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Research Update:

County of Haldimand Rating Affirmed At 'AA'; Outlook Remains Stable

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Overview

- The County of Haldimand's budgetary results outperformed our base-case expectations in 2016, fueling strong operating balances and modest after-capital deficits.
- We are affirming our 'AA' long-term issuer credit rating on the county.
- The stable outlook reflects our expectation that, throughout the next two years, Haldimand will maintain healthy liquidity, hold its tax-supported debt below 60% of operating revenues, and post sound budget results.

Rating Action

On May 3, 2018, S&P Global Ratings affirmed its 'AA' long-term issuer credit rating on the County of Haldimand, in the Province of Ontario. The outlook is stable.

Outlook

The stable outlook reflects our 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. We also expect the county will keep its tax-supported debt burden below 60% of operating revenues in the outlook horizon while maintaining a healthy liquidity position.

Downside scenario

We could take a negative action if weaker operating performance or aggressive capital spending pushed Haldimand's after-capital deficits to 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 in the next two years.

Upside scenario

Although we believe it 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

Haldimand is a well-governed largely rural municipality adjacent to the greater Hamilton urban area. The county has several large industrial employers but, despite some employment concentration and limited growth prospects, it is economically stable. This stability has brought fiscal stability. Haldimand has a solid track record of producing good fiscal results, including operating surpluses, near-balanced after capital results, and a modest debt burden. In our updated base-case scenario for 2018-2020, we expect budgetary performance will continue to be solid, debt burden will remain well below 60% of operating revenues, and liquidity will remain healthy. We also expect that the county will continue to benefit from a supportive institutional framework and sound financial management.

Institutions remain broadly supportive, although the economy is somewhat concentrated and has limited growth prospects compared with those of peers.

We believe 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.

Haldimand, in southern Ontario, benefits from its location near the economically stronger City of Hamilton, which offers employment and business opportunities to residents and local companies. The county's key industries are manufacturing, healthcare and social assistance, and retail trade. Stelco and Imperial Oil Ltd. are the largest employers in the area and account for much of Haldimand's total employment. Given the county's employment base concentration in the cyclical sectors, a disruption in the operations of either company could have a negative impact on Haldimand's economic well-being, in our view. Although municipal GDP data are unavailable, we estimate that for 2016, the county generated GDP per capita above the threshold of US\$38,000, as per our criteria, based on its income levels.

We believe that Haldimand's demographic profile constrains its economic growth prospects. Its population was an estimated 47,586 in 2017 and is projected to increase to about 62,000 in 2031. As in the past, those 55 and over represented more than 30% of the total estimated population. While new developments in Caledonia and Hagersville might 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 believe the management team has adequate expertise in implementing policy

changes. In addition, adequate financial management accountability has continued 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, with a formal investment policy and an internal conservative debt limit. The council has prudently established a legacy fund to keep the principal intact received from the sale of Haldimand County Hydro Inc. Senior staffing is largely unchanged and we expect no significant turnover in the near term, which we believe lends stability to management practices.

A stable capital plan will result in a near-balanced performance, with debt issuance likely in the next three years to fund some projects.

In our base-case scenario for 2016-2020, we expect modifiable revenues and operating balances to remain high at 87.2% and 18.9% of adjusted operating revenues on average, respectively. Considering capital expenditures of C\$29 million, or 22.8% of total expenditures on average, we estimate the county will post a slight deficit of 0.5% of total revenues on average in 2016-2020.

In our opinion, Haldimand's limited ability to materially cut operating expenditures somewhat constrains its budgetary flexibility. While the significant capital spending suggests some ability to defer unessential capital projects, we believe that the county's operating expenditure flexibility is somewhat limited, similar to that of many Canadian municipalities, primarily due to provincially mandated service levels and collective agreements with employees.

We estimate debt to continue rising as Haldimand proceeds with its capital plan. We expect additional borrowings of about C\$33 million in 2018-2020, bringing tax-supported debt to 47.9% of consolidated operating revenues by 2020. In addition, tax-supported debt is less than three years' operating surpluses, which, together with very low interest costs (less than 2% of operating revenues on average), support our assessment of the minimal debt burden.

In our view, the county's liquidity is healthy. We estimate free cash and liquid assets will total near C\$175 million in 2018 and cover more than 21x estimated debt service for the period. We expect this ratio to remain well above 100% during the forecast outlook horizon. Similar to that of its domestic peers, Haldimand's access to external liquidity is satisfactory, in our view.

In our opinion, the county has minimal contingent liabilities. Liabilities stemming from retirement related benefits and landfill postclosure liabilities equaled about 18.7% of consolidated operating revenues in 2016.

Key Statistics

Table 1

Haldimand County -- Selected Indicators						
	--Fiscal year ended Dec. 31--					
(Mil. C\$)	2015	2016	2017bc	2018bc	2019bc	2020bc
Operating revenues	110.06	115.72	118.17	121.55	124.78	127.91
Operating expenditures	93.81	92.62	94.06	99.42	101.99	104.89
Operating balance	16.25	23.10	24.11	22.13	22.79	23.02
Operating balance (% of operating revenues)	14.76	19.97	20.40	18.21	18.26	18.00
Capital revenues	2.71	4.81	5.03	5.47	5.68	5.62
Capital expenditures	29.65	27.97	27.33	30.00	30.00	30.00
Balance after capital accounts	(10.69)	(0.06)	1.80	(2.40)	(1.53)	(1.36)
Balance after capital accounts (% of total revenues)	(9.48)	(0.05)	1.46	(1.89)	(1.17)	(1.02)
Debt repaid	3.54	3.53	5.00	6.01	6.20	6.62
Gross borrowings	0.00	7.36	12.33	1.69	11.39	20.05
Balance after borrowings	(14.24)	3.77	9.13	(6.72)	3.66	12.07
Modifiable revenues (% of operating revenues)	85.90	86.81	86.95	87.07	87.41	87.72
Capital expenditures (% of total expenditures)	24.02	23.20	22.51	23.18	22.73	22.24
Direct debt (outstanding at year-end)	35.81	39.64	46.98	42.66	47.85	61.28
Direct debt (% of operating revenues)	32.54	34.26	39.76	35.10	38.35	47.91
Tax-supported debt (outstanding at year-end)	35.81	39.64	46.98	42.66	47.85	61.28
Tax-supported debt (% of consolidated operating revenues)	32.54	34.26	39.76	35.10	38.35	47.91
Interest (% of operating revenues)	1.46	1.27	1.55	1.86	1.67	1.69
National GDP per capita (single units)	55,673	56,129	58,418	59,938	61,829	63,688

Note: 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. 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

Haldimand County -- Ratings Score Snapshot	
Key Rating Factors	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Average
Financial Management	Satisfactory
Budgetary Flexibility	Strong
Budgetary Performance	Strong
Liquidity	Exceptional

Table 2

Haldimand County -- Ratings Score Snapshot (cont.)	
Key Rating Factors	Assessment
Debt Burden	Very low
Contingent Liabilities	Very low

Note: 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" summarizes how the eight factors are combined to derive the foreign currency rating on the government.

Key Sovereign Statistics

Sovereign Risk Indicators, April 10, 2018. Interactive version available at <http://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

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').

Ratings List

Rating Affirmed

Haldimand (County of)

Issuer Credit Rating

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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