S&P Global
Ratings

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Summary:
City of Brampton

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Summary:

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Issuer Credit Rating	AAA/Stable/--

Key Rating Factors

Credit context and assumptions	Base-case expectations
Robust economy and strong management practices will support the City of Brampton's creditworthiness as it enters the second wave of the pandemic. • The city's economic diversity and healthy growth potential are key to its post-pandemic recovery. • We expect financial management practices will remain prudent, allowing the city to maintain healthy operating results and support growth needs. • We believe the city's relationship with the Province of Ontario will remain well balanced and generally supportive.	Effective cost cutting and provincial funding will aid in reducing the revenue impact of COVID-19, as infrastructure needs persist. • We believe the restrictions in place to address the pandemic will have a manageable impact on operating results, largely restricted to the current fiscal year. • We expect the city will proceed with its growth-driven capital program as planned, keeping its after-capital balance in a small deficit. • Even with additional borrowings, Brampton's debt burden will remain modest, and the city's robust liquidity will continue to support its creditworthiness.

Outlook

The stable outlook reflects our expectation that Brampton's economy will regain momentum in the next two years, as pandemic-related restrictions ease, supporting the city's strong budgetary performance and healthy liquidity position. At the same time, we expect Brampton's large capital plan will result in modest after-capital deficits and a higher debt level of more than 20% of operating revenues by 2022.

Downside scenario

We could lower the rating if Brampton's revenue growth does not support its expanding needs, leading to further deterioration in after-capital balances or increased reliance on debt, such that the city's tax-supported debt approaches 30% of operating revenues.

Rationale

Negative economic and financial implications of COVID-19, exacerbated by the infrastructure pressures of a fast-growing municipality, will lead to a more challenging operating environment for Brampton during the outlook horizon. We expect the city will proceed with capital works as planned, maintaining modest after-capital deficits, and will continue to rely, in part, on debt as a funding source for strategic infrastructure projects. Nevertheless, we continue to view Brampton's debt burden as very low, while its robust liquidity position, prudent financial management, and a supportive institutional framework bolster the rating.

Dynamic economy will gradually recover from COVID-19.

Although the pandemic had an unprecedented impact on Brampton and the nation, particularly in the service industry, activity has been steadily picking up in recent months and we expect this will be a temporary shock to an otherwise very healthy and vibrant local economy. In the medium term, we expect Brampton will remain one of the fastest-growing municipalities in the country. Good socioeconomic and demographic characteristics, with 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. We estimate that the city's GDP per capita would be in line with the national average of more than US$42,000, based on Brampton's fairly high median household income and prosperous economy.

With a rebound to normal activity levels anticipated in the outlook horizon, we expect Brampton will continue to take the necessary steps to meet its growth needs and manage its finances prudently. The city has an 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 its long-term capital needs. The city continues to provide transparent, easy-to-access disclosure to pertinent information, and prepares detailed operating and capital budgets.

As do other Canadian municipalities, Brampton benefits from a very predictable and well-balanced local and regional government framework that has demonstrated high institutional stability. 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.

Debt burden is increasing but remains very low, as the city proceeds with the capital program.

To mitigate the revenue impact of COVID-19, which we expect will be temporary and largely related to rate- and fee-based revenues, management has implemented cost-cutting measures. Provincial relief funding will help narrow the projected year-end shortfall further. Brampton has sufficient internal resources to cover additional funding needs stemming from COVID-19, in our view, and we expect it to proceed with initiatives as planned. On average, we forecast operating balances will remain healthy at 8.5% of operating revenues in 2018-2022. Growth-related capital needs will continue to push after-capital balances into a modest deficit, averaging 0.5% of total revenues. We expect Brampton to spend about C$220 million annually on capital until 2022, focusing primarily on roads and bridges, growth-related transit projects, and new building construction. Brampton has average budgetary flexibility, in our view.

Debt will remain a key funding source for upcoming capital works, with the city planning to borrow C$100 million to fund, in part, upcoming strategic capital works during the outlook horizon. This will bring total tax-supported debt to about C$202 million by 2022 or 24% of forecast operating revenues. Total debt includes the capital lease obligations related to the Southwest Quadrant Renewal Plan and the guaranteed loan for the CAA Centre. We believe this remains manageable and compares favorably with peers in the same rating category. In addition, tax-supported debt is less than five years' operating surpluses, which, together with very low interest costs, supports our assessment of the very low debt burden. However, increased issuance, such that the debt ratio were to exceed 30%, would likely result in downward pressure on the rating. The city's exposure to contingent liabilities is limited.

Brampton maintains an exceptional liquidity position, with debt service coverage stronger than that of peers, and we expect it will remain robust as the city increases its debt burden. We estimate Brampton's adjusted free cash and liquid assets will average about C$730 million in the next 12 months and cover more than 65x 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

	--Fiscal year--					
(Mil. C$)	**2017**	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**
Operating revenues	628	674	720	703	787	833
Operating expenditures	576	622	654	654	715	756
Operating balance	52	52	67	49	72	77
Operating balance (% of operating revenues)	8.3	7.8	9.2	7.0	9.2	9.3
Capital revenues	124	111	96	135	147	160
Capital expenditures	176	192	133	202	220	240
Balance after capital accounts	(1)	(29)	30	(18)	(1)	(2)
Balance after capital accounts (% of total revenues)	(0.1)	(3.7)	3.6	(2.2)	(0.1)	(0.2)
Debt repaid	2	2	3	3	4	6
Gross borrowings	0	0	26	0	20	80
Balance after borrowings	(2)	(31)	53	(21)	15	71
Direct debt (outstanding at year-end)	89	87	110	105	121	195
Direct debt (% of operating revenues)	14.1	12.9	15.3	14.9	15.4	23.4
Tax-supported debt (outstanding at year-end)	97	95	118	112	128	202
Tax-supported debt (% of consolidated operating revenues)	15.4	14.1	16.4	15.9	16.3	24.2
Interest (% of operating revenues)	1.1	1.0	1.0	1.0	1.0	1.2
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	58,591	60,011	61,291	57,698	61,644	63,541

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	2
Economy	1
Financial management	2
Budgetary performance	2
Liquidity	1
Debt burden	1
Stand-alone credit profile	aaa
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, July 14, 2020. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Related Research

- Despite A Bounce In The Summer, Canada's Economic Recovery Is Far From Complete, Sep. 28, 2020
- S&P Global Ratings Definitions, Aug. 7, 2020
- Public Finance System: Canadian Municipalities, May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019