

Research Update:

City of Brampton Rating Affirmed At 'AAA'; Outlook Stable

October 13, 2022

Overview

- Strong underlying economy and investment interest support the City of Brampton's tax base, keeping projected operating results healthy and balances after-capital accounts in a surplus.
- Capital needs will spur additional borrowing in the next two years, bringing total debt outstanding to about 35% of projected operating revenues in 2024. We believe this remains in line with the current rating.
- Accordingly, S&P Global Ratings affirmed its 'AAA' long-term issuer credit rating on the City of Brampton.
- The stable outlook reflects our view that a growing local economy and prudent management will support strong financial results, with positive after-capital balances. We also expect the city's liquidity position will remain a key credit strength.

Rating Action

On Oct. 13, 2022, S&P Global Ratings affirmed its 'AAA' long-term issuer credit rating on the City of Brampton, in the Province of Ontario. The outlook is stable.

Outlook

The stable outlook reflects our expectation that Brampton will continue to demonstrate strong economic fundamentals in the next two years, supporting the city's robust operating performance and healthy liquidity position. Despite the city's large capital needs, we expect after-capital results will remain in a surplus, on average, while total debt outstanding will increase to about 35% of operating revenues by 2024.

Downside scenario

We could lower the rating if Brampton's revenue growth does not support its expanding needs,

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leading to deterioration in after-capital balances such that these remain in a deficit on a sustained basis. Consequently, we would expect this will lead to increased reliance on debt, with tax-supported debt approaching 60% of operating revenues in the next two years.

Rationale

Despite projected modest weakening in operating results, in large part due to waning emergency COVID-19 pandemic support from senior levels of government, Brampton's growing tax base and prudent management of expenses will keep financial results strong. Even with increasing capital spending, both for maintenance and to accommodate the city's growth needs, we expect after-capital balances will remain in a surplus in the next two years. Debt is an important source of capital funding and we expect total debt outstanding will increase to 35% of operating revenues in 2024, which we view as manageable. Brampton's liquidity position and projected debt service coverage (DSC) are very strong and compare favorably with those of peers.

Prudent management and government framework support the needs of an expanding economy

In the medium term, we expect Brampton will remain one of the fastest-growing municipalities in the province. Compared with peers, strong socioeconomic and demographic characteristics, with a younger-than-national-average population and healthy population growth, proximity to major markets, and competitive tax rates attract new businesses and employment opportunities to the area. The city continues to generate strong investment interest, both from new businesses and existing ones expanding their operations. Servicing land for industrial development to increase the city's availability rate is a priority. Although labor availability is an issue across a number of sectors, this is in line with other Canadian cities. We expect skill-matching programs and retraining efforts will aid in filling gaps in the labor market. We estimate that the city's GDP per capita would be in line with the national average of more than US\$54,000, based on Brampton's fairly high median household income and prosperous economy.

Brampton's management team is experienced and its practices remain prudent while continuing to support the city's growth needs. The city has infrastructure and transit levies in place, as well as dedicated contributions to a debt service reserve built into the operating budget to ensure funding of long-term capital needs. Although Brampton lowered the rate of increase in its special levies in the past two years, keeping 2022 infrastructure and transit levies in line with the previous year, contributions to infrastructure show a healthy increase during the past four years. We will continue to monitor council's commitment to tax affordability against the growing city's funding requirements and the evolution of dedicated funding streams relative to the state of infrastructure assets over time. The city provides transparent, easy-to-access disclosure to pertinent information, and prepares detailed operating and capital budgets.

As do other Canadian municipalities, Brampton benefits from an extremely predictable and supportive local and regional government framework that has demonstrated high institutional stability and evidence of systemic extraordinary support in times of financial distress. Most recently through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. Although provincial governments mandate a significant proportion of municipal spending, they also provide operating fund transfers and impose fiscal restraint through legislative requirements to pass balanced operating budgets. Municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be

intensive. Any operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations) through reserve contributions. Municipalities have demonstrated a track record of strong budget results and, therefore, debt burdens, on average, are low relative to those of global peers and growth over time has been modest.

