

Research Update:

# County of Haldimand Issuer Credit Rating Affirmed At 'AA'; Outlook Is Stable

May 9, 2023

## Overview

- We expect Haldimand County's tax-supported debt to rise above 60% of consolidated operating revenues by 2025.
- However, we expect that operating results will remain stable and support a high level of liquidity more than sufficient to cover debt service.
- Accordingly, S&P Global Ratings has affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the county.
- The stable outlook reflects our expectation that the county will maintain strong operating results and moderate after-capital balances on average through the outlook horizon, and that liquidity will remain strong.

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## Rating Action

On May 9, 2023, S&P Global Ratings affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the County of Haldimand in the Province of Ontario. The outlook is stable.

## 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 economy. We also expect the county will keep its tax-supported debt burden below 120% 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 cost overruns associated with elevated capital spending pushed Haldimand's after-capital deficits to greater

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than 5% of total revenues, and higher-than-planned external borrowing increased tax-supported debt to more than 120% of operating revenues. However, we view this scenario as unlikely during the next two years.

**Upside scenario**

We could raise the rating if the county posts sustained after-capital surpluses, or if improving economic conditions lead to a sustained diversification in the composition of local employment.

**Rationale**

Despite the impacts of macroeconomic headwinds, we expect Haldimand's prudent financial management will help generate strong fiscal results. These include sizable operating surpluses, moderate after-capital deficits, and a modest debt burden despite a large planned debt issuance. In our updated base-case scenario for 2022-2025, we expect similar budgetary outcomes: that the debt burden will remain on average below 120% of operating revenues and liquidity will be more than sufficient to cover debt service.

**Supportive institutions and prudent financial management will support Haldimand'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 will likely continue to benefit Caledonia and Hagersville in particular, which we expect will be Haldimand's fastest-growing residential communities in the next several years and that are already seeing considerable development. The county's key industries are tourism, manufacturing, agri-food processing, and construction. 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 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 in line with that of Canada, based on its income levels as per 2021 Census data. We estimate national GDP per capita will be more than US\$54,700 in 2023.

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 21% of the population is over the age of 65, above the national level of 19%. 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. Management is looking to develop a long-term financial strategy under the new council; at the same time, it is working to mitigate the impacts of employee turnover on management continuity.

As do other Canadian municipalities, Haldimand benefits from an extremely predictable and

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supportive local and regional government framework that has demonstrated high institutional stability and evidence of systemic extraordinary support in times of financial distress. Most recently through the COVID-19 pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. 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) through reserve contributions. Municipalities have demonstrated a track record of strong budget results and, therefore, debt burdens, on average, are low compared with those of global peers and their growth over time has been modest.

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

We expect that Haldimand will continue to generate high operating surpluses over the forecast horizon, averaging about 20% of adjusted operating revenues over 2021-2025. The county generated stronger-than-usual returns during 2020 and 2021 fueled by effective cost-containment measures, a stable and growing property tax base, and generous support from senior levels of government. However, we expect some moderate weakening in after-capital balances in the next few years given macroeconomic headwinds and a large capital plan. We believe that capital spending in the next several years will increase due to several growth-related projects, generating average after-capital balances of approximately 0.1% over 2021-2025. These projects primarily consist of water and wastewater system improvements, roads development, and a library relocation.

We view Haldimand's debt burden as moderate, and steady repayments and operating revenue growth will assist in managing the county's new debt. The county intends to issue just above C\$93 million between 2022-2025, pushing our assessment of its debt burden to approximately 87% of operating revenues by 2025. Most of this likely will be supported by water and wastewater rates or developer contributions. The largest portion of the issuance is intended to support the planned expansion of the Caledonia Wastewater Treatment Plant. Haldimand's high operating surpluses bolster our moderate assessment of the county's debt, as do 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\$151 million in the next 12 months. This should cover about 16x next 12 months' debt service. Like that of its domestic peers, Haldimand's access to external liquidity is satisfactory, in our view.

**Key Statistics**

Table 1

**County of Haldimand -- selected indicators**

Mil. C\$	--Year ended Dec. 31--				
	2021	2022bc	2023bc	2024bc	2025bc
Operating revenues	139	134	137	140	143
Operating expenditures	102	108	111	114	117
Operating balance	38	26	26	26	26

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Table 1

### County of Haldimand -- selected indicators (cont.)

Mil. C\$	--Year ended Dec. 31--				
	2021	2022bc	2023bc	2024bc	2025bc
Operating balance (% of operating revenues)	27.0	19.3	18.9	18.3	18.2
Capital revenues	9	17	13	13	13
Capital expenditures	25	46	45	45	45
Balance after capital accounts	21	(3)	(6)	(6)	(6)
Balance after capital accounts (% of total revenues)	14.4	(1.7)	(4.0)	(4.2)	(3.8)
Debt repaid	7	8	8	7	10
Gross borrowings	8	4	0	30	59
Balance after borrowings	23	(6)	(14)	16	43
Direct debt (outstanding at year-end)	64	61	53	75	124
Direct debt (% of operating revenues)	45.9	45.4	38.5	54.1	86.9
Tax-supported debt (outstanding at year-end)	64	61	53	75	124
Tax-supported debt (% of consolidated operating revenues)	45.9	45.4	38.5	54.1	86.9
Interest (% of operating revenues)	1.3	1.3	1.3	1.1	1.5
National GDP per capita (single units)	65,651	71,542	72,847	74,394	76,188

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.

## Ratings Score Snapshot

Table 2

### County of Haldimand -- ratings score snapshot

Key rating factors	Scores
Institutional framework	1
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.

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Sovereign Risk Indicators, April 10, 2023. An interactive version is available at <http://www.spratings.com/sri>

**Related Criteria**

- 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**

- Economic Outlook Canada Q2 2023: A Dip Is Expected, Though Resilience Persists, March 27, 2023
- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Sept. 28, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021

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').

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Issuer Credit Rating	AA/Stable/--
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**Haldimand (County of)**

Senior Unsecured	AA
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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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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