

Our File/N/Réf.  
Your File/V/Réf.

DATE 21 May 1996

TO/DEST. Chair and Regional Councillors

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **REGIONAL MUNICIPALITY OF OTTAWA-CARLETON  
CREDIT RATING**

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Moody's Investors Service of New York completed a credit review of the Region on Tuesday May 14, 1996 by confirming the "Aaa" rating of the Municipality's outstanding long term domestic debt. The following major factors that contribute to the strong credit rating that Ottawa-Carleton continues to exhibit include:

- a high degree of financial flexibility resulting from its accumulated reserves,
- significant levels of pay-as-you-go capital financing of infrastructure,
- moderate debt levels reflecting strong internal financing policies,
- conservative debt management practices and planned reductions in capital spending to meet the fiscal challenges of the future.

The report also stresses the importance of the continued expansion and the future capacity of the local economy to meet the challenges of a shrinking Federal Government and the further downsizing by the Province. Moody's will continue to monitor the Region and its high degree of financial flexibility.

*Approved by*  
*J.C. LeBelle*

Attach. ( 1 )

# Moody's **Municipal** Credit Report

Regional Municipality of Ottawa-Carleton,  
Ontario, Canada

May 17, 1996

**Update**

**Taxable Canadian**

**Moody's rating: Aaa**  
Domestic currency debt

**Moody's rating: Aa2**  
Foreign currency debt

**credit comment:**

Moody's has completed a credit review of the Regional Municipality of Ottawa-Carleton and has confirmed the **Aaa** rating on its long-term domestic currency debt. Major credit factors reflecting the domestic debt rating of this regional municipality in the Province of Ontario, Canada, are as follows:

- A high degree of financial flexibility is reflected in sizable accumulated reserves and significant annual levels of pay-as-you-go capital spending. Reduction in provincial subsidies, however, does increase fiscal challenges, and additional cuts to provincial programs remain an ongoing risk. Nevertheless, given the regional municipality's ample financial margins and conservative fiscal planning, current favorable trends should continue.
- The sizable economic base remains anchored by a large institutional sector, due to the presence of the nation's capital, Ottawa, within the regional municipality's boundaries. A certain measure of diversification has been achieved gradually over the years with the expansion of the service and high technology sectors. An acceleration of the downsizing of the federal work force, initiated last year, will likely have a dampening effect on economic growth in the near-term. Continued expansion of private sector activities, therefore, will be of key importance to economic prospects.

- Ottawa-Carleton retains moderate debt levels, reflecting strong internal funding policies and a rapid pace of debt retirement, although compared to some other regional municipalities in Ontario, its debt burden is slightly above average. With a continuation of these conservative debt management practices and reduced levels of planned capital spending, debt levels are projected to decline over the medium-term.

Of importance to future reviews will be the capacity of the regional economy to successfully weather the impact of a shrinking federal government presence, as well as the likely downsizing of other institutional entities, as the provincial government reduces the level of grants it provides to schools, universities, and hospitals. The ability of the regional municipality to maintain its high degree of financial flexibility and positive debt profile in the face of such challenges will be monitored closely by Moody's.

The Regional Municipality of Ottawa-Carleton's foreign currency debt rating, which is capped by the Canada's foreign currency sovereign ceiling, has been confirmed at **Aa2**.



2

Taxable Canadian

May 17, 1996

## Regional Municipality of Ottawa-Carleton, Ontario, Canada

**key facts:****Debt Highlights (as of 12/31)**

|   | 1993       | 1994       | 1995       |
|---|------------|------------|------------|
| Net direct and underlying debt (C\$) <sup>1</sup> | C\$634,420 | C\$591,380 | C\$559,493 |
| Debt burden (%) <sup>2</sup>                      | 1.3        | 1.2        | 1.1        |
| Debt per capita (C\$)                             | C\$936     | C\$872     | C\$825     |

