City of Brampton

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Dynamic economy and strong management bode well for the City of Brampton's creditworthiness during the COVID-19 pandemic.	Budgetary performance will weaken modestly but remain robust in the next two years as operations begin to normalize and pandemic-related funding subsides.
--Strong economic rebound to date reflects the city's healthy growth potential.	--Cost containment and emergency funding from senior levels of government to date have kept the city's operating results healthy and stable.
--We expect financial management practices will remain prudent and supportive of the city's growth needs.	--We expect the city will proceed with its growth-driven capital program as planned, keeping its after-capital balances in a small deficit.
--We believe the city's relationship with the Province of Ontario will stay well balanced and predictable.	--New borrowings will spur growth in the city's debt burden, but it will stay very low, while liquidity remains a credit strength.

S&P Global Ratings' long-term issuer credit rating on the City of Brampton is 'AAA'. The city's economic picture is brightening as many social distancing restrictions have eased with high vaccination levels. Key sectors, such as logistics and manufacturing, are performing well and we expect Brampton will remain a place of strong investment potential and development activity. Financial results remain healthy and stable, with the operating balance continuing to average more than 10% of operating revenues. Proactive management response and extraordinary support from senior levels of government to date have largely negated any pandemic-driven shortfalls. We expect management practices will remain prudent and reflective of the city's growth needs and maintenance requirements. Brampton's capital plan is spurring debt growth in the next two years, inching closer to 30% of operating revenues, while liquidity remains a key credit strength.

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. 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 25% of operating revenues by 2023.

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 exceeds 30% of operating revenues on a sustained basis.

Rationale

Economy rebounding well to date; institutions remain broadly supportive

Economic activity in Brampton is rebounding, as social distancing measures ease amid high and increasing vaccination levels. Although we expect recovery in some sectors will lag, in particular services and accommodation, we continue to see strong investment interest and construction activity in the city. 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$52,000, based on Brampton's fairly high median household income and prosperous economy.

As the operating environment begins to normalize, we expect management will continue to take the necessary steps to meet the city's growth needs and manage its finances prudently. 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. Brampton lowered its special levies in the most recent budget from a combined 3% to 1% and maintained cost reductions to aid in arriving at a net 0% budget increase. Although we don't view this as a risk at this time, we will monitor the evolution of dedicated funding streams relative to the state of infrastructure assets over time. 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.

Operating results demonstrate strength and stability through the pandemic

A combination of Brampton's cost-cutting measures since the onset of the pandemic and emergency funding from senior levels of government to date have largely negated any negative impact on operating results. We expect results will weaken modestly in the next two years as the city gradually resumes normal service levels while government support subsides. At the same time, we expect operating balances will remain robust, averaging more than 10% of operating revenues in 2019-2023. Growth-related capital needs will continue to push after-capital balances into a modest deficit, averaging 0.5% of total revenues. We expect Brampton will spend about C$240 million annually on capital in 2021-2023, focusing primarily on roads and bridges, growth-related transit projects, and new building construction.

Brampton will continue to rely on borrowings as one of the funding sources for upcoming strategic capital projects. This includes a transit storage facility set to begin construction in the second half of 2022. In addition to C$20 million this year, the city plans to issue C$80 million in debt during the next two years, bringing total tax-supported debt to about C$200 million by 2023 or almost 26% 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 well with peers in the same rating category. However, increased issuance, such that the debt ratio were to approach and remain around 30%, would likely result in downward pressure on the rating. Interest costs, at about 1% of operating revenues, are very low, and 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 despite projected growth in the debt burden. We estimate Brampton's adjusted free cash and liquid assets will average about C$860 million in the next 12 months and cover more than 70x the debt service in that period. Similar to that of domestic peers, the city's access to external liquidity is satisfactory, in our view.

City of Brampton Selected Indicators

Mil. C$	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenue	674.3	720.1	705.4	720.8	738.4	772.3
Operating expenditure	622.1	653.5	625.9	638.6	662.8	689.1
Operating balance	52.3	66.6	79.5	82.1	75.6	83.2
Operating balance (% of operating revenue)	7.8	9.2	11.3	11.4	10.2	10.8
Capital revenue	110.6	96.4	101.4	133.7	145.9	158.0
Capital expenditure	192.1	132.9	194.3	220.0	240.0	260.0
Balance after capital accounts	(29.2)	30.1	(13.4)	(4.2)	(18.6)	(18.8)
Balance after capital accounts (% of total revenue)	(3.7)	3.7	(1.7)	(0.5)	(2.1)	(2.0)
Debt repaid	1.7	2.5	2.7	3.7	4.5	6.7
Gross borrowings	0.0	26.0	0.0	20.0	20.0	60.0
Balance after borrowings	(30.9)	53.6	(16.1)	12.2	(3.1)	34.5
Direct debt (outstanding at year-end)	86.9	110.4	107.7	123.5	139.2	192.6
Direct debt (% of operating revenue)	12.9	15.3	15.3	17.1	18.9	24.9
Tax-supported debt (outstanding at year-end)	94.8	117.8	114.9	130.4	145.8	199.0
Tax-supported debt (% of consolidated operating revenue)	14.1	16.4	16.3	18.1	19.8	25.8
Interest (% of operating revenue)	1.0	1.0	1.0	1.1	1.1	1.3
Local GDP per capita	--	--	--	--	--	--
National GDP per capita	60,195.8	61,465.9	58,015.8	65,247.8	68,256.2	69,600.8

City of Brampton Selected Indicators

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. C$--Canadian dollar

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, Published Oct. 12, 2021

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
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessments For International Local And Regional Governments, Oct. 6, 2021
- Comparative Statistics: Risk Indicators For Canadian Local And Regional Governments, Sept. 1, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Public Finance System: Canadian Municipalities, May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019