Special Report
Canadian Municipalities during COVID-19

FICC Strategy
Government Credit

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City Facilities Are Closed To The Public Until Further Notice

During this COVID-19-induced economic crisis, Canadian municipalities are facing significant financial pressure. They are contending with collapsed revenues relative to mostly fixed operating costs, along with incremental expenses responding to the pandemic emergency. In cities across the country, the all too familiar notice "City facilities are closed to the public until further notice" has shut down large swaths of municipal services. Moreover, "work from home" directives have caused transit ridership to plunge.

Canadian Municipalities – They Do A lot!

Municipalities are often described as an integrated component of a provincial government's governance and service delivery frameworks. They are a creation of their province through provincially enacted legislation.

Municipalities provide a wide range of community services covering libraries, cultural activities, sports, recreation, public health and safety support services, public transit, social housing, food inspection, urban planning and development, public security, fire protection, solid waste pick-up and disposal, environmental management, snow removal, as well as important infrastructure such as potable water, wastewater, stormwater, roads and bridges. According to the Federation of Canadian Municipalities (FCM), whose membership includes more than 2,000 municipalities of all size covering more than 90% of Canadians, "Local governments own approximately 60 percent of the public infrastructure that supports our economy and quality of life."

Many investors are wondering how Canada's municipalities are coping with the current crisis. In this special report we break-it down and provide some perspectives on how the framework is engineered to adjust to these unprecedented times.

Credit and Investment Considerations

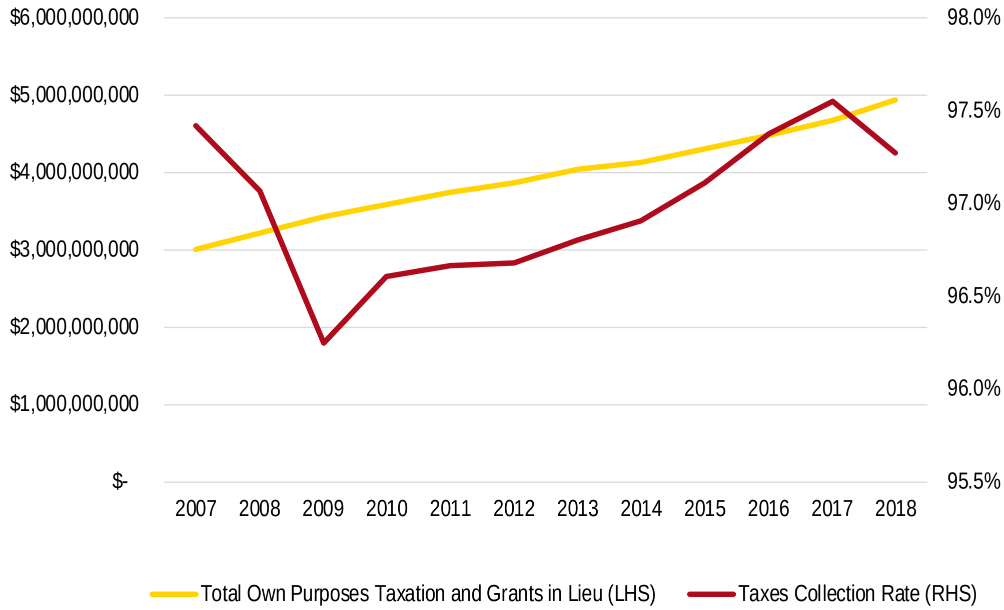
As we are seeing in many jurisdictions around the world, the current economic shock is having a negative financial impact on governments that will lead to a marked deterioration in their credit metrics. Fortunately, Canadian municipalities entered the crisis in a strong fiscal position which is reflected in their very high ratings ranging from A to AAA. These ratings factor in strong fiscal management, sustainable revenue sources, robust liquidity as well as provincial support and oversight. Rating agencies express the latter in different ways. Moody's, for example, expresses it as the high likelihood that a province would provide extraordinary support if a city faced acute liquidity stress. S&P expresses it in the context of a supportive institutional framework and relationship with a province.

With respect to own-source revenues, property taxes are the main revenue source for most municipalities. While collections will be impaired this year, over a two to three year cycle, property taxes are highly collectible. Historically, collection rates have been very high. For example, in the Province of British Columbia, the property tax collectability rate has averaged over 99% over a three year cycle; while taxes due within a given fiscal year have been collected at a rate of over 97%. From an accounting perspective, property tax revenues are accrued and recognized as they are levied because even if unpaid, the recovery rates are very high. This is because property taxes represent a very small percentage of the value a property and the municipality ranks in priority to the first mortgage loan in foreclosure.

Related Research

- FTSE TMX Canada Universe Bond Index – Weights Will Not Be Adjusted for the PBPP (May 4, 2020) Click Here
- Bank of Canada Releases Details on Provincial Bond Purchase Program (April 30, 2020) Click Here
- Ballooning Deficits and QE – Impacts on Bond Index Weights (April 20, 2020) Click Here
- Bank of Canada Announces $50bln Provincial Bond Purchase Program (15-Apr-20) Click Here
- Canadian QE Part 4: The Macro Implications (April 13, 2020) Click Here
- How Canada's Bond Index Weathered COVID-19 – Oil Price Shocks in Q1 (April 8, 2020) Click Here
- Canadian QE Part 3: CAD Effects (April 6, 2020) Click Here
- Canadian QE Part 2: The Process (March 29, 2020) Click Here
- Government of Canada Confronts COVID-19 — A Shock Like No Other! (March 27, 2020) Click Here
- Canadian QE Part 1: The Mechanics (March 25, 2020) Click Here
- Canadian Governments Implement Extraordinary Measures for Extraordinary Times! (March 18, 2020) Click Here
- Government Credit: When Oil Prices Are Just Too Low! (March 12, 2020) Click Here
- Federal—Provincial Fiscal Arrangements 2020/21 (January 17, 2020) Click Here

Chart 1: Province of British Columbia-Taxation ($) & Tax Collection Rate (%) (2007-2018)



Source: Province of British Columbia.

Most municipalities enjoy ratings that are equivalent or better than their provincial counterparts. A combination of factors supports these higher relative rankings. The most significant ones are balanced budgets required by legislation, revenues streams that tend to be more resilient in economic downturns, such as property taxes that are highly collectable and not sensitive to changes in real estate values, limitations on borrowings for capital programs, general reserves (working capital and long-term) and sinking fund requirements, as well as strong provincial oversight and support that often entails a meaningful percentage of fiscal support through provincial government transfers. The latter creates some linkage between the provincial rating and that of the municipality. We outline these points in the "Municipal Credit Factors" section of this report.

