S&P Global
Ratings

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Summary:

Haldimand County

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Summary:

Haldimand County

Issuer Credit Rating	AA/Stable/--

Key Rating Factors

Credit context and assumptions	Base-case expectations
We expect supportive institutions and stable management to continue in the Haldimand County following the October 2018 elections, while the economy will remain somewhat concentrated. • Haldimand's largest employers, Stelco and Imperial Oil Ltd., will provide economic stability, despite their concentration in cyclical sectors. • We do not expect major deviations in policy direction following changes in council and administration. • The county's relationship with upper levels of government should remain well-balanced.	A steady stream of capital projects will require moderate levels of new debt. • We forecast Haldimand will maintain its large operating surpluses over the forecast horizon. • These surpluses will partially finance the county's sizable capital program, although we expect some debt issuance to fund the remainder. • A healthy level of liquidity will continue to support creditworthiness.

Outlook

The stable outlook reflects S&P Global Ratings' 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 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 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 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 in southern Ontario. The county has several large industrial employers but, despite some employment concentration and limited growth prospects, it is economically stable. We expect this economic stability will continue to contribute to a solid track record of good fiscal results. These include sizable operating surpluses, moderate after-capital deficits, and a modest debt burden. In our updated base-case scenario for 2019-2021, we expect similar budgetary outturns, that the debt burden will remain well below 60% of operating revenues, and that liquidity will remain healthy. We also believe that Haldimand will continue to benefit from a supportive institutional framework and sound financial management under the county's new council.

We expect supportive institutions and stable management to continue following the October 2018 elections, while the economy will remain somewhat concentrated

We believe that management's adequate expertise in implementing policy changes and accountability will continue following the recent county elections. Mayor Ken Hewitt was re-elected for his third term, while three out of council's six members are new. We expect broad policy continuity under the newly elected government. At the same time, despite some changes in senior administrative positions and a reorganization of some internal responsibilities, we expect suitable succession planning will prevent disruptions to administrative operations. 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 maintained a legacy fund to keep the principal received from the sale of Haldimand County

Hydro Inc. intact.

In addition to policy and administrative continuity, 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, which we expect to be Haldimand's strongest-growing residential community over the next several years. The county's key industries are manufacturing, health care and social assistance, and retail. Stelco and Imperial Oil are two of the largest employers in the area and account for much of Haldimand's employment. Given the county's employment base concentration in cyclical sectors, disrputed operations of either company could negatively affect Haldimand's economic well-being, in our view. Although municipal GDP data are unavailable, we estimate that the county's GDP per capita is above the threshold of US$38,000, as per our criteria, based on its income levels as per the latest available census data.

We believe that Haldimand's demographic profile constrains economic growth prospects. Its population is estimated to be about 48,000 and projected to increase to about 57,000 by 2031. As in the past, those 55 and over represented more than 35% 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.

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 debt issuance

We expect Haldimand to proceed with capital projects over our forecast horizon that will contribute to elevated capital levels averaging about 25% of total spending from 2017-2021. While the county will finance some of these projects with internal resources, supported by high operating surpluses that average 18% of operating revenues over this same period, some projects will require new debt. The largest of these projects are Haldimand's new central administration facility in Cayuga--for which construction began in 2018 and is continuing this year--the Dunnville wastewater treatment plant replacement, work on the Jarvis wastewater system, and work on two libraries. In addition, we expect the county will continue with its heavy transportation-related capital spending, including the acceleration of its gravel road pavement program. We estimate that this level of capital spending will lead to after-capital deficits that average 3.9% of total revenues from 2017-2021.

In addition to elevated capital levels, we expect that Haldimand's budgetary flexibility will continue to benefit from high levels of modifiable revenues that average 87% of operating revenues from 2017-2021. Nevertheless, we believe that the county will have less flexibility to cut operating spending, if required. While the significant capital spending suggests some ability to defer unessential capital projects, we believe that Haldimand'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.

Haldimand's steady debt repayments and operating revenue growth will somewhat temper new debt issuance of about C$49 million from 2019-2021. We forecast that tax-supported debt will reach 51% of operating revenues by 2021. This moderate debt level is supported by high operating surpluses, given that tax-supported debt is less than three years of these surpluses, along with very low interest costs, which represent less than 2% of operating revenues on average.

We believe that Haldimand will maintain healthy liquidity levels. We estimate that free cash and liquid assets will total C$136 million in 2019, and cover more than 17x estimated debt service. We expect this ratio to remain well above 100% during the outlook horizon. At the same time, given Haldimand's high operating surpluses, which consistently represent more than 200% of its debt service, we believe that the county's internal cash flow generation is very robust, supporting its liquidity position. Similar to that of its domestic peers, we also believe 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 18.4% of consolidated operating revenues in 2017.

Key Statistics

Table 1

Haldimand County -- Selected Indicators

	--Year ended Dec. 31--					
(Mil. C$)	**2016**	**2017**	**2018bc**	**2019bc**	**2020bc**	**2021bc**
Operating revenues	115.72	118.94	122.42	127.48	130.46	134.41
Operating expenditures	92.62	95.32	100.95	103.47	108.09	111.16
Operating balance	23.10	23.62	21.47	24.01	22.38	23.25
Operating balance (% of operating revenues)	19.97	19.86	17.54	18.83	17.15	17.30
Capital revenues	4.81	6.35	5.47	5.68	5.62	6.26
Capital expenditures	27.97	26.67	37.20	35.00	35.00	35.00
Balance after capital accounts	(0.06)	3.30	(10.26)	(5.31)	(7.00)	(5.49)
Balance after capital accounts (% of total revenues)	(0.05)	2.63	(8.02)	(3.99)	(5.15)	(3.90)
Debt repaid	3.53	4.26	5.69	6.03	8.57	7.92
Gross borrowings	7.36	12.33	0.00	32.54	1.71	14.31
Balance after borrowings	3.77	11.37	(15.95)	21.20	(13.86)	0.90
Modifiable revenues (% of operating revenues)	86.81	86.89	87.02	86.79	87.65	88.00
Capital expenditures (% of total expenditures)	23.20	21.86	26.93	25.28	24.46	23.95
Direct debt (outstanding at year-end)	39.64	47.72	42.03	68.54	61.68	68.07
Direct debt (% of operating revenues)	34.26	40.12	34.33	53.76	47.28	50.64
Tax-supported debt (outstanding at year-end)	39.64	47.72	42.03	68.54	61.68	68.07
Tax-supported debt (% of consolidated operating revenues)	34.26	40.12	34.33	53.76	47.28	50.64
Interest (% of operating revenues)	1.27	1.24	1.72	1.58	2.41	1.93

Table 1

Haldimand County -- Selected Indicators (cont.)						
	--Year ended Dec. 31--					
(Mil. C$)	2016	2017	2018bc	2019bc	2020bc	2021bc
National GDP per capita (single units)	56,169	58,607	59,838	60,723	62,446	64,365

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 factor	Score
Institutional Framework	Very predictable and well-balanced
Economy	Average
Financial Management	Satisfactory
Budgetary Flexibility	Strong
Budgetary Performance	Strong