<sup>1</sup> Net of Sinking Funds.<sup>2</sup> Net direct and underlying debt as a percentage of market value.**Financial Highlights (as of 12/31) <sup>1</sup>**

|                                   | 1993 | 1994 | 1995 |
|-----------------------------------|------|------|------|
| As % of revenues:                 |      |      |      |
| Requisitions                      | 31.0 | 30.9 | 38.1 |
| Provincial transfers              | 45.2 | 45.6 | 41.4 |
| Reserve and Reserve Fund position | 27.2 | 35.5 | 33.1 |
| As % of expenditures:             |      |      |      |
| Social and family services        | 52.2 | 53.2 | 46.3 |
| Debt service                      | 8.1  | 8.0  | 7.2  |

<sup>1</sup> Current operations.**Economic Highlights (as of 12/31)**

|                                  | 1993       | 1994       | 1995       |
|----------------------------------|------------|------------|------------|
| % change in taxable assessments  | 1.0        | 0.8        | 0.9        |
| Current tax collection rates (%) | 94.7       | 94.3       | 94.4       |
| Total tax collection rates (%)   | 99.8       | 99.9       | 100.5      |
| Value building permits (C\$000)  | C\$771,000 | C\$762,000 | C\$505,667 |
| Housing starts                   | 4,100      | 3,819      | 2,100      |

**analysis:**

### Financial Flexibility and Conservative Fiscal Practices Should Maintain Favorable Fiscal Trends Despite Retrenchment of Senior Levels of Government

Ottawa-Carleton retains a high degree of financial flexibility, which should moderate the impact of external challenges stemming from provincial aid cutbacks and a slowed pace of economic growth, as a result of a downsizing of the federal government's operations.

As with many regional municipalities in Ontario, Ottawa-Carleton's commitment to conservative fiscal practices is evidenced by positive financial trends and continual accumulation of reserves throughout economic cycles and during periods of provincial cutbacks. During several years of escalating welfare caseloads and provincial cuts, through the Expenditure Control Plan and Social Contract, initiated in 1993, Ottawa-Carleton employed both

expenditure measures and revenue enhancements to achieve positive fiscal results. Despite further challenges in 1995, including a reduction in federal grants in lieu of taxes and loss of supplemental welfare assistance, the regional municipality was able to continue its practice of making generous contributions to the reserves and Capital Fund. Over the last six years, the regional municipality has been able to maintain reserves at generally stable levels of about 30% of revenues. This internal source of liquidity provides the flexibility to manage financial operations during a period of potentially slower revenue growth, as senior levels of government implement rigorous cost reduction plans.

A new phase of provincial cuts, announced in 1995, results in significant reductions to provincial unconditional and conditional grant programs to municipalities. Cuts to Ottawa-Carleton for the current fiscal year amount to about C\$30 million or

## Regional Municipality of Ottawa-Carleton, Ontario, Canada

3% of revenues. The regional municipality responded with a number of expenditure measures including cuts to community services, public transit, capital projects, and productivity improvements. A small adjustment to requisitions was also part of its 1996 budget.

A number of fiscal challenges could emerge over the near-term as both federal and provincial levels of government implement their own budgetary reduction plans. Growth in the region's own source revenues will likely be muted as the economy absorbs the impact of a shrinking federal presence. Direct provincial subsidies to Ottawa-Carleton's coffers could also be cut further, as the province re-examines its municipal grant programs. On the expenditure side, pressures to increase compensation are also likely to arise, as the wage freezes implemented as part of the Social Contract expired in April 1996.

The regional municipality's generally conservative budgetary practices will help it maintain positive fiscal trends over the next several years. The fiscal response to these challenges is likely to focus on the expenditure side of the ledger, given a relatively tax-adverse climate. A government-wide corporate review has been initiated and is expected to produce savings over the next two years.

Given that the 11-member cities are the region's primary source of revenues through property tax requisitions, the financial strength of these entities is of importance to the region's credit quality. While member cities generally display positive fiscal trends, the City of Ottawa continues to have a weaker financial position. New debt management and reserve policies adopted over the past three years are a positive development from a credit quality standpoint, although reserves are expected to remain at relatively low levels.

