



Media release

For immediate release
November 27, 2018

Credit rating affirmed at “AA” for the City of Peterborough

The City of Peterborough’s bond rating agency, Standard & Poor's (S&P), has affirmed the City’s credit rating at “AA” with a stable outlook for the City of Peterborough in a rating sheet released on November 22, 2018 (copy attached). This report is issued annually from S&P, which is a financial services company that offers services including credit ratings, data analysis and equity research to both the private and public sectors worldwide.

“I’m absolutely thrilled and delighted” says Henry Clarke, City Councillor and Chairman of the Finance Committee. “The ratings reflect S&P’s confidence in the City of Peterborough’s public policies that sustain its fiscal sustainability, exceptional liquidity and low debt levels”.

This information is also available on the City of Peterborough website at www.peterborough.ca.

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Research Update:

City of Peterborough Ratings Affirmed At 'AA'; Outlook Remains Stable

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Overview

- The City of Peterborough's somewhat slow economic prospects compared with those of peers will continue to necessitate high investment levels in capital projects to improve the city's connectivity and attract private investment.
- We are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on Peterborough.
- The stable outlook reflects our expectations that, over our two-year outlook horizon, Peterborough will maintain operating surpluses of about 15% of operating revenues, while capital expenditures at about 25% of total spending will keep deficits after capital expenditures close to 5% of total revenue.

Rating Action

On Nov. 22, 2018, S&P Global Ratings affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the City of Peterborough, in the Province of Ontario. The outlook is stable.

Outlook

The stable outlook reflects our expectations that, over our two-year outlook horizon, Peterborough will maintain operating surpluses of about 15% of operating revenues, while capital expenditures at about 25% of total spending will keep deficits after capital expenditures close to 5% of total revenue. We also expect tax-supported debt will represent less than 50% of operating revenues by 2020.

Downside scenario

Although we view it as unlikely in the outlook horizon, we could take a negative rating action in the next two years if we see weakening consensus to implement economic policies, evidenced by backtracking on progress to diversify the local economy, increase land supply and attract private investment.

Upside scenario

We could take a positive rating action in the next two years if strong operating revenue growth and cost efficiencies strengthen operating balances and result in sustained after-capital surpluses, while debt levels continue to decline. We could also take a positive rating action if greater availability of land and expanded infrastructure improve Peterborough's growth prospects.

Rationale

The ratings on Peterborough reflect our view that, in the next three years, city management will continue to seek to develop and diversify the local economy and attract private investment, while pursuing prudent fiscal policies and keeping debt levels below the city's self-imposed limits.

Sound institutions offset weaker economic prospects.

We believe Peterborough's political and managerial commitment to disciplined fiscal policies continues to be a credit strength. We expect that following the municipal election on Oct. 22, 2018, the alignment between council and the financial administration will continue to produce political consensus to implement reforms and maintain sustainable fiscal indicators. Likewise, we expect continuity in the city's commitment to its internal debt limit and to using only short-term debt, which is being on-lent to Peterborough's housing corporation. The city has made progress on long-term economic constraints, such as the shortage of industrial land, by advancing a proposal to annex properties. We expect that these efforts will resume in 2019 under a moderately renewed council.

Peterborough, in southeastern Ontario, benefits from a diversified and stable economy, although weaker long-term growth prospects remain a constraint. Although GDP data are not available at the local level, we believe the city would have GDP per capita slightly below that of Ontario, based on its income levels. Ontario had average GDP per capita of about US\$44,200 in 2015-2017. Peterborough households' median total income was C\$58,127 in 2015, compared with the provincial median of C\$74,287. We view Peterborough's economic profile as weaker than that of peers because of its relative remoteness, aging population, and ongoing shortage of available industrial land, which limits the economy's ability to support growth.

We believe Canadian municipalities benefit from a very predictable and well-balanced local and regional government framework that has demonstrated a high degree of 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. Operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and

landfill closure costs) through reserve contributions.

Budgetary rigidities and infrastructure projects will keep after-capital results in a moderate deficit.

In our base-case forecast, we expect operating and after-capital balances to average 15% of operating revenues and about negative 5% of total revenues in the outlook horizon. We also expect after-capital performance to move in line with the capital plan and personnel costs to continue weighing on operating performance.

Peterborough benefits from what we consider historically high modifiable revenues of more than 80% of operating revenues. In our base-case forecast, we expect modifiable revenues to remain near 83% of operating revenue and capital spending to average about 25% of total spending in 2018-2020. While these metrics point to very high flexibility, we believe Peterborough is somewhat constrained in its ability to increase modifiable revenues, given its already high levels of taxation. Furthermore, as it does for other Canadian municipalities, the province mandates the provision of many services and much of the city's personnel costs are subject to collective agreements, which limits its leeway to cut operating spending. The rising cost of discretionary benefits continues to pressure operations as well.

