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Research Update:

Haldimand County 'AA-' Rating Affirmed On Exceptional Liquidity And Strong Budgetary Performance

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Overview

- We are affirming our 'AA-' long-term issuer credit rating on Haldimand County.
- In part, the rating reflects our assessment of the county's exceptional liquidity position, very low contingent liabilities, low debt burden, and strong budgetary performance.
- The stable outlook reflects our expectation that the county will maintain strong budgetary performance and exceptional liquidity position, and tax-supported debt will remain below 60% of consolidated operating revenues even considering debt issuances in 2016-2017.

Rating Action

On May 16, 2016, S&P Global Ratings affirmed its 'AA-' long-term issuer credit rating on Haldimand County, in the Province of Ontario. The outlook is stable.

Rationale

The rating on Haldimand reflects S&P Global Ratings' view of the county's exceptional liquidity position, very low contingent liabilities, and strong budgetary performance. The rating also reflects our view of the very predictable and well-balanced institutional framework for Canadian municipalities, satisfactory financial management practices, and low debt burden even considering debt issuances in 2016-2017. We believe Haldimand's average economic profile, which reflects a somewhat concentrated economy and limited growth prospects, partially mitigates these strengths. Budgetary flexibility is strong, although provincially mandated services limit the county's ability to materially reduce operating expenditures.

Operating balance remained healthy in 2014, increasing to 21.3% of adjusted operating revenues from 17.8% in 2013, in part due to lower-than-estimated winter control expenditures. We expect this ratio to slightly increase after 2015 given the county's cost control measures. Balance after capital accounts was negative 3.6% of adjusted total revenues in 2014, down from 2.4% surplus in 2013, due to Haldimand's growing capital plan through 2016. In our base-case scenario, operating and after-capital balances will remain strong, averaging 21.0% of adjusted operating revenues and negative 1.4% of adjusted total revenues, respectively, from 2013-2017. The county plans to issue C\$21.7

million between 2016 and 2017 to fund part of its capital plan.

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. Any operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions.

We expect Haldimand's tax-supported debt to notably increase to 42.6% of consolidated operating revenues at year-end 2017 from 37.2% at year-end 2014. Nonetheless, we consider the county's debt burden to be low at that level. Haldimand did not issue debt in 2015 or 2014. Interest costs accounted for 1.7% of adjusted operating revenues in 2014 and we expect them to remain below 5% during the two-year outlook horizon.

Haldimand's contingent liabilities are what we view as very low at 16.1% of adjusted operating revenues in 2014 and consist primarily of standard employee benefits liabilities and landfill postclosure costs. The county sold Haldimand County Utilities Inc. for about C\$73 million in 2015. As a result, the county no longer has any government-related entities, which, in our view, greatly reduces its exposure to contingent liabilities.

While we assess budgetary flexibility as strong, we believe limited ability to cut expenditures constrains Haldimand's flexibility. The province mandates provision of many services, as it does with other counties. In addition, personnel costs represented 43% of adjusted operating expenditures in 2014 and much of these are subject to collective agreements. Capital spending increased to 27.4% of adjusted total revenues in 2014 and we expect it to reach 34.8% in 2016 before starting to decline. We estimate capital expenditures to average 26.2% of adjusted total revenues in 2013-2017. We believe the county has some ability to defer capital spending; however, about 50% of the 2016 capital budget relates to infrastructure replacement projects, which might be costlier if deferred. The county has consistently high modifiable revenues, at more than 80% of adjusted operating revenues, and we expect this to be stable during the outlook horizon.

In our view, the county has an average economy and benefits from its proximity to the nearby and more diverse City of Hamilton. Although municipal GDP data are not available, we believe Haldimand generated GDP per capita slightly below that of the province in 2015 but above US\$38,000, based on its income levels. However, we believe that a somewhat concentrated economy and limited growth prospects compared with those of peers constrain the economy. Furthermore, the county's demographic trends are what we view as unfavorable and lend some uncertainty to the availability of labor and investment

prospects.

Haldimand has satisfactory financial management, in our view. We consider that the management team has adequate expertise in implementing policy changes. In addition, adequate financial management accountability has been maintained throughout changes in administration. The county produces annual financial statements on a timely basis, which are comprehensive, transparent, and independently audited with no qualifications. It also produces one-year detailed tax- and rate-supported operating budgets, as well as 10-year tax- and rate-supported detailed capital plans, with the corresponding funding sources, which are approved annually. We believe that debt and liquidity management remains prudent.

Liquidity

In our view, Haldimand's exceptional liquidity position bolsters the ratings. We estimate its free cash and liquid assets (S&P Global Ratings-adjusted) to total C\$131.7 million in 2016 and to cover more than 26x the estimated debt service for the year. The county's liquid assets increased in 2015 due to the sale of Haldimand County Utilities Inc. We expect this ratio to remain well above 100% during the outlook horizon. Similar to that of its peers, the county's access to external liquidity is satisfactory, in our view.

Outlook

The stable outlook reflects S&P Global Ratings' expectations that, within the two-year outlook, Haldimand's budgetary performance will remain strong and the county will maintain an exceptional liquidity position. In addition, we expect that its tax-supported debt will stay below 60% of its consolidated operating revenues.

We could lower the rating if the after-capital deficits deteriorate to greater than 10% of adjusted total revenues, on average, coupled with an increase in tax-supported debt to more than 60% of consolidated operating revenues and erosion in debt service coverage to less than 100%. However, we view this scenario as unlikely in the next two years. We could raise the rating if economic prospects improve significantly, the county demonstrates sustained after-capital surpluses, or the tax-supported debt burden declines to less than 30% of consolidated operating revenues in the next two years.

Key Statistics

Table 1

| Haldimand (County of) -- Economic Statistics | | | | | |
|--|------------------------|--------|--------|--------|--------|
| | --Year ended Dec. 31-- | | | | |
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Population | 44,944 | 44,876 | 44,876 | 44,876 | 44,876 |

Table 1

| Haldimand (County of) -- Economic Statistics (cont.) | | | | | |
|---|-------------------------------|-------------|-------------|-------------|-------------|
| | --Year ended Dec. 31-- | | | | |
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| Population growth (%) | (0.1) | (0.2) | 0.0 | 0.0 | 0.0 |

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include national statistical offices.

Table 2

| Haldimand (County of) -- Financial Statistics | | | | | | |
|--|-------------------------------|-------------|-------------|---------------|---------------|---------------|
| | --Year ended Dec. 31-- | | | | | |
| | 2012 | 2013 | 2014 | 2015bc | 2016bc | 2017bc |
| Operating revenues | 100 | 106 | 106 | 109 | 111 | 115 |
| Operating expenditures | 83 | 87 | 83 | 87 | 86 | 88 |
| Operating balance | 17 | 19 | 23 | 22 | 26 | 26 |
| Operating balance (% of operating revenues) | 17.0 | 17.8 | 21.3 | 20.0 | 23.1 | 22.9 |
| Capital revenues | 6 | 5 | 5 | 7 | 10 | 6 |
| Capital expenditures | 23 | 21 | 31 | 31 | 46 | 26 |
| Balance after capital accounts | (0) | 3 | (4) | (3) | (10) | 6 |
| Balance after capital accounts (% of total revenues) | (0.2) | 2.4 | (3.6) | (2.5) | (8.5) | 5.3 |
| Debt repaid | 3 | 9 | 4 | 4 | 4 | 5 |
| Net budget loans | N/A | N/A | N/A | N/A | N/A | N/A |
| Balance after debt repayment and onlending | (3) | (6) | (8) | (6) | (14) | 1 |
| Balance after debt repayment and onlending (% of total revenues) | (2.6) | (5.7) | (6.8) | (5.6) | (11.4) | 1.1 |
| Gross borrowings | 0 | 25 | 0 | 0 | 16 | 6 |
| Balance after borrowings | (3) | 19 | (8) | (6) | 2 | 7 |
| Operating revenue growth (%) | 0.8 | 5.7 | 0.1 | 2.7 | 2.6 | 2.9 |
| Operating expenditure growth (%) | (0.4) | 4.8 | (4.3) | 4.3 | (1.4) | 3.1 |
| Modifiable revenues (% of operating revenues) | 83.8 | 84.9 | 85.0 | 86.9 | 87.4 | 87.8 |
| Capital expenditures (% of total expenditures) | 21.7 | 19.5 | 27.4 | 26.5 | 34.8 | 22.9 |
| Direct debt (outstanding at year-end) | 27 | 43 | 39 | 36 | 48 | 49 |
| Direct debt (% of operating revenues) | 27.0 | 40.6 | 37.2 | 33.0 | 43.5 | 42.6 |
| Tax-supported debt (% of consolidated operating revenues) | 27.0 | 40.6 | 37.2 | 33.0 | 43.5 | 42.6 |
| Interest (% of operating revenues) | 1.4 | 1.2 | 1.7 | 1.5 | 1.3 | 1.6 |
| Debt service (% of operating revenues) | 4.0 | 9.7 | 5.0 | 4.7 | 4.5 | 6.1 |

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. Base case reflects S&P Global Ratings' expectations of the most likely scenario. Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. 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 3

| Rating Score Snapshot | |
|-------------------------|------------------------------------|
| Key Rating Factors | Assessment |
| Institutional Framework | Very predictable and well-balanced |
| Economy | Average |
| Financial Management | Satisfactory |
| Budgetary Flexibility | Strong |
| Budgetary Performance | Strong |
| Liquidity | Exceptional |
| Debt Burden | Low |
| Contingent Liabilities | Very low |

*Standard & Poor's ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of Standard & Poor's "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 government's foreign currency rating.

Key Sovereign Statistics

Sovereign Risk Indicators, May 3, 2016

Related Criteria And Research

Related Criteria

- Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- 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
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- 2014 Annual International Public Finance Default Study and Rating Transitions, June 8, 2015

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

Haldimand (County of)
Issuer Credit Rating

AA-/Stable/--

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.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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