

County of Haldimand

May 18, 2022

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions

Supportive institutions and prudent financial management will support Haldimand County's creditworthiness.

-- Despite the impact of the COVID-19 pandemic, Haldimand's major employers, Imperial Oil and Stelco, will continue to provide economic stability, notwithstanding their concentration in cyclical sectors.

-- Strong financial management will continue to allow the county to post healthy operating balances.

-- We believe the county's relationship with the Province of Ontario will remain predictable and well balanced.

Base-case expectations

A steady stream of capital projects will require moderate levels of new debt.

-- Haldimand will continue to generate large, positive operating results from its stable tax base as the impact of the pandemic diminishes.

-- Operating surpluses in conjunction with moderate debt issuance will finance the county's sizable capital program.

-- The county's strong liquidity position will continue to support its creditworthiness.

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The long-term issuer credit rating on the County of Haldimand, in the province of Ontario, is 'AA'. As Haldimand recovers from the effects of the pandemic-driven lockdowns, we expect its prudent financial management and cost-containment efforts will continue to help generate strong fiscal results. These include sizable operating surpluses, moderate after-capital deficits, and a modest debt burden. In our updated base-case scenario for 2022-2024, we expect similar budgetary outcomes, that the debt burden will remain on average below 60% of operating revenues, and liquidity will be good.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, Haldimand will maintain strong budgetary results with a modest negative after-capital balance on average, supported by sound financial management practices and a steady

County of Haldimand

economy. We also expect the county will keep its tax-supported debt burden below 60% of operating revenues during the outlook horizon while maintaining a good liquidity position.

Downside scenario

We could take a negative rating action if weaker operating performance or aggressive capital spending pushed Haldimand's after-capital deficits to consistently more than 5% of total revenues, and higher-than-planned external borrowing increased tax-supported debt to more than 60% of operating revenues. However, we view this scenario as unlikely during the next two years.

Upside scenario

Although we believe it is unlikely in the next two years, we could raise the rating if economic prospects improve significantly and the county posts sustained after-capital surpluses.

Rationale**Supportive institutions and prudent financial management will support Haldimand County's creditworthiness.**

We expect that Haldimand will continue to benefit from its location near the economically stronger City of Hamilton, which offers employment and business opportunities to residents and local companies. This proximity will likely continue to benefit Caledonia and Hagersville in particular, which we expect will be Haldimand's strongest-growing residential communities over the next several years and are already seeing considerable development. The county's key industries are tourism, manufacturing, agri-food processing, and retail. Stelco and Imperial Oil are among the largest employers in the area and account for much of Haldimand's employment. In our view, the employment base concentration in these cyclical sectors could hamper the county's economy in the case of disrupted operations at either company. Although GDP data are not available at the local level, we believe the county would have GDP per capita at least in line with that of Canada, based on its income levels as per the latest available census data. We estimate national GDP per capita will be more than US\$54,800 in 2022.

In our view, Haldimand's demographic profile constrains economic growth prospects. The county's population is estimated to be about 49,216; per the 2021 Census, approximately 20% of the population is over the age of 65, above the national level of 18.3%. Although new developments in Caledonia and Hagersville might somewhat offset this trend in the medium term, we believe aging demographics could still shrink the labor pool and hinder investment in the county.

We believe that management's expertise in implementing policy changes and accountability will continue over the next two years. The county presents a one-year detailed tax-supported operating budget, a one-year rate-supported operating budget, and 10-year tax- and rate-supported detailed capital plans with corresponding funding sources. We expect that debt and liquidity management will remain prudent, with a formal investment policy and a conservative internal debt limit.

Haldimand, like other Canadian municipalities, benefits from a very predictable and well-balanced institutional 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.