### **Continued Diversification Is of Key Importance to the Economic Outlook As Federal Government Presence Diminishes**

The Regional Municipality of Ottawa-Carleton serves an area which includes the City of Ottawa, the nation's capital, and ten surrounding municipalities. This upper tier form of local government was established initially in 1969 to provide certain services and infrastructure to a broad geographical

area. As the seat of national government, Ottawa-Carleton's economy continues to be dominated by the presence of the federal government, which along with other local entities and provincial departments accounts for about 20% of the area's work force. The large institutional sector, which includes universities and hospitals, has traditionally provided an important degree of stability to the economy, buffering the region from the effects of economic cycles. As the economy shifts from a largely government and institutionally oriented base to one dominated by private sector activities, this level of stability is likely to diminish.

The economy has shown a measure of diversification over the last two decades through a gradual downsizing and decentralization of the federal government, while business services and high technology grew in importance. In 1981, government jobs in the Ottawa-Carleton represented 32% of the work force, shrinking to slightly over 20% in 1994. This trend has accelerated recently with the implementation of the federal government's three-year plan to reduce the size of its work force by 45,000 positions nationwide; 20% of these cuts will impact employees in Ottawa-Carleton. As a result, government sector jobs dropped to 18.9% of total employment in 1995.

Growth in service- and computer-related businesses has offset the decline in government jobs, signaling a shift to a private sector-focused economy. This transition, however, is not occurring without some economic adjustments. In 1995, the effects of government downsizing appeared to have had an impact on the pace of economic growth as evidenced by declines in housing starts and building permits, as well as construction and trade-related jobs. Employment levels overall declined by 3.4%, pushing the unemployment rate to 9.6% from 7.6%.

Additional reductions in the federal work force over the next several years, as well as potential downsizing of schools, hospital, and universities, as the province reduces its subsidies, will likely have a drag effect on the economy. Mitigating this trend, however, will be further diversification of the economic base given the health of the high technology sector. In addition, a large percentage of employees will either have generous early retirement

**Regional Municipality of Ottawa-Carleton,  
Ontario, Canada**

and severance packages or will be transferred to private sector positions, which should reduce the impact on the economic base.

**Moderate and Declining Debt Levels**

Ottawa-Carleton retains relatively low levels of debt, with a debt burden of 1.1%. While debt ratios are slightly above average compared to other regional municipalities, they have improved over the last two years, and given current projected borrowing requirements, will likely show further improvements over the next several years. As with many regional municipalities in Ontario, the use of internal funds raised through current revenues or developer charges finance a large portion of capital investments, contributing to moderate debt levels. Over the past five years, nearly 50% of the regional municipality's C\$1.1 billion program was funded through current contributions and Reserve Funds, with only 20% raised through borrowing. About 30% was funded through provincial grants. The large internal funding component, in addition to a fast pace of amortization, has resulted in a decline in direct debt over the last two years.

The current five-year capital plan is roughly of the same magnitude as the previous program. However,

officials indicate that spending will not reach planned levels. Financing for two-thirds of the current capital program will come from internal sources, with only 8% from borrowing and 22% from provincial grants.

The regional municipality has the exclusive authority to borrow on behalf of its area municipalities and may borrow on behalf of its school districts. All debentures issued are general obligations of the region, and further security is provided by the joint and several pledge of the regional government, area municipalities, and school boards, if relevant. In Ottawa-Carleton, most school board borrowing is done directly by the school board. Total borrowing requirements for the entire local government sector are expected to be quite modest and to decline substantially from levels reached over the previous five years. Pressures to increase borrowing could arise given the elimination of provincial road grants and reductions in subsidy programs to area municipalities and school boards. However, given modest levels planned and the rapid amortization rate, debt levels are expected to decline.

Taxable Canadian

May 17, 1996

5

Regional Municipality of Ottawa-Carleton,  
Ontario, Canada

## rating history:

April 1995:

Aaa/  Aa2

January 1991:

Aa

June 1994:

Aaa/  Aa1 Foreign currency rating was revised to reflect Canada's foreign currency  
sovereign ceiling.

January 1975:

Aaa

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