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The Regional Municipality of Durham Report

From:	Commissioner of Finance
Report:	#2025-INFO-28
Date:	April 17, 2025

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 January 17, 2025, 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. The presentation included the approved 2025-2034 water supply and sanitary sewer capital and debt forecasts and the capital and debt forecasts from the 2025 Regional Property Tax Business Plans, as approved by Regional Council.

2.2 The 10-year capital plan for 2025-2034 includes CAD$5.2 billion spending under the tax-supported budget and CAD$6.5 billion spending under the rate-supported budget, above the previous 10-year levels. The largest planned spending components relate to the regional water and sewer infrastructure, transportation network, including several new rapid transit projects, followed by spending for transit, solid waste and police services.

2.3 Moody's affirmed the Region's Triple "A" credit rating with a stable outlook in a report released on March 21, 2025. According to Moody's, Durham's Triple "A" credit strengths continue to reflect Durham's exceptional liquidity and very low debt levels, resilient local economy with diverse sectors, 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 stable outlook by Moody's.

3. Highlights of Durham's Major Credit Strengths

3.1 Moody's continues to recognize that Durham's exceptional liquidity profile and very low debt levels provide financial flexibility to mitigate fiscal challenges relating to slower economic growth and increased capital spending:

> "*The region's financial flexibility is supported by a substantial liquidity cushion from exceptional levels of cash and investments."*
>
> *"While the majority of reserves are earmarked for specific purposes, these levels provide significant debenture holder security and are at the high end relative to Aaa-rated municipal peers. While we expect total cash and investments to decline modestly in 2025 and 2026 as the region will use some of its built-up liquidity to support rising future expenditures, these levels remain well above peers, supporting the region's credit rating."*
>
> *"Current debt levels are very low as a result of strong debt management including a multi-year effort to fund capital projects through pay-as-you-go financing instead of issuing debt."*
>
> *"At the same time, the region maintains very strong debt affordability with the interest burden (interest expense relative to operating revenue) below 1.5% over the next five years."*
>
> \- *Moody's Investors Service,*

3.2 Durham's diversified economy, stable primary revenue sources and corporate fiscal management are viewed by Moody's as major credit strengths. While the stability of Durham's primary revenue sources shelter the Region from macroeconomic factors, including trade uncertainty and tariff impacts, program challenges associated with population growth can be addressed by the Region through its adherence to multi-year financial planning:

> *"Economic diversification has improved 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. This diversification will help shelter the region's fiscal profile from continued trade uncertainty despite exposure to the auto sector given the Oshawa assembly plant of General Motors, as the majority of sectors are not directly exposed to tariff impacts."*
>
> *"The region's operating profile is supported by stable and predictable revenues, including property taxes and user fees, generating approximately two-thirds of operating revenues, which do not fluctuate significantly with economic changes. The stability in revenue sources along with the region's own cost control measures,*

and significant funding support from the provincial and federal governments, has enabled the region to be largely resilient to expense and revenue pressures."

"We view Durham's overall governance as robust, in line with other highly rated municipalities in Canada. Management adheres to conservative investment and debt policies, limiting exposure to market-related risks and ensuring relatively smooth and predictable debt service costs. Operating and capital planning is done on a multi-year basis through 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."

"The region adheres to conservative debt and investment management policies including issuing only domestic currency fixed rate bonds, which limit exposure to market-related risks. Fiscal planning and reporting is comprehensive, transparent and timely."

- *Moody's Investors Service*

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. According to Moody's, Durham received a credit impact score of CIS-2, which reflects that ESG considerations do not have a material impact on the rating:

*"The **E-2** issuer profile score (IPS) reflects no material exposure to environmental risks. The region is not exposed to significant climate risks and neither spending nor revenue are materially impacted by environmental changes."*

*"The **S-2** IPS reflects no material risk exposure to social risks. The Region provides public services such as public safety and water and waste collection, however these services do not face material risks given predictable demographic trends which allow for long-term forecasting of service requirements. The region's residents have high levels of education and access to basic services."*

*"The **G-1** IPS reflects Durham's very strong budget and fiscal management practices within a strong institutional framework. The region is subject to balanced budget legislation and utilizes prudent financing planning providing multi-year forecasting of key trends. Forward planning allows the region to identify potential pressures and allows for sufficient time to adjust plans accordingly to mitigate*

any credit implications. Financial reports are transparent and published in a timely manner, and the region adheres to strict policies on debt and investment management."

- *Moody's Investors Service*

3.5 However, Moody's provides caution with respect to Durham's credit outlook, which is challenged by elevated infrastructure and social spending that requires significant funding from operations to accommodate continued population growth. Recent provincial legislative changes may also present some fiscal and governance challenges:

"Given its Aaa ratings, Durham's ratings cannot be upgraded. A significant decline in liquidity levels that coincides with a rising debt burden and weakening debt affordability, or a sustained period of economic contraction leading to deficits would put downward pressure on the region's rating."

"The region also faces limits on debt servicing costs, and maintains significant flexibility in managing pressures through its operating and capital budgets. Debentures can only be issued to fund capital infrastructure projects, a large portion of which is repaid primarily through development charges on new property developments."

"The continued need to fund growth and maintenance capital infrastructure results in rising capital spending."

"The largest planned spending components relate to the regional water and sewer infrastructure, transportation network, including several new rapid transit projects, followed by spending for transit, solid waste and police services. The capital plans will require increasing sources of funding, including taxes, development charges, user fees, reserves and debt financing, which puts pressure on future reserve and debt levels."

"The province made legislative changes starting in 2022 which restrict local governments' ability to impose development charges on certain residential housing projects, to encourage multi-unit rental projects and affordable housing developments. The region estimates the total adverse fiscal impact of these changes at approximately CAD332 million in lost revenues for property tax supported services and CAD541 million for water and sewer user rate supported services by 2034."

- *Moody's Investors Service*

4. Conclusion

4.1 Maintaining a Triple "A" credit rating is an important achievement for the Region and its stakeholders. This accreditation reflects Regional Council's position to uphold key ratings factors, as determined by Moody's, including exceptional liquidity, very low debt profiles, a resilient local economy and conservative fiscal management.

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.

Respectfully submitted,

Original Signed By

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