

HALDIMAND COUNTY

Memorandum FIN-M01-2019 Haldimand County Credit Rating Update For Consideration by Council in Committee on May 28, 2019



To: Mayor Hewitt and Members of Council
From: Charmaine Corlis, Treasurer

On May 6, 2019, Standard & Poor's Rating Services completed its annual update and review of Haldimand County's financial credit rating. Based on their review, Standard and Poor's has affirmed the County's "AA/Stable" credit rating. Over the past years, the County's credit rating has gone from a "low" of "A" negative to the current "AA Stable" rating. This is very positive news and a testament to the sound financial policies and principles adopted by Council and managed by staff.

Several factors impact the credit rating of a municipal government. Standard and Poor's Rating Service evaluates approximately 40 Canadian municipalities in 8 of the 10 Provinces, in addition to many international entities. Municipal ratings are based on eight main categories: institutional framework; economy; financial management; budgetary flexibility; budgetary performance; liquidity, debt burden; and contingent liabilities.

The following chart provides a general summary of the opinions reflected by Standard & Poor's credit ratings:

Credit Rating	Definition
"AAA"	Extremely strong ability to meet financial commitments. Highest Rating.
"AA"	Very strong capacity to meet financial commitments
"A"	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
"BBB"	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
"BBB-"	Considered lowest investment grade by market participants

Within the key rating factors, it was noted that Standard & Poor's "*expect supportive institutions and stable management to continue in Haldimand County following the October 2018 elections, while the economy will remain somewhat concentrated*". It was also noted that the stable outlook reflects their "*expectations that, in the next two years, Haldimand will maintain strong budgetary results with a modest negative after-capital balance, supported by sound financial management practices and a steady economy. We also expect the county will keep its tax-supported debt burden below 60% of the operating revenues in the outlook horizon while maintaining a health liquidity position.*"

Standard & Poor's has noted that Haldimand is a well-governed, largely rural municipality. The major rating factors for Haldimand County were identified as follows:

Strengths:

- Very predictable and well balanced institutional framework
- Solid track record of generating economic and fiscal stability through policy
- Long history of sound financial management
- Strong and flexible budgetary performance
- Exceptional liquidity position
- Minimal debt burden
- Very limited contingent liabilities

Weaknesses/Risks:

- Concentrated employment and limited growth prospects compared with peers
- Demographic profile constrains local economy
- Current deficit in the after-capital spend is mitigated by low tax-supported debt – risk of deterioration if a more aggressive capital plan is implemented

Some of the County's municipal comparators' bond ratings are as follows:

Municipality	Most Recent Rating Date	Standard & Poor's Credit Rating/ Rating Trend		
		2017	2018	2019
Haldimand County	May 2019	"AA" Stable	"AA" Stable	"AA" Stable
Belleville	April 2018	"AA-" Stable	"AA-" Stable	N/A
Region of Niagara	October 2018	"AA" Stable	"AA" Stable	N/A
Kingston	October 2018	"AA" Stable	"AA" Stable	N/A
Hamilton	November 2018	"AA+" Stable	"AA+" Stable	N/A
Norfolk County	June 2018	AA-" Stable	AA-" Stable	N/A

Note:* **Bolding denotes increasing rating over prior year's rating. N/A indicates revised rating not yet completed for 2019.

It should be noted that Haldimand and Norfolk County are the only local municipalities rated by Standard & Poor's with populations of less than 100,000. Despite Haldimand County's relatively small size, it is rated similar to much larger municipalities and has also realized significantly more credit upgrades than most of our comparators.

Given that the rating agency's evaluation is a function of both fiscal performance (controlled internally) and the local economy (controlled externally), it is the continued low debt levels, strong budgetary results and liquidity that are maintaining the County's positive ratings. This is particularly relevant when considering that similarly rated municipalities have the benefit of significantly stronger and more diverse local economies, assessment bases and budgetary flexibility.

The County's credit rating has an impact on future debt costs and investment opportunities; therefore, it is important to continue to adhere to the current financial policies which are proving successful. Given that there are other factors beyond Council's control (e.g. global/local economy/provincial funding uncertainty), the current financial plan does allow for some flexibility as long as Haldimand County adheres to the sound financial principles that are currently having a positive impact on the annual credit rating.