In these unprecedented times, we are not expecting a wholesale downgrade of the sector. Instead, we are expecting the rating agencies to focus on those municipalities that were in a weaker position heading into the crisis and/or are within provinces that are under a much higher level of stress due to the COVID-19 and/or oil price shocks.

In a downgrade scenario, we believe that most Canada's municipalities are somewhat insulated because of their very high rating starting point. A one or two notch downgrade is not expected to be problematic for borrowing operations, as the ratings will still remain acceptable according to the majority of investors' investment policy guidelines.

We point out that rating analysis is quantitative to benchmark against specific criteria according to an established framework. At the same time, a rating decision is both qualitative and relative. It also incorporates a forward-looking view. As the credit outlook has turned negative in most sectors around the world, we expect the rating agencies to be cautious in their rating adjustments recognizing that the pandemic is an unprecedented event that is impacting governments around the world. Moreover, the temporary nature of some elements of the COVID-19 shock, such as the temporary self-isolation/social distancing directives that are restraining demand, as well as the deferral of taxation revenues, should also help to cushion the impact on the ratings.

We highlight that on April 28, Fitch confirmed MFABC's AAA rating with 'Stable' outlook citing "the authority's independent and essentially unlimited taxing power, minimal operating risks, carefully matched assets and liabilities, and strong liquidity position." Fitch also goes on to say that "MFABC retains abundant liquidity to address potential demands and to bridge timing gaps until revenues from the unlimited property tax can be collected."

We are in the midst of the annual rating cycle and expect several municipal ratings confirmations to follow over the coming weeks.

From an investment perspective, municipal bonds are desirable as a means to augment and anchor portfolio credit quality. They are also desirable for yield pick-up.

The municipal sector represents about 2% of the FTSE TMX Canada Universe Bond index.

Although Canadian municipalities are mostly funded in the domestic markets and in domestic currency, participation among international investors has been growing.

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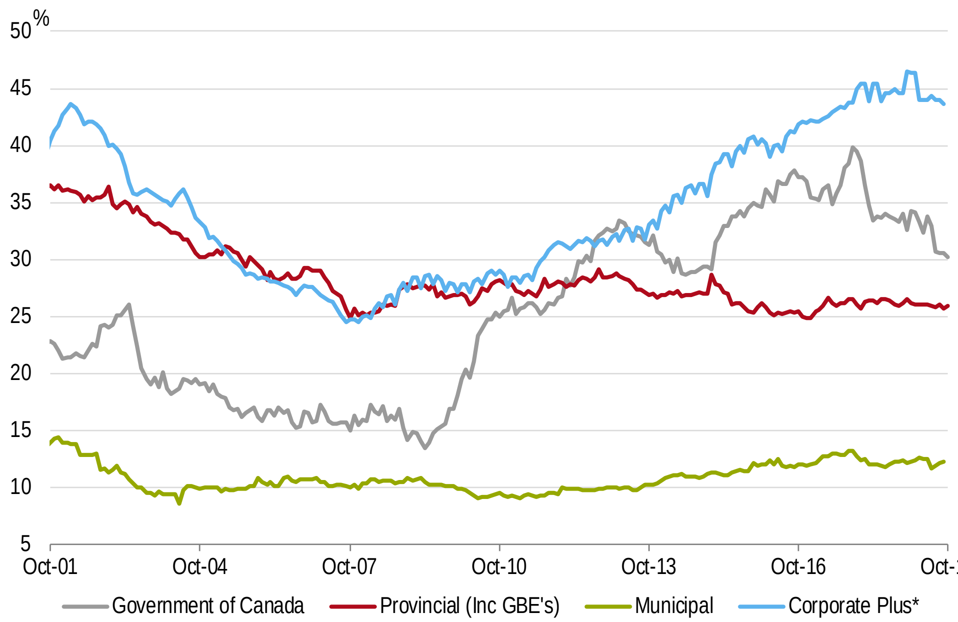
Chart 2: Non-Resident Share of Outstanding Bonds (through Oct 2019)



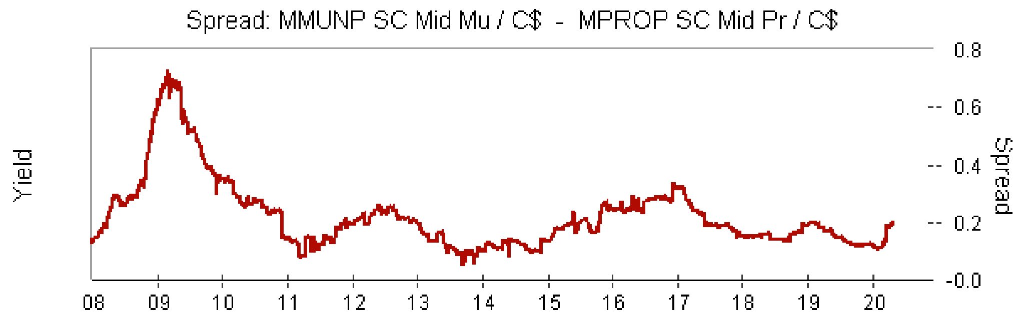
Source: Statistics Canada.

* Corporate holdings data as of Q3 2019 and includes government business enterprises, as well as Canada Mortgage Bonds and NHA Mortgage-Backed Securities.

Municipal bond spreads are typically priced relative to their own provincial counterparts. There is usually a positive basis that changes over time and factors in a liquidity premium. In general, the basis tends to widen with the global repricing of liquidity during periods of extreme market volatility. When this basis widens out, it represents an attractive buying opportunity. As credit and market conditions improve, the basis tightens with more investors taking advantage of the attractive yield relative to provincial bonds.

In the secondary market, there is typically less liquidity in municipal bonds relative to the most liquid provincial bonds reflecting the large difference in the amount of debt outstanding and the much larger benchmark sizes available in provincial bonds. At the same time, this lack of size and liquidity makes these high quality municipal bonds difficult to bulk-up on with a large base of investors content to buy-and-hold over long-periods of time. The scarcity factor and desire to hold for diversification provides support to spreads.

Chart 3: Muni Basis-Mid-Term Municipal Bond Sub-Index versus Mid-Term Provincial



Source: FTSE Canada.