We believe Peterborough's debt burden should be largely unchanged in the outlook horizon, averaging 48% of operating revenue. The city's tax-supported debt totaled nearly C\$127 million at year-end 2017, or 49% of operating revenues. We estimate total debt to be about C\$134 million for the current year and expect that Peterborough will issue C\$13 million through 2019. Although debt remains one of the main funding sources for Peterborough's capital plan, the city will reach its internal debt capacity in the medium term, which we expect will result in delays in some capital projects until debt repayment creates more room. Peterborough's internal tax-supported annual debt repayment limit represents 15% of own-source revenues, below the provincial guidelines of 25%. Management plans to operate within its means and use other sources of revenues, instead of raising the debt limit. The city's total debt repayments are aligned with expected issuance in the next two years, and we expect the debt burden to decline to about 45% by 2020, reflecting the constraint of the city's own internal debt limit. Interest costs were stable in 2017, at 1.6% of operating revenues. We expect interest payments to decrease modestly in the next two years, but remain well below 5% of operating revenues.

We estimate Peterborough's free cash and liquid assets will total about C\$115 million in the next 12 months and cover almost 6x of the estimated debt service. In addition, we believe the city benefits from robust cash flow generation capability thanks to its history of strong operating balances. We assess the city's access to external liquidity as satisfactory and in line with that of domestic peers.

Peterborough's exposure to contingent liabilities consists primarily of landfill closure and postclosure costs and postemployment benefits, such as

sick leave and vacation pay. Together, these accounted for about 8% of adjusted operating revenues in 2017. The city has additional exposure to the City of Peterborough Holdings Inc. (COPHI). The company had long-term debt of about C\$123 million in 2017, which accounts for 47% of Peterborough's operating revenues. We assume that, in line with other rated local electric distribution companies, COPHI would be self-supporting and the city's exposure is limited and low risk. Although we view Peterborough's support to the company as unlikely, we believe it would be limited if required.

Key Statistics

Table 1

City of Peterborough -- Selected Indicators

| | --Year ended Dec. 31-- | | | | | |
|---|------------------------|--------|--------|--------|--------|--------|
| (Mil. C\$) | 2015 | 2016 | 2017 | 2018bc | 2019bc | 2020bc |
| Operating revenues | 240 | 253 | 259 | 266 | 273 | 281 |
| Operating expenditures | 207 | 212 | 217 | 226 | 232 | 239 |
| Operating balance | 33 | 40 | 42 | 40 | 41 | 42 |
| Operating balance (% of operating revenues) | 13.8 | 15.9 | 16.3 | 15.0 | 15.0 | 14.9 |
| Capital revenues | 16 | 12 | 11 | 19 | 22 | 22 |
| Capital expenditures | 64 | 62 | 69 | 73 | 80 | 80 |
| Balance after capital accounts | (14) | (10) | (16) | (14) | (17) | (16) |
| Balance after capital accounts (% of total revenues) | (5.6) | (3.7) | (5.8) | (5.0) | (5.7) | (5.2) |
| Debt repaid | 10 | 13 | 15 | 14 | 13 | 19 |
| Gross borrowings | 22 | 30 | 18 | 21 | 13 | 13 |
| Balance after borrowings | (2) | 7 | (13) | (7) | (17) | (22) |
| Modifiable revenues (% of operating revenues) | 82.7 | 82.2 | 82.2 | 82.2 | 82.7 | 83.1 |
| Capital expenditures (% of total expenditures) | 23.6 | 22.6 | 24.2 | 24.3 | 25.5 | 25.0 |
| Direct debt (outstanding at year-end) | 108 | 124 | 127 | 134 | 134 | 128 |
| Direct debt (% of operating revenues) | 44.7 | 49.2 | 49.2 | 50.4 | 49.0 | 45.6 |
| Tax-supported debt (outstanding at year-end) | 112 | 127 | 127 | 134 | 134 | 128 |
| Tax-supported debt (% of consolidated operating revenues) | 46.5 | 50.4 | 49.2 | 50.4 | 49.0 | 45.6 |
| Interest (% of operating revenues) | 1.6 | 1.6 | 1.6 | 1.5 | 1.3 | 1.1 |
| Local GDP per capita (single units) | N/A | N/A | N/A | N/A | N/A | N/A |
| National GDP per capita (single units) | 55,673 | 56,129 | 58,440 | 60,109 | 61,755 | 63,347 |

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. dc--Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. uc--Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade. N/A--Not applicable.

Ratings Score Snapshot

Table 2

| City of Peterborough | |
|-------------------------|------------------------------------|
| Key Rating Factors | Assessment |
| Institutional framework | Very Predictable and well-balanced |
| Economy | Strong |
| Financial Management | Strong |
| Budgetary Flexibility | Average |
| Budgetary Performance | Average |
| Liquidity | Exceptional |
| Debt Burden | Low |
| Contingent Liabilities | Low |

*S&P Global Ratings' ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the rating.

Key Sovereign Statistics

- Sovereign Risk Indicators, Oct. 11, 2018. Interactive version available at <http://www.spratings.com/sri>

Related Criteria

- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Public Finance System Overview: Canadian Municipalities, July 18, 2018

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.

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

Peterborough (City of)

| | |
|----------------------|--------------|
| Issuer Credit Rating | AA/Stable/-- |
| Senior Unsecured | AA |

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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