A steady stream of capital projects will require moderate levels of new debt

County of Haldimand

We expect that Haldimand will continue to generate high operating surpluses over the forecast horizon, averaging about 20% of adjusted operating revenues over 2020-2024. Despite the impacts of pandemic-driven lockdowns, the county generated stronger-than-usual returns during 2020 fueled by effective cost-containment measures, a stable and growing property tax base, and generous support from senior levels of government, including about C\$3.6 million in Safe Restart Funding in 2020 and 2021. We believe that capital spending in the next several years will increase due to several growth-related projects, generating an average after-capital surplus of approximately 1% over 2020-2024. However, we expect some moderate weakening in after-capital balances in the next few years as pandemic-related support winds down. These projects primarily consist of water and wastewater improvements, roads development, and expansion of fire and EMS facilities.

Haldimand's steady debt repayments and operating revenue growth will assist in managing the county's new debt issuance of about C\$48 million from 2021-2024. We forecast that tax-supported debt will reach 55% of operating revenues by 2024. Haldimand's high operating surpluses bolster our moderate assessment of the county's debt, along with very low interest costs that represent less than 2% of operating revenues, on average.

Haldimand has a strong and stable liquidity position. We estimate free cash balances and investments will be about C\$145 million in the next 12 months. This should cover about 14x next 12 months' debt service. Similar to that of its domestic peers, Haldimand's access to external liquidity is satisfactory, in our view.

County of Haldimand Selected Indicators

Mil. C\$	2019	2020	2021bc	2022bc	2023bc	2024bc
Operating revenue	141	133	132	133	135	137
Operating expenditure	108	101	105	108	110	112
Operating balance	32	32	27	25	25	25
Operating balance (% of operating revenue)	23.0	23.9	20.6	19.0	18.6	18.3
Capital revenue	9	14	8	25	11	11
Capital expenditure	41	30	40	41	41	41
Balance after capital accounts	1	15	(5)	9	(6)	(6)
Balance after capital accounts (% of total revenue)	0.4	10.4	(3.4)	5.7	(3.8)	(3.8)
Debt repaid	5	8	7	8	10	11
Gross borrowings	33	0	8	21	16	2
Balance after borrowings	28	8	(3)	23	1	(15)
Direct debt (outstanding at year-end)	70	62	64	78	84	75
Direct debt (% of operating revenue)	49.7	46.9	48.2	58.3	62.4	54.9
Tax-supported debt (outstanding at year-end)	70	62	64	78	84	75
Tax-supported debt (% of consolidated operating revenue)	49.7	46.9	48.2	58.3	62.4	54.9
Interest (% of operating revenue)	1.0	1.5	1.4	1.3	1.3	1.4
Local GDP per capita (\$)	--	--	--	--	--	--

County of Haldimand

County of Haldimand Selected Indicators

National GDP per capita (\$)	46,328.7	43,258.3	52,051.4	54,858.8	54,988.3	57,231.5
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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. C\$--Canadian dollar. \$--U.S. dollar.

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
Economy	3
Financial management	3
Budgetary performance	2
Liquidity	1
Debt burden	1
Stand-alone credit profile	aa
Issuer credit rating	AA

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

Sovereign Risk Indicators, April 11, 2022. An interactive version is available at <http://www.spratings.com/sri>

Related Criteria

- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Feb. 23, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessments For International Local And Regional Governments, April 11, 2022
- Economic Outlook Canada Q2 2022: Growth Forecasts Hold Up As Global Risks Rise, March 28, 2022
- S&P Global Ratings Definitions, Nov. 9, 2021
- As Canadian Municipalities Negotiate A New Landscape, Prudent Management Remains Crucial, Nov. 8, 2021
- Comparative Statistics: Risk Indicators For Canadian Local And Regional Governments, Sept. 1, 2021
- Public Finance System: Canadian Municipalities, May 12, 2020
- Guidance: Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Ratings Detail (as of May 18, 2022)*

Haldimand (County of)

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

Issuer Credit Ratings History

15-May-2017	AA/Stable/--
21-May-2014	AA-/Stable/--
23-May-2013	A+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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