Balanced Budget Legislation

Under provincial legislation, municipalities must table a balanced operating budget, but if a deficit occurs after the fact due to unforeseen or other circumstances, that is not illegal.

In general, when a deficit occurs, a municipality must plan to recover the shortfall in the next budget year by setting up an allowance. Surplus revenue in one year is also carried over to the following year.

Provinces can and already provide grants to municipalities to plug gaps in their operations to meet balanced budget requirements. Grants are also provided for capital projects. Other types of measures seen include sharing provincial revenue sources such as gas taxes. In additional to provincial support, the federal government can and often provides grants to municipal governments for transit and other capital projects.

Under provincial legislation, municipalities must table a balanced operating budget.

Municipalities have reserves that have been built over many years some of which (i.e. unrestricted vs. restricted) can be drawn from to bridge operating funding pressures. Most municipalities at this time have signalled an intention to stick with their current long-term borrowing plans that aggregate in the area of $4-5bln. Additional funding requirements are planned to be met by tapping into reserves and/or the use of short-term funding programs. Municipalities are typically permitted to borrow temporarily for funds that they expect to receive such as in the case of property tax deferrals.

All-in-all, these measures may not be enough, hence the Federation of Canadian Municipalities has formally appealed to the federal government for funding support. This is covered in a later section of this report.

As municipal legislation is enacted by provincial legislatures, these regulations can be changed by provincial governments. It will be interesting to see how provincial governments across the country will respond in these unprecedented times by introducing relief measures to address liquidity and deficit issues. These measures could include giving municipalities longer to recover from a deficit, allowing payment deferrals to other provincial government-related entities, and/or provincial funding support.

Provincial Relief Measures During COVID-19 To Support Local Governments

Province of British Columbia is the first province to introduce new measures of support for their municipalities. We present their announcement below. However, more provincial governments are expected to follow suit.

Province of British Columbia – Measures to Support Local Governments

On April 20, Province of BC announced new measures to support local governments facing temporary revenue shortfalls as a result of COVID-19 as follows (excerpts from press release):

- Authorizing local governments to borrow, interest free, from their existing capital reserves to help pay for operating expense, such as employee salaries. [Note: Relative to existing legislation, the ability to borrow for operations from capital reserves interest-free is a novel development.]
- Delaying provincial school tax remittances until the end of the year. This will provide significant relief to local governments facing cash flow issues. [Note: This is a new change to the existing framework.]
- Providing local governments flexibility to carry revenue anticipation debt over two years instead of one. [Note: This is a new measure. Previously, municipalities were required to repay their revenue anticipation borrowing by year-end.]
- These measures will provide local governments with the resources to meet their operational costs and required remittances to regional districts, regional hospital districts, TransLink and transit authorities, BC Assessment, the Municipal Finance Authority and other taxing authorities. This will ensure that other minor taxing authorities can count on receiving the full amount they bill to municipalities and the Province's surveyor of taxes before August 1, 2020.

BC's local governments have the ability to borrow from the Municipal Finance Authority of British Columbia (MFABC).

In addition to those policy developments, BC's local governments also have the ability to borrow from the Municipal Finance Authority of British Columbia (MFABC). Predominately, municipal borrowing through MFABC is for capital purposes, however MFABC may lend for revenue anticipation or other short-term borrowing needs. Access to funds through MFABC provides BC's local governments an additional path to ease financial strain.

MFABC has noted it anticipates revenue anticipation borrowing needs will grow slightly in 2020 (funded via CP issuance), however long-term borrowing for all purposes may fall somewhat as some capital projects may be deferred. Overall long-term local government borrowing via MFABC is forecasted to remain stable in the $1-1.1bln range.

Those new measures, coupled with stable access to market debt through MFABC, and a balanced debt-to-reserves level for BC's local governments bode well for continued sustainability. MFABC estimates there are $13bln of reserves in the BC's local government system which covers well over 100% of aggregate debt outstanding at MFABC and the City of Vancouver.

Federation of Canadian Municipalities (FCM) – Seeks Federal Emergency Funding

FCM has been the national voice of municipal governments since 1901. Its members include more than 2,000 municipalities of all sizes, from Canada's cities and rural communities, to northern communities and 20 provincial and territorial municipal associations. Together, they represent more than 90 percent of all Canadians from coast to coast to coast. Municipal leaders from across Canada assemble each year to set FCM policy on key issues.

On April 23, the FCM issued a statement seeking emergency federal funding. FCM's President Bill Karsten made the case that "From turning arenas into safe shelters to deferring property taxes, municipal leaders are working flat-out to support Canadians through this pandemic. But with new expenses, staggering drops in revenue and no freedom to run deficits, municipalities need emergency funding to keep essential services going strong." Click here to access the FCM's statement.

The FCM estimates that municipalities face a minimum of $10-15bln in near-term, non-recoverable losses due to COVID-19 and is requesting at least $10bln in emergency operating funding to fill that gap. The amount includes at least $7.6bln in direct federal allocations to all municipalities, plus $2.4bln for those with transit systems.

Their estimates include foregone property taxes, utility charges and user fees—including an estimated $400mln each month from lost transit ridership alone. At the same time, the FCM asserts that municipalities are incurring other costs by taking unprecedented steps to support public health and safety.

The federal government is yet to respond to this plea. Historically, the federal government has been interested in providing supports to municipal governments for large scale infrastructure projects, such as transit, but not for their operational requirements.

Bank of Canada CP Purchase Program Includes Municipal Short-Term Debt

As municipal governments contend with financial pressures and increase their reliance on short-term debt, the recently launched Bank of Canada CP Purchase Program, is providing support. Details of the program are as follows:

Duration: Program ends on April 1, 2021

Eligible Issuers: Canadian firms, municipalities and provincial agencies with an existing CP program

Issuer Limits: At any time, the BoC may hold up to 1.25x the issuer's greatest outstanding CP balance over the last 12 months prior to April 2, 2020

Ratings: Minimum short-term rating of R-1 High/Mid/Low from DBRS, or a broadly equivalent rating

Tenor: CP up to 3-months in tenor

Format: BoC will purchase CP through primary issuance and secondary trading. Investments can be rolled as they mature

Pricing: Program will purchase CP at a predetermined spread to 3-month Canadian overnight index swap (OIS) rate

Source: https://www.bankofcanada.ca/markets/market-operations-liquidity-provision/market-operations-programs-and-facilities/commercial-paper-purchase-program/.

