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Research Update:

Haldimand County Upgraded To 'AA' From 'AA-' On Sustained Strong Budgetary Performance

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Overview

- We expect Haldimand County to post strong operating balances, which we believe mitigate its debt burden.
- We also believe that because of the county's sustained strong budget results, the economic risk of U.S Steel Canada Lake Erie Works' bankruptcy protection has diminished, with no significant impact to date.
- We are raising our long-term issuer credit rating on Haldimand County to 'AA' from 'AA-'.
- The stable outlook reflects our expectation that the county will maintain very large operating and available cash balances, and tax-supported debt will remain below 60% of consolidated operating revenues even considering debt issuances in 2017-2018.

Rating Action

On May 15, 2017, S&P Global Ratings raised its long-term issuer credit rating on Haldimand County, in the Province of Ontario, to 'AA' from 'AA-'. The outlook is stable.

Outlook

The stable outlook reflects S&P Global Ratings' expectations that, within the two-year outlook, Haldimand will post slight deficits after capital accounts and its debt service coverage will remain higher than 100%. In addition, we expect that its tax-supported debt will stay below 60% of its consolidated operating revenues.

Downside scenario

We could lower the ratings, in the next two years, if as a result of a weak economic environment or a more aggressive capital plan, 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.

Upside scenario

We could raise the ratings if economic prospects improve significantly in the next two years and the county demonstrates sustained after-capital surpluses. However, we view this scenario as unlikely in the next two years.

Rationale

Haldimand County's budgetary performance has remained strong despite U.S. Steel Canada Lake Erie Works' bankruptcy protection under the Companies' Creditors Arrangement Act in 2014. As a result, we believe that the associated risk has diminished over time. Subsequently, we estimate the county's deficits after capital accounts will remain small in 2017-2019. In addition, we expect modest debt issuance in the next two years with debt service coverage ratios remaining above 100% and the overall debt burden being offset by the county's sustained high operating balances. While we expect that the county will continue to benefit from a supportive institutional framework and from a satisfactory financial management, we believe that Haldimand's economic profile, which reflects a somewhat concentrated economy and limited growth prospects, partially mitigates these strengths.

Financial management has remained satisfactory amid a somewhat concentrated economy and limited growth prospects compared with those of peers, while institutions remain broadly supportive.

In our view, the county benefits from its proximity to the nearby and more diverse City of Hamilton. Although municipal GDP data are unavailable, we estimate that, in 2016, Haldimand generated GDP per capita above the threshold of US$38,000, as per our criteria, based on its income levels. U.S. Steel Canada Lake Erie Works and Imperial Oil Ltd. are the largest employers in the area and account for much of the county's total employment. Even though U.S. Steel Canada Lake Erie Works' bankruptcy protection has not significantly affected the county's budgetary performance, we believe that given the county's employment base concentration, a disruption in the operations of either of these two entities could potentially have a negative impact on Haldimand's economic well-being.

We also believe that Haldimand's demographic profile constrains its economic growth prospects. Its population stood at 45,608 in 2016, up 1.6% since 2011. The county forecasts an annual increase in population of 1.1% through 2041 but it also projects a significant increase in the 55 and older population and a continued decline in average housing occupancy levels, largely driven by an aging population. While new developments in Caledonia may somewhat offset this trend in the medium term, we believe aging demographics could still negatively affect the labor pool and hinder investment in Haldimand.

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 presents a one-year detailed tax-supported operating budget. It continues to produce a one-year rate-supported operating budget, and 10-year tax- and rate-supported detailed capital plans, with the corresponding funding sources. We believe that debt and liquidity management remains prudent, supported by a formal investment policy and an internal conservative debt limit. Senior staffing has been relatively stable and we expect no significant turnover in the near term, which we believe lends stability to management practices.

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.

Stable capital plan will result in a near balanced performance with low debt issuance expected in the next two years.

In our base-case scenario, we expect modifiable revenues to average 86.5% and operating balances to remain healthy at 17.9% of adjusted operating revenues on average in 2015-2019. After capital expenditures of C$30 million or 23.7% of total expenditures on average, we estimate the county will post a deficit of 2.8% of total revenues on average in 2015-2019. These deficits will fluctuate with the capital plan and the county plans to issue a modest amount of debt in each of the next three years to fund part of its capital projects.

