



The Regional Municipality of Durham Report

From: Commissioner of Finance
Report: #2024-INFO-32
Date: April 26, 2024

Subject:

Confirmation of the Region's Triple "A" Credit Rating by Moody's Investors Service

Recommendation:

Receive for information.

Report:

1. Purpose

1.1 The purpose of this report is to inform Regional Council of the confirmation of the Region's Triple "A" Credit Rating by Moody's Investors Service.

2. Background

2.1 On February 1, 2024, Regional staff met with representatives of Moody's Investors Service (Moody's) to review the credit fundamentals of the Regional Municipality of Durham and their impact on the Region's Triple "A" credit rating.

2.2 Moody's affirmed the Region's Triple "A" credit rating with a stable outlook in a report released on April 4, 2024. According to Moody's, Durham's Triple "A" credit strengths continue to reflect Durham's exceptional liquidity, very low debt levels, strong population growth within a diversified economy, stable and predictable revenues and conservative fiscal management. Durham Region is one of eight municipalities in Canada currently maintaining a Triple "A" credit rating with Moody's.

3. Highlights of Durham's Major Credit Strengths

3.1 According to Moody's, Durham's baseline credit assessment reflects exceptional liquidity stemming from sufficient reserves and reserve funds and very low debt levels. These credit fundamentals help mitigate fiscal challenges arising from slower economic growth and increasing capital spending:

“The region maintains financial flexibility from a substantial liquidity cushion given exceptional levels of cash and investments.”

“While the majority of reserves are earmarked for specific purposes, these levels provide significant debenture holder security... ..”

“Durham also benefits from additional financial flexibility due to very low current levels of debt as a result of a multi-year effort to fund capital projects through pay-as-you-go financing instead of issuing public debt.”

- *Moody’s Investors Service,
April 2024*

- 3.2 Moody’s continues to recognize Durham’s strong population and economic growth and diversified economy as major credit strength. Program challenges associated with population growth can be addressed by the Region through its adherence to multi-year financial planning:

“Durham’s credit profile is supported by an affluent tax base and strong long-term growth from a diversified economy, which leads to high levels of wealth and high tax- and rate-supported revenues. The economy has diversified over the last two decades as a decline in manufacturing has been offset by growth of other sectors including retail and wholesale trade, finance and professional services, education, health and social services. Durham has historically outperformed Ontario on several economic and labor market indicators, with favourable employment statistics, strong GDP growth and high GDP per capita.”

- *Moody’s Investors Service,
April 2024*

- 3.4 Moody's also assesses Environmental, Social and Governance (ESG) Issuer Profile (IPS) and Credit Impact Scores (CIS) for municipally rated entities. The scores are part of Moody's ongoing commitment to demonstrate the systematic and transparent incorporation of material ESG issues into credit ratings:

“Durham displays very strong governance and management characteristics, similar to other highly rated municipalities in Canada. The region utilizes multi-year operating and capital planning, including annual budgets, a 10-year capital plan which is updated annually, and master plans for major program areas, including a transportation master plan. The region also incorporates environmental, social and governance (ESG) analysis, including carbon transition, green initiatives and climate adaptation into its long-term planning.”

*- Moody's Investors Service,
April 2024*

- 3.5 Durham's fiscal environment is earmarked by elevated expenditures arising from higher levels of capital and social spending and provincial legislative changes that continue to present governance challenges. Given this, Moody's cautions that a combination of declining liquidity levels, rising debt and interest burden that coincides with a sustained period of economic contraction may place downward pressure on the Region's Triple "A" credit rating:

“The region's need for increased services to support a growing population, including social and emergency services, will continue to put upward pressure on expenses. Growth remains robust driven by the region's prime location in the Greater Toronto Area and continued growth in international immigration. Social expenditures (social services and housing) and emergency services (including police and paramedic) will be necessary to address social pressures, and will continue to weigh on the total expenditures of the region.”

“Concurrently, the region's continued need to fund growth and maintenance infrastructure will retain pressure on capital spending and on securing funding. Continued population growth over the next decade – supported by rising federal immigration targets - will be a key driver of infrastructure spending in the coming decade.”

“The legislative changes to municipalities also included a review of several two-tier regional governments within the province, including Durham, to assess the division of roles and responsibilities between the different tiers of government. While we do not expect that the province will alter the two-tier structure of the region, the outcome of the review remains uncertain, and any material change in the regional structure or the region's

financial responsibilities could have material implications on our credit assessment of Durham.”

*- Moody's Investors Service,
April 2024*

4. Conclusion

- 4.1 Maintaining a Triple “A” credit rating is an important achievement for the Region. This accreditation reflects Regional Council's position to uphold key ratings factors as determined by Moody's, including conservative fiscal management, very strong budgetary performance, and low and manageable debt burden.
- 4.2 The Region's exemplary fiscal results are achieved and maintained through Regional Council's long-standing commitment to long-term financial planning. The disciplined approach to long-term financial planning are guided by the principles of fiscal sustainability, financial flexibility and taxpayer affordability. These principles assist the Region in retaining financial flexibility to maintain adequate funding for risk mitigation, unforeseen expenditures and maintain manageable property tax and revenue-based rate increases.
- 4.3 The Region's Business Planning and Budget process will reflect the continued support of the credit principles that are fundamental to the Region's Triple “A” credit rating.

Respectfully submitted,

Original Signed By

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