Bank of Canada's QE Provides Support For Provincial Borrowing Programs, So They Can Support Their Municipalities

Coinciding with the April 15th interest rate decision, the Bank of Canada (BoC) announced a new program called the "Provincial Bond Purchase Program". The program will entail purchases of up to $50bln in provincially issued bonds with remaining terms to maturity of up to 10 years.

The BoC plans to have the program up and running next month. Additional details of the program were released on April 30 (Click Here).

By the Bank of Canada providing support to provincial government borrowing programs, the provinces will in turn be able to provide support to their municipalities.

Select Major Canadian Municipalities or Regional Finance Authorities – What They've Said

City of Toronto provides update on financial impacts of COVID-19 (April 17, 2020)

The City is experiencing financial pressure estimated at $65mln per week. The pressure is driven primarily by lost revenues due to the pandemic lockdown, coupled with increased costs responding to the emergency. Revenues are decreased due to a drop in TTC ridership, closures, decreased service demands, and property tax and utility payment deferrals. Increased costs are a result of COVID-19 related needs, such as additional personal protective equipment, cleaning, additional shelter space and staff overtime.

As announced on April 3, the City assembled a COVID-19 financial impact working group, which continues to assess the financial implications that may result from this emergency and focused on a plan for stabilization and rebuilding. Through research and modelling, the group has created impact projections under various scenarios.

A best-case scenario for the City is a projected total pressure of $1.5bln for 2020: $938mln is estimated for the direct impacts relating to lockdown impacts and $590mln for a six-month recovery period, once restrictions are eased. This pressure may be driven higher if there is a significant real-estate market impact, the physical distancing measures are extended beyond 12 weeks or there continues to be additional waves of COVID-19 throughout the remainder of the year.

The City will continue to adjust recovery assessments, based on the guidelines and recommendations from Toronto's Medical of Health, Dr. Eileen de Villa.

COVID-19 Financial Impacts: Weekly Estimate

Burn rate continues to be estimated at $65mln per week.

- 90% decline in key revenues (TTC, Parking)
- Reflects short term MLTT impacts only (approximately 16% decrease)

Weekly Burn Rate Estimate		Weekly Burn Rate Estimate	
Description	($ mln)	Description	($ mln)
Revenue Centric Impacts	45.4	Increased Costs	19.6
Toronto Transit Commission (TTC) – Predominantly Fare Revenue	23.5	Child Care Costs	7.7
Toronto Parking Authority On-Street/Off-Street	3.9	Overtime Costs	3.8
Toronto Community Housing (TCHC) – Mainly Reduced Revenue	3.0	Cleaning Supplies	2.0
Corporate Revenue (i.e. Investments, Parking Tag)	3.7	Shelter Related Costs	1.1
Permit and License Fees	3.1	Other Costs	5.0
Municipal Land Transfer Tax (MLTT) – Current Experience*	2.9	Total Weekly Estimate**	65.0
Cancellation of Public Events	1.6		
User Fee Revenue	1.0		
Toronto Zoo – Admission and Fees	0.5		
Other Revenue Loss	2.2		

* MLTT, the COVID-19 impact on the revenue performance will not be known for a few months.

** Additional trailing costs (i.e. MLTT) and COVID-19 related savings not included in weekly impacts.

York Region responds to COVID-19 (March 23, 2020)

York Region Chairman and CEO Wayne Emmerson declared a state of emergency in The Regional Municipality of York. This marks the first time in the Region's almost 50-year history that this measure has been used.

In response to the COVID-19 pandemic, York Region opened the Regional Emergency Operations Centre (REOC) and activated the REOC action plan. The continued response also includes:

- Providing regular COVID-19 updates through York Region's Medical Officer of Health, Dr. Karim Kurji
- Developing an integrated approach for mitigating the negative economic impact on local businesses and residents
- Making a request to suspend/amend sections of Municipal Act to provide more targeted, application-based financial relief to local businesses
- Closing all offices to the public and providing services to residents through modified means, including online and telephone
- Continued collaboration with municipalities, partner agencies and health care organizations

While the health and well-being of residents and the community remains Regional Council's top priority, services essential to residents continue to operate. These include Public Health, Access York, Long-Term Care, Paramedic Services, Social Services, Transit, Regional Roads and Water and Wastewater.

COVID-19: Montréal announces a financial plan to offset the impacts of the current pandemic (April 23, 2020)

In an effort to manage public funds responsibly, Montréal is acting proactively by laying the groundwork for a financial plan meant to offset the impacts of the global COVID-19 pandemic. This will contribute towards balanced financial results for this year.

"Since taking office, we have always maintained a responsible and controlled management of public funds. However, the current context has brought quite a few challenges for our metropolis, as our sources of income have been significantly reduced. The financial plan we are presenting represents a major effort on our part to limit the impact of the pandemic on the city's finances. We acknowledge the efforts of our entire population, as every citizen does their part to overcome these difficult times, and today's announcement is yet another step in towards this collective effort. Since the very beginning of the current health crisis, we have made it clear that we do not intend to pass the costs on to Montrealers, who are already burdened by the situation", stated Mayor Valérie Plante.

"Budget surpluses generated over the past few years reflect the control and prudence with which we have been handling public funds. This sound management enables us to take swift action today in order to limit the negative impacts of the health crisis, not only for the city's finances, but also for our population", added Benoit Dorais, chair of the executive committee, in charge of finances, human resources, legal affairs and property assessment.

The city is expecting significant losses in revenue, with an optimistic estimate of $93mln in lost revenues, and a pessimistic estimate of up $281.3mln. These revenues are usually generated through transfer taxes collected, permits issued, as well as administrative fees from sports and cultural facilities, for instance. Current scenarios are still only hypothetical, and will likely become clearer over the next few months, when the real impact of the current crisis will be known.

The administration of Montréal is rolling out a general plan to cut expenditures through 13 currently implemented temporary control measures meant to yield total savings of $123.4mln. This plan namely involves a global reduction of 3.1% of the budgets allocated to the city's administrative departments and boroughs and a $9mln contingency spending freeze.

However, the metropolis will not be able to absorb by itself the entire financial impact of the pandemic, and the significant decline in ARTM ridership, which may result in a loss totaling between $154mln and $244mln for the urban agglomeration of Montréal. These losses are added to lost revenues and to additional expenses that vary, depending on the scenario, between $105mln and $294mln. In this regard, the city is requesting financial support from the different levels of government and is currently assessing various additional potential solutions.

