing rapidly, but the demographic make-up is positive: the population is young, educated and earns above average incomes. In light of these factors, housing prices in York are higher than the GTA average.

The fast pace of population growth combined with increasing property values has provided rapid assessment growth for the region. In fact, York is the fastest growing assessment area in Canada. This, in turn, has allowed the region to limit tax rate increases. In 2003, the tax increase totaled 5.7% and water and wastewater service rates were increased by 3%. In 2002, the tax increase totaled 2.3% following a 4.5% increase in 2001. Prior to that relatively large increase, there was no increase in 2000, a 0.5% reduction in 1999 and no increase in 1998.

Rating History

Date	Rating
February 2000	Aaa
January 1995	Aa1

Related Research

Analysis:

Ontario, Province of, July 2003 (Doc ID# 78616)

Toronto, City of, November 2002 (Doc ID# 76509)

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York, Regional Municipality of

Debt Statement (C$000, as of 12/31)	1998	1999	2000	2001	2002
Debt issued for					
Regional municipality	C$230,598	C$231,982	C$240,385	C$249,667	C$264,845
Member Cities	C$74,260	C$73,366	C$60,893	C$26,206	C$23,385
School Boards	168,583	158,168	104,037	68,811	52,536
Assumed debt [1]	0	0	0	0	88,396
Gross direct debt	C$473,441	C$463,516	C$405,315	C$344,684	C$429,162
Sinking funds	82,422	103,273	66,592	20,757	1,097
Net direct debt	391,019	360,243	338,723	323,927	428,065
Underlying Debt					
School Boards [2]	—	—	—	—	—
Less: School board debt net of sinking funds [2]	119,937	99,122	79,899	63,900	52,529
Net direct and underlying debt	C$271,082	C$261,121	C$258,824	C$260,027	C$375,536

[1] Mortgages payable by Region of York Housing Corporation
[2] Beginning in 1998, Moody's no longer treats school board debt as a local taxpayer obligation reflecting a change in provincial funding arrangements for school construction.

Debt Trends (as of 12/31)	1998	1999	2000	2001	2002
Gross debt (C$000)	C$473,441	C$463,516	C$405,315	C$344,684	C$429,162
As % of gross debt					
Regional municipality purposes	48.7	50.0	59.3	72.4	82.3
Member Cities and School Boards	51.3	50.0	40.7	27.6	17.7
Sinking Funds	17.4	22.3	16.4	6.0	0.3
Net direct and underlying debt	C$271,082	C$261,121	C$258,824	C$260,027	C$375,536
Debt burden (%)	0.5	0.4	0.4	0.3	0.4
Debt per capita (C$)	C$403	C$366	C$343	C$328	C$455
Net direct and underlying debt/revenue	54.5	48.1	47.4	40.8	52.0
Net debt issuances (C$000)	C$	C$16,906	C$27,732	C$30,918	C$53,705
Own purposes	0	13,718	27,732	27,962	48,362
Member municipality/school boards	0	3,188	0	2,956	5,343

Economic Trends (as of 12/31)	1998	1999	2000	2001	2002
Population	672,250	712,750	754,000	792,150	826,000
Taxable Assessment (C$000) [1]	58,433,000	61,026,000	71,150,000	74,884,000	87,192,000
% change [2]	3.8	4.4	16.6	5.2	16.4
Per capita (C$)	86,922	85,620	94,363	94,533	105,559
Current tax collection rate [3]	92	88	90	86	na
Total tax collection rate [3]	98	95	107	98	na
Value building permits (C$millions)	1,977	2,600	2,770	2,870	2,670
Housing starts	8,421	12,105	12,864	10,908	11,941

[1] Used for tax purposes in subsequent year.
[2] Taxable assesment percentage change of 2000 and 2002 are not comparable due to re-assessment.
[3] Combined tax collection rates of member cities.

York, Regional Municipality of

Statement of Revenues & Expenditures - Current Operations (C$000, as of 12/31)