We expect Haldimand's tax-supported debt to increase to 37.6% of consolidated operating revenues at year-end 2019, up from 32.5% at year-end 2015. Haldimand issued C$7.4 million in 2016 and plans to issue C$21.8 million of debt in 2017-2019. Our assessment of the county's debt burden is mitigated by its strong budgetary performance, with tax-supported debt being less than three years of operating surpluses. Interest costs accounted for 1.5% of adjusted operating revenues in 2015 and we expect them to remain below 5% during the two-year outlook horizon.

The county's limited ability to cut expenditures constrains its budgetary flexibility. The province mandates the provision of most services, much like with domestic peers. Personnel costs accounted for 41.3% of adjusted operating spending in 2015, and much of these are subject to collective agreements. In addition, Haldimand has a long-term target allocation of its capital budget with 80% to infrastructure replacement projects, which might be costlier to defer.

In our view, Haldimand's liquidity bolsters the rating. We estimate its free cash and liquid assets to total C$151.5 million in 2017 and to cover more than 25x the estimated debt service for the year. We expect this ratio to remain well above 100% during the outlook horizon. Similar to that of its domestic peers, the county's access to external liquidity is satisfactory, in our view.

Haldimand's contingent liabilities consist primarily of standard employee benefits liabilities and landfill post-closure costs and represented 16.7% of adjusted operating revenues in 2015. With the sale of Haldimand County

Utilities Inc. for about C$73 million in 2015, the county no longer has any government-related entities, which greatly reduces its exposure to contingent liabilities and improves its overall credit profile, in our view.

Key Statistics

Table 1

County of Haldimand -- Selected Indicators

	--Fiscal year ended Dec. 31--					
(Mil. C$)	**2014**	**2015**	**2016bc**	**2017bc**	**2018bc**	**2019bc**
Operating revenues	106	110	114	117	119	123
Operating expenditures	83	94	92	94	97	101
Operating balance	23	16	21	23	22	22
Operating balance (% of operating revenues)	21.3	14.8	18.9	19.5	18.6	17.7
Capital revenues	5	3	6	6	6	7
Capital expenditures	31	30	29	30	30	30
Balance after capital accounts	(4)	(11)	(1)	(1)	(1)	(2)
Balance after capital accounts (% of total revenues)	(3.6)	(9.5)	(1.1)	(0.7)	(1.1)	(1.3)
Debt repaid	4	4	4	4	5	6
Gross borrowings	0	0	7	9	11	1
Balance after borrowings	(8)	(14)	2	4	5	(7)
Modifiable revenues (% of operating revenues)	85.0	85.9	86.3	86.5	86.8	87.1
Capital expenditures (% of total expenditures)	27.4	24.0	23.6	24.2	23.6	22.9
Tax-supported debt (outstanding at year-end)	39	36	40	44	51	46
Tax-supported debt (% of consolidated operating revenues)	37.2	32.5	34.8	38.1	42.6	37.6
Interest (% of operating revenues)	1.7	1.5	1.3	1.4	1.6	1.9
National GDP per capita (single units)	55,792	55,405	55,857	57,465	59,005	60,636

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.

Ratings Score Snapshot

Table 2

County of Haldimand -- Rating Score Snapshot

Key Rating Factors	**Assessment**
Institutional Framework	Very predictable and well-balanced
Economy	Average
Financial Management	Satisfactory
Budgetary Flexibility	Strong

Table 2

County of Haldimand -- Rating Score Snapshot (cont.)	
Key Rating Factors	**Assessment**
Budgetary Performance	Strong
Liquidity	Exceptional
Debt Burden	Very Low
Contingent Liabilities	Very 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 government's foreign currency rating.

Key Sovereign Statistics

Sovereign Risk Indicators, April 10, 2017. Interactive version available at 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, Dec. 1, 2016
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, April 21, 2016

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 agreed that debt burden had improved. All other key rating factors were unchanged. Key rating factors are 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

Upgraded

	To	From
Haldimand (County of)		
Issuer Credit Rating	AA/Stable/--	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.