

# HALDIMAND COUNTY

## Memorandum FIN-M01-2023 Haldimand County Credit Rating Update For Consideration by Council in Committee on May 23, 2023



**To:** Mayor Bentley and Members of Council

**From:** Mark Merritt, CPA, CA, General Manager, Financial & Data Services

On May 9<sup>th</sup>, 2023, 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. The County has maintained a credit rating of "AA Stable" for the past five years. 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 35 Canadian municipalities, 1 Territory and 9 Provinces, in addition to many international entities. Municipal ratings are based on six main categories: institutional framework; economy; financial management; budgetary performance; liquidity; and debt burden.

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

Credit Rating	Definition
"AAA"	Extremely strong capacity 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 anticipates *"supportive institutions and prudent financial management will support Haldimand County's creditworthiness."* And that the stable outlook reflects their belief that *"management's expertise in implementing policy changes and accountability will continue over the next two years"* and that *"debt and liquidity management will remain prudent, with a formal investment policy and a conservative internal debt limit"*.

Standard & Poor's mentions a rise in debt by 2025. Though the analysis refers to debt as tax supported, there is a notable difference to how the County categorizes debt. The debt referenced in the report from Standard & Poor's refers to all debt including tax supported, rate supported, and development charges funded debt. More than eighty per cent of the debt planned to be issued in the next three years is related to development and will be recovered by future development charges.

It was also cautioned under the "Downside scenario" that a negative rating action would be considered *"if weaker operating performance or cost overruns associated with elevated capital spending pushed Haldimand's after-capital deficits to greater than 5% of total revenues, and higher-than-planned external borrowing increased tax supported debt to more than 120% of operating revenues."* This is not anticipated to occur over the next two years.

Standard & Poor's has noted that Haldimand is looking to develop a long-term financial strategy as well as mitigating the impacts of turnover on management continuity. The major rating factors for Haldimand County were identified as follows:

*Strengths:*

- Extremely predictable and supportive institutional framework
- Sound financial management
- Strong budgetary performance
- Strong and stable liquidity position
- Modest debt burden

*Weaknesses/Risks:*

- Concentrated employment and limited growth prospects compared with peers
- Demographic profile constrains local economy
- Aggressive capital spending, or higher-than-planned external borrowing could result in negative rating action

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

Municipality	Most Recent Rating Date	Standard & Poor's Credit Rating/ Rating Trend				
		2019	2020	2021	2022	2023
Haldimand County	May 2023	AA Stable	AA Stable	AA Stable	AA Stable	AA Stable
Region of Niagara	June 2022	AA Stable	AA Stable	AA Stable	AA+ Stable	N/A
Kingston	June 2022	AA Stable	AA Stable	AA Stable	AA+ Stable	N/A
Hamilton	October 2022	AA+ Stable	AA+ Stable	AA+ Stable	AAA	N/A
Norfolk County	June 2022	AA- Stable	AA- Stable	AA- Stable	AA Stable	N/A

It should be noted that Haldimand County 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 and rising inflation), 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.

**REFERENCES:**

None

**ATTACHMENTS:**

1. Credit Rating Summary