	1998	1999	2000	2001	2002
Revenues [1]					
Taxation	C$337,129	C$360,651	C$373,647	C$409,767	C$437,597
Provincial grants	C$55,485	C$73,176	C$82,636	C$88,482	C$98,424
Other revenues	C$104,482	C$109,164	C$89,227	C$139,419	C$185,678
Total Operating Revenues	**C$497,096**	**C$542,991**	**C$545,509**	**C$637,668**	**C$721,700**
Expenditures [2]					
General administration	15,761	25,462	25,716	39,017	23,987
Public safety	71,892	77,814	83,931	99,704	122,649
Transportation services	23,259	28,087	28,909	62,908	70,450
Environmental services	45,919	50,540	52,709	51,877	64,485
Social and family services	210,735	205,282	139,686	143,791	164,117
Social Housing	0	0	71,596	78,844	90,679
Debt service	33,370	33,145	33,793	38,403	45,091
Health services	21,112	20,543	33,868	39,593	55,783
Planning and development	2,287	2,667	3,198	3,497	6,153
Total Expenditures	**C$424,335**	**C$443,540**	**C$473,405**	**C$557,633**	**C$643,393**
Operating excess (deficiency)	C$72,761	C$99,451	C$72,104	C$80,036	C$78,308
Net transfers from/(to) reserves	(46,872)	(68,356)	(56,418)	(41,151)	(43,021)
Net transfers from/(to) capital fund	(25,890)	(31,097)	(31,014)	(31,572)	(28,601)
Overall surplus (deficit)	(1)	(2)	(15,328)	7,313	6,685

[1] Excludes transfers from other funds.
[2] Excludes transfers to other funds.

Capital Program (C$000, as of 12/31)

	1998	1999	2000	2001	2002
Source of capital financing					
Revenue/General fund	C$25,890	C$31,097	C$31,014	C$31,572	C$28,601
Reserves and reserve funds	C$16,519	C$57,020	C$63,565	C$89,160	C$87,977
Provincial grants	C$1,052	C$235	C$258	C$265	C$2,364
Bonds proceeds	C$	C$13,718	C$27,732	C$27,962	C$48,362
Loans	C$	C$	C$	C$	C$
Other financing	C$7,557	C$5,192	C$5,699	C$25,925	C$35,989
Total sources of financing	C$51,018	C$107,262	C$128,269	C$174,884	C$203,293
Capital expenditures	55,057	98,915	133,671	185,893	197,001
Capital excess (deficiency)	(4,039)	8,347	(5,402)	(11,009)	6,292
Unexpended/(unfinanced) capital					
Beginning of year	(2,888)	(6,928)	1,419	(3,983)	(14,992)
End of year	(6,928)	1,419	(3,983)	(14,992)	(8,699)

York, Regional Municipality of

Financial Trends (as of 12/31)	1998	1999	2000	2001	2002
% Change in Revenues	**81.2**	**9.2**	**0.5**	**16.9**	**13.2**
As % Revenue Fund Revenues					
Requisitions from member cities	67.8	66.4	68.5	64.3	60.6
Provincial grants	11.2	13.5	15.1	13.9	13.6
Other revenues	21.0	20.1	16.4	21.9	25.7
Reserves and reserve fund position	80.2	96.5	116.6	109.4	108.1
Operating surplus/(deficit)	14.6	18.3	13.2	12.6	10.9
As % Total Revenues					
Financing surplus/(requirement)	27.2	21.0	12.0	7.5	12.7
Financing surplus/(requirement) excl. CAPEX	35.9	35.9	32.0	31.3	33.7
% Change in Expenditures	**69.9**	**4.5**	**6.7**	**17.8**	**15.4**
As % Expenditures					
General administration	3.7	5.7	5.4	7.0	3.7
Public safety	16.9	17.5	17.7	17.9	19.1
Transportation services	5.5	6.3	6.1	11.3	10.9
Environmental services	10.8	11.4	11.1	9.3	10.0
Social & family services and social housing	49.7	46.3	44.6	39.9	39.6
Debt Service	7.9	7.5	7.1	6.9	7.0

Balance Sheet - Consolidated Operations (C$000, as of 12/31)	1998	1999	2000	2001	2002
Cash and investments [1]	C$509,245	C$646,065	C$729,226	C$749,465	C$835,344
Current liabilities	C$176,857	C$194,914	C$130,932	C$133,145	C$135,276
Year-end cash surplus (deficit)	C$332,388	C$451,151	C$598,294	C$616,320	C$700,068
Receivables	57,505	71,122	87,357	79,994	71,670
Fund balances					
Current fund surplus	0	0	0	0	0
Unexpended/(unfinanced) capital financing	(6,928)	1,419	(3,983)	(14,992)	(8,699)
Reserves	11,163	19,347	27,871	34,451	36,667
Reserve funds	387,621	504,616	281,778	320,393	355,569
Deferred Revenues (Development charges) [2]	—	—	326,305	342,685	387,740

[1] Includes long-term investments.
[2] Prior to 2000 development charges were counted as part of reserves.

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Report Number: 78842

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