Thus, the anticipated effect of the COVID-19 crisis on city finances may total between $258.9mln and $538.5mln, when factoring in the impacts on the city's budget, along with the anticipated loss in ARTM revenues.

City of Vancouver Working to Balance the Budget (April 16, 2020)

Throughout our response to COVID-19, we have been assessing the impacts on our community members and on our ability to fund the much-needed services which we provide.

We entered these uncertain times in a strong financial position with healthy liquidity and reserves, strong fiscal management, and low debt burden which are reflected in our AAA/Aaa credit ratings. Despite this, the COVID pandemic is creating major financial challenges for the City with drastic reductions in revenues to run our operations, which has necessitated considerable reductions in spending.

"We welcome the announcement from the Province this morning, further reducing the commercial property tax rate," said Patrice Impey, General Manager of Finance, Risk, and Supply Chain Management. "The delay of the School Tax payment in particular will be a significant help for Vancouver, and we are assessing the rest of the tax measures announced today to determine what additional tools we will have at our disposal."

At the April 14 meeting, Council requested provincial support to provide operating grants to us to fund public safety and essential City services in light of a significant revenue shortfall. This is something we will continue to advocate for.

Actions we have taken

We have already taken a series of actions towards balancing the budget in the face of the ongoing pandemic. These include:

- Issuing temporary layoff notices to 1,800 unionized staff
- Restricting new hiring and travel

- Reviewing the 2020 capital budget
- Looking to reduce discretionary spending costs wherever possible

Yesterday, we also announced compensation impacts for management and other non-unionized employees, including a mandatory unpaid furlough of one unpaid day off in each 10-day pay period, which is equivalent to an approximate 10% reduction in salary for each exempt staff member. This is expected to remain in effect from April 10 to December 17, 2020, and, along with other measures, to contribute to operational budget savings of approximately $7.5mln.

"These cuts have been very difficult decisions, and they are part of a range of measures we are implementing so that we are able to restart operations and support our communities as soon as possible," said City Manager Sadhu Johnston. "I want to reassure you that the City is financially stable, we are not facing bankruptcy. These are temporary measures taken in unusual circumstances so that we can overcome these hurdles and get through this together. We appreciate the hardship the many residents and businesses are facing and we remain concerned regarding the impacts on the City if tax payers are unable to pay their 2020 taxes."

Moving property tax due date

Based on this morning's Provincial announcements, staff will be evaluating whether to recommend to Council if the final property tax due date will be moved from July 3 to September 2 at the next Council meeting on April 28.

Potential budget impacts

At Tuesday's Council meeting, City staff presented scenarios that show potential budget impacts from $60 to $190mln through end of 2021, depending on how long the crisis lasts and how long it takes the economy to recover. City revenues have already been significantly reduced through facility closures and lowered parking revenue, with total losses estimated at $4-5mln a week. In addition, our efforts across many areas to address the pandemic and provide support to the community have increased expenses.

City of Winnipeg releases economic analysis and cash flow plan for the COVID-19 pandemic (April 21, 2020)

The City of Winnipeg has developed its first analysis of the potential economic impacts of the COVID-19 pandemic on Winnipeg. The analysis is publicly available through the Decision Making Information System (DMIS) and is being presented at the meeting of the Standing Policy Committee on Finance (SPC-Finance) on April 27, 2020.

“A Crisis Cash Flow Management Plan has been developed in an effort to navigate the City’s finances through the economic storm created by COVID-19,” said Councillor Scott Gillingham, Chairperson of the Standing Policy Committee on Finance. “The Plan is informed by economic information, analysis and projections and may need to be adjusted in the future as the financial impact of the pandemic is constantly evolving.”

Anticipating a range of plausible outcomes for the course of the pandemic, the City used basic economic markers to estimate three levels of impact to the economy and the resulting implications on unemployment and gross domestic product (GDP). The calculations in the analysis do not account for new government policies or employment supports.

“The economic landscape is constantly changing during the pandemic and the data in the analysis may change in the coming weeks and months,” said Tyler Markowsky, City Economist. “In our analysis, we found that the financial impact of COVID-19 on Winnipeg is real and likely quite substantial. Once economic data is released from Statistics Canada and other official outlets, we can begin to assess the various impacts COVID-19 has had on Winnipeg’s economy in greater detail.”

With the recent passage of the 2020-23 multi-year balanced budget, the City’s financial future is better planned than most jurisdictions. Additionally, in the short term, the Financial Stabilization Reserve is giving the Public Service the financial capacity to deliver all primary City services while strategies are developed to manage reduced revenues, which are estimated at $12mln per month.

In the short term, recommendations for the role of municipal governments in economic recovery include sustaining employment, and working in partnership with federal and provincial governments to coordinate the gradual re-opening of closed sectors in the local economy. In the longer term, capital investment programs are an important part of economic recovery and all levels of government have a role to play with those investments.

“The Crisis Cash Flow Management Plan maintains the City’s recently adopted 2020 capital program which is set to invest $369mln in important capital projects,” said Councillor Gillingham. “This investment will assist to stimulate the struggling local economy and is estimated to provide over 2,300 jobs. To make significant cuts to the 2020 capital budget would further exacerbate the challenges our local economy is currently facing.”

History of Municipal Rating Changes

Canadian municipalities are unique in that they are often rated equal to or higher than their province on the merits of their intrinsic credit risk profiles. Ratings range from A to AAA.

Historically, municipal ratings have been more stable and there has been far more upgrades than downgrades of municipalities over the past few years.