Healthy and growing economy bolsters property tax base, while also keeping funding needs and debt on an upward trajectory

Stable economic activity and a rapidly increasing population help maintain strong revenue generation to fund the growing city's needs. Nevertheless, we expect results will continue to weaken modestly in the next two years as the city resumes normal services while senior government support returns to pre-pandemic levels. However, we expect operating balances will be robust, averaging 9% of operating revenues in 2020-2024.

Despite projected growth in capital spending in the next two years, in our opinion, after-capital balances will remain in a surplus. We expect Brampton will spend about C\$160 million annually on capital in the next two years, focusing primarily on roads and bridges, growth-related transit projects, and new building construction. Development charges and grants from senior levels of government are the top funding sources for capital.

Debt is an important funding source for Brampton's capital plan as well, with total debt outstanding projected to more than double by 2024. The city plans to borrow C\$165 million in new debt in the next two years, bringing total tax-supported debt to about C\$280 million by 2024 or 35% of forecast operating revenues. A large portion of upcoming borrowings is for the Centre for Innovation, a new multi-story institutional, academic, and library building. Total debt also includes the capital lease obligations related to the Southwest Quadrant Renewal Plan and the guaranteed loan for the CAA Centre. We believe this is manageable and compares well with peers in the same rating category. Interest costs, at about 1% of operating revenues, are very low, and the city's exposure to contingent liabilities is limited.

Current projections don't include borrowing under the city's C\$400 million credit agreement with the Canada Infrastructure Bank to fund the purchase of up to 450 electric buses by 2027. Council approved the agreement in early 2022 and the city expects to formalize borrowing requirements related to this deal in early 2023. Notably, operating savings realized through fleet conversion will be used for debt repayment through 2044. Therefore, there is no minimum annual repayment.

Brampton's exceptional liquidity position is a credit strength, with DSC stronger than that of many other Canadian municipalities, and we expect it will remain robust despite projected growth in debt outstanding. We estimate Brampton's adjusted free cash and liquid assets will average about C\$915 million in the next 12 months and cover more than 73x the debt service in that period. Similar to that of domestic peers, the city's access to external liquidity is satisfactory, in our view.

Key Statistics

Table 1

City of Brampton--Selected Indicators

MIL. C\$	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenues	720	705	743	757	783	810
Operating expenditures	654	626	665	691	720	759

Table 1

City of Brampton--Selected Indicators (cont.)

Mil. C\$	2019	2020	2021	2022bc	2023bc	2024bc
Operating balance	67	79	78	65	63	52
Operating balance (% of operating revenues)	9.2	11.3	10.5	8.6	8.1	6.4
Capital revenues	96	101	87	115	120	126
Capital expenditures	133	194	119	152	159	167
Balance after capital accounts	30	(13)	46	28	24	10
Balance after capital accounts (% of total revenues)	3.7	(1.7)	5.5	3.2	2.7	1.1
Debt repaid	3	3	3	4	4	8
Gross borrowings	26	0	18	0	30	135
Balance after borrowings	54	(16)	62	24	50	138
Direct debt (outstanding at year-end)	110	108	123	120	146	274
Direct debt (% of operating revenues)	15.3	15.3	16.6	15.9	18.7	33.9
Tax-supported debt (outstanding at year-end)	118	115	130	127	153	280
Tax-supported debt (% of consolidated operating revenues)	16.4	16.3	17.5	16.8	19.5	34.6
Interest (% of operating revenues)	1.0	1.0	1.0	1.0	1.1	1.7
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	61,469	58,016	65,186	69,615	70,388	71,261

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

City of Brampton--Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	1
Liquidity	1
Debt burden	2
Stand-alone credit profile	aaa

Table 2

City of Brampton--Ratings Score Snapshot (cont.)

Key rating factors	Scores
Issuer credit rating	AAA

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

- Sovereign Risk Indicators, Oct. 10, 2022. An interactive version is available at <http://www.spratratings.com/sri>

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook Canada Q4 2022: Canadian Growth To Slow On Higher Interest Rates And U.S. Weakness, Sept. 26, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

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After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed

Brampton (City of)

Issuer Credit Rating AAA/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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