Date	Issuer	Rating Company	From	To	Change (Pos/Neg)
Dec-20	Sault Ste. Marie	S&P	AA- (Stable)	AA (Stable)	Pos
Aug-19	City of Yellowknife	Moody's	Aa2 (Negative)	Aa2 (Stable)	Pos
Aug-19	County of Lambton	S&P	AA- (Stable)	AA Stable	Pos
Aug-19	City of St. John's	Moody's	Aa3 (Negative)	A1 (Stable)	Neg
Jul-19	City of Edmonton	S&P	AA+ (Negative)	AA Stable	Neg
Jul-19	Regional Municipality of York	S&P	AA+ (Stable)	AA+ (Positive)	Pos
May-19	City of Regina	S&P	AA+ (Positive)	AAA (Stable)	Pos
Nov-18	City of Laval	S&P	AA (Stable)	AA (Positive)	Pos
Aug-18	City of Yellowknife	Moody's	Aa2 (Stable)	Aa2 (Negative)	Neg
Aug-18	First Nations Finance Authority	S&P	A- (Stable)	A+ (Stable)	Pos
May-18	City of Regina	S&P	AA+ (Stable)	AA+ (Positive)	Pos
Dec-17	City of Peterborough	S&P	AA- (Stable)	AA (Stable)	Pos
Nov-17	County of Essex	S&P	AA (Stable)	AA+ (Stable)	Pos
Oct-17	First Nations Finance Authority	Moody's	A3 (Positive)	A2 (Stable)	Pos
Aug-17	City of Edmonton	S&P	AA+ (Stable)	AA+ (Negative)	Neg
Jun-17	City of Thunder Bay	S&P	AA- (Positive)	AA (Stable)	Pos
May-17	First Nations Finance Authority	Moody's	A3 (Stable)	A3 (Positive)	Pos
Jun-17	Haldimand County	S&P	AA- (Stable)	AA (Stable)	Pos
Jun-17	City of Hamilton	S&P	AA (Positive)	AA+ (Stable)	Pos
Feb-17	City of Vancouver	S&P	AA+ (Positive)	AAA (Stable)	Pos
Feb-17	City of Laval	S&P	AA (Stable)	AA (Positive)	Pos
Oct-16	City of Edmonton	S&P	AA+ (Negative)	AA+ (Stable)	Pos
Jul-16	First Nations Finance Authority	Moody's	A3 (Negative)	A3 (Stable)	Pos
Jul-16	City of St. John's	Moody's	Aa2 (Negative)	Aa3 (Negative)	Neg
Jul-16	City of Hamilton	S&P	AA (Stable)	AA (Positive)	Pos
Jul-16	District Municipality of Muskoka	Moody's	Aa2 (Negative)	Aa2 (Stable)	Pos
Jul-16	City of Thunder Bay	S&P	AA- (Stable)	AA- (Positive)	Pos

Source: CIBC Capital Markets - FICC Strategy, DBRS Morningstar, Fitch, Moody's, S&P.

Municipal Ratings Table

Issuer	DBRS Morningstar	Fitch	Moody's	S&P
Municipalities — Alberta				
Calgary, City of	AA(high)	–	–	AA+
Edmonton, City of	–	–	–	AA
Municipalities — British Columbia				
Municipal Finance Authority of British Columbia	–	AAA	Aaa	AAA
TransLink (South Coast British Columbia Transportation Authority)	AA	–	Aa2	–
Vancouver, City of	–	–	Aaa	AAA
Municipalities — Manitoba				
Winnipeg, City of	–	–	Aa2	AA
Municipalities — Newfoundland & Labrador				
St. John's, City of	–	–	A1	A+
Municipalities — Northwest Territories				
Yellowknife, City of	–	–	Aa2	–
Municipalities — Ontario				
Barrie, City of	–	–	–	AA
Belleville, City of	–	–	–	AA-
Brampton, City of	–	–	–	AAA
Durham, Regional Municipality of	–	–	Aaa	AAA
Essex, County of	–	–	–	AA+
Guelph, City of	–	–	–	AA+
Haldimand, County of	–	–	–	AA
Halton, Regional Municipality of	–	–	Aaa	AAA
Hamilton, City of	–	–	–	AA+
Kingston, City of	–	–	–	AA
Lambton, County of	–	–	–	AA
London, City of	–	–	Aaa	–
Mississauga, City of	–	–	–	AAA
Muskoka, District Municipality of	–	–	Aa2	–
Niagara, Regional Municipality of	–	–	–	AA
North Bay, City of	–	–	Aa2	–
Ottawa, City of	–	–	Aaa	AA
Oxford, County of	–	–	–	AA+
Peel, Regional Municipality of	–	–	Aaa	AAA
Peterborough, City of	–	–	–	AA
Sault Ste. Marie, City of	–	–	–	AA
Simcoe, County of	–	–	–	AA
Thunder Bay, City of	–	–	–	AA
Toronto, City of	AA	–	Aa1	AA
Waterloo, Regional Municipality of	–	–	Aaa	–
Wellington, County of	–	–	–	AA+
Windsor, City of	–	–	–	AA
York, Regional Municipality of	–	–	Aaa	AA+ [Pos]
School Boards/Infrastructure — Ontario				
55 School Board Trust, The	–	–	Aa3	A+
Ontario Infrastructure and Lands Corp. (OILC)	–	–	Aa3	–
Ontario School Boards Financing Corp.	AA(low)	–	A1	–
Ottawa Catholic School Board	–	–	–	A+
Simcoe County District School Board	–	–	–	A+
Toronto Community Housing Corp.	–	–	–	AA-
York Region District School Board	–	–	–	A+
Municipalities — Québec				
Laval, Ville de	–	–	–	AA
Montréal, Ville de	A(high)	–	Aa2	AA-
Québec, Ville de	–	–	Aa2	–
Société de transport de Montréal	A(high)	–	Aa2	AA-
Municipalities — Saskatchewan				
Regina, City of	–	–	–	AAA
Saskatoon, City of	–	–	–	AAA

Source: CIBC Capital Markets - FICC Strategy, DBRS Morningstar, Fitch, Moody's, S&P.

Canada's Multi-Level Structure of Government

- Canada is a parliamentary democracy, a constitutional monarchy and a federal state
  - Canada has three main levels of government: federal, provincial/territorial and municipal
- The country's constitution outlines the system of government and citizen's rights
  - The *Constitution Act, 1867* (formerly the *British North America Act, 1867*) forms the basis of Canada's written constitution
    - In establishing the Dominion of Canada, this *Act* stipulates the nature/extent of executive and legislative powers, sets out authority for the judicial system, and also outlines the division of legislative powers between the federal and provincial levels of government
  - Canada's constitution was formally patriated in 1982
    - The related *Constitution Act, 1982* contains the *Canadian Charter of Rights and Freedoms ("Charter")*, outlines the rights of aboriginal peoples, deals with equalization & regional disparities, and also sets out the procedure for amending the constitution. This Charter outlines the absolute protected human rights, liberties, and freedoms enjoyed by all Canadian citizens and prevents any Canadian government, at any level, from passing a law that violates them.
    - The Constitution Act, 1982 also includes the so-called "*notwithstanding clause*", which allows for the federal Parliament or provincial/territorial legislatures to override specific sections of the Act
    - Amending the Constitution (often referred to as the Amending Formula): An amendment that only "applies to one or more, but not all, provinces" requires approval from the Canadian parliament and the governments of any affected provinces. An amendment that affects all provinces requires the approval of at least seven of the ten provincial governments representing at least 50 per cent of the Canadian population (sometimes called the 7-50 formula). On a handful of very important matters, such as changing the amending formula itself, unanimous provincial consent is required.

Canada has three main levels of government: federal, provincial/territorial and municipal.

- As per the constitution, federal and provincial powers are generally divided along the following lines:
  - Federal powers include federal taxes, national defence, foreign affairs, employment insurance, banking, postal service, fisheries, shipping/railways/telecommunications/pipelines, aboriginal lands/rights, criminal law/penitentiaries
  - Provincial powers include direct taxes, health care, education, some natural resources, marriage, prisons, property/civil rights, municipal institutions
  - In some cases, the federal and provincial governments share powers (e.g. agriculture, immigration)
  - Municipal governments derive authority from their respective provincial government and are generally responsible for local police, community water systems, roadways/parking, libraries/parks
    - Provincial legislation governs the creation, administration and government of municipalities (e.g. *Municipal Act, Ontario, 2001*)

Municipal Credit Factors

Municipalities are tightly regulated under provincial laws and regulations, and also have strong provincial oversight.

- Downgrade risk associated with provincial ratings is mitigated by the fact that most municipalities have intrinsic credit ratings that are higher or equivalent to that of their respective provinces, and are mostly evaluated on a stand-alone basis.
- Municipalities are insulated to a degree from the financial pressures facing their respective provinces (i.e. risk of reduced provincial transfers/grants for capital projects) – provincial actions have generally been supportive.
- Municipalities have strong governance and institutional structures, comprehensive and accountable long-term planning frameworks, as well as transparent financial reporting. In the majority of cases, municipalities are required by law to prepare their financial statements according to Public Sector Accounting Standards.
- Municipalities are tightly regulated under provincial laws and regulations, and also have strong provincial oversight.
- Municipalities are required to table balanced budgets that identify all sources of revenue and expenditures, including debt service and the requirement to build reserves.
- Municipal revenue sources from property taxes and user fees as well, as expenditures, tend to be more stable than a province's through economic cycles, and are supported by equity in property values. Property taxes are highly collectable and insensitive to changes in real estate values. Municipalities may also receive ongoing provincial funding support for their operations as well as provincial and/or federal support for capital projects (i.e. grants).
- Municipalities have largely unlimited taxing power on real property in their jurisdictions.
- In large, fast-growing Canadian cities, municipal financial models fund growth-related projects with debt that will eventually be repaid with development charges (these revenues are cyclical) and reserves ("growth pays for growth").
- Municipalities have sinking fund requirements for all bullet bonds that eliminate re-financing risk. (Note: sinking funds are not required for serial or amortizing debt issues.)
- Municipalities can generally borrow only for their capital programs; with the exception of revenue anticipation. Although they don't have any statutory debt limits, provincial legislation limits debt service (principal and interest) to 25% of sustainable revenue in many cases. Some operate with even lower limits or have a top limit expressed as 1x own-source revenue. For example, the City of Toronto operates with a statutory limit of 15% for its debt service ratio as a percentage of revenues under the City of Toronto Act. That limit is more conservative than the Ontario Municipal Act Debt Service Limit of 25%.
- Municipalities have significant reserves (working capital and long-term) and manageable debt burdens which limit their exposure to potential financial market volatility.

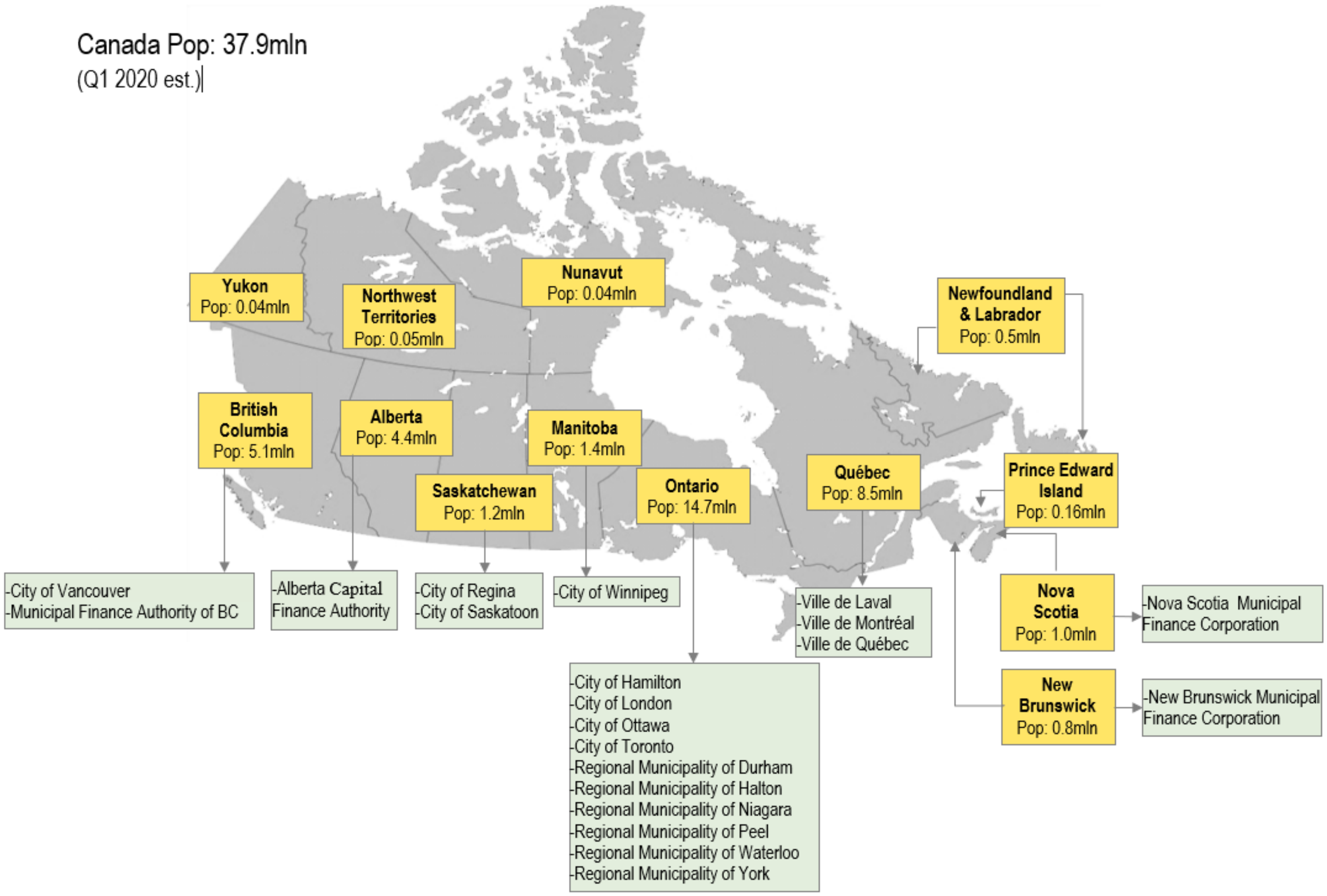
Canadian Municipal Debt Issuer Comparative Data

Municipality Province		BCMFA BC	Vancouver BC	Winnipeg MB	Ottawa ON	Peel Region ON	Toronto ON	York Region ON	Halton Region ON	Waterloo ON	Montreal QC
Credit Ratings											
Long-Term	DBRS	-	-	-	-	-	AA	-	-	-	A (high)
	Fitch	AAA	-	-	-	-	-	-	-	-	-
	Moody's	Aaa	Aaa	Aa2	Aaa	Aaa	Aa1	Aaa	Aaa	Aaa	Aa2
Short-Term	S&P	AAA	AAA	AA	AA	AAA	AA	AA+	AAA	-	AA-
	DBRS	-	-	-	-	-	-	-	-	-	-
	Moody's	P-1	-	-	P-1	-	P-1	-	-	-	-
	S&P	A-1+	A-1+	-	-	-	A-1+	-	-	-	-
Economy & Demographics											
Current Population 15 Yrs+ CMA (000s)	Mar-20	4,154	2,303	704	903	1,451	5,649	1,207	583	601	3,546
Growth (Y/Y, %)	Mar-20	2.0	2.2	1.7	2.4	2.2	2.6	1.7	2.3	1.2	1.5
Share of Provincial Population (%)	Mar-20	-	55.4	67.3	7.3	11.6	46.0	9.8	4.7	4.9	49.9
Select Financial Information (Year-End Dec. 31)		2019	2019	2018	2018	2018	2018	2018	2018	2018	2019
Accounting Basis		IFRS	PSAB	PSAB	PSAB	PSAB	PSAB	PSAB	PSAB	PSAB	PSAB
Revenues (C$mln)*		409	1,967	1,914	4,160	2,805	13,740	2,771	1,172	1,265	8,090
Property Taxes or Levies on Area Municipalities		-	873	746	1,777	1,044	5,080	1,095	419	533	3,804
Development Charges & Contributions		-	229	96	399	322	339	474	197	66	9
Program Fees, User Fees, Utility Fees & Parking		-	529	645	858	401	3,255	501	245	237	2,182
Investment Income		-	49	35	49	68	219	69	59	7	167
Government Transfers, Revenue Sharing, Grants & Contributions**		-	193	375	958	796	3,505	606	235	421	1,234
Government Business Enterprise (GBE) Earnings***		-	-	-	42	-	247	-	-	-	-
Other		-	93	17	79	175	1,095	27	17	1	694
Expenses (C$mln)		277	1,666	1,619	3,551	2,345	12,306	2,252	801	1,081	7,206
Total Income (Loss) for the year (C$mln)		132	301	295	609	460	1,434	520	371	184	885
Debt Outstanding (Net of Sinking Funds) (C$mln)		8,717	1,096	1,084	2,275	1,554	6,898	3,615	589	861	13,559
Cash & Investments (C$mln)		4,359	2,648	742	1,577	2,351	7,006	3,800	2,183	324	3,643
Cash & Investments-to-Total Liabilities (%)		49.2	116.9	41.9	32.0	93.9	36.1	74.5	183.5	23.7	21.7
Market Debt											
Gross Public Bond/MTN (incl Serial) Outstanding (C$bln)	Mar-20	8.3	1.1	1.0	2.4	1.7	7.2	3.4	0.5	0.8	9.0
Issuance in 2019 (C$mln)		1,205	100	220	470	75	950	370	18	92	1,455
Reference											
Website		mfa.bc.ca	vancouver.ca	winnipeg.ca	ottawa.ca	peelregion.ca	toronto.ca	york.ca	halton.ca	regionofwaterloo.ca	villedemontreal.qc.ca
Bloomberg T-Bill Tickers <Govt>		BCMFA	VANC	WINNPG	OTTAWA	PEEL	TRNT	YORKMU	HALTON	WTRLOO	MNTRL

* For consistency, revenues include contributed tangible capital assets. For Upper Tier Regional Municipalities, some collect levies on area municipalities, whereas the lower tier municipalities collect the taxes.

** Payments from federal and provincial governments.

*** Government Business Enterprises (GBEs).


Canada Pop: 37.9mln
(Q1 2020 est.)
Yukon
Pop: 0.04mln
Northwest Territories
Pop: 0.05mln
Nunavut
Pop: 0.04mln
Newfoundland & Labrador
Pop: 0.5mln
British Columbia
Pop: 5.1mln
Alberta
Pop: 4.4mln
Manitoba
Pop: 1.4mln
Saskatchewan
Pop: 1.2mln
Ontario
Pop: 14.7mln
Québec
Pop: 8.5mln
Prince Edward Island
Pop: 0.16mln
-City of Vancouver
-Municipal Finance Authority of BC
-Alberta Capital Finance Authority
-City of Regina
-City of Saskatoon
-City of Winnipeg
-Ville de Laval
-Ville de Montréal
-Ville de Québec
Nova Scotia
Pop: 1.0mln
-Nova Scotia Municipal Finance Corporation
-City of Hamilton
-City of London
-City of Ottawa
-City of Toronto
-Regional Municipality of Durham
-Regional Municipality of Halton
-Regional Municipality of Niagara
-Regional Municipality of Peel
-Regional Municipality of Waterloo
-Regional Municipality of York
New Brunswick
Pop: 0.8mln
-New Brunswick Municipal Finance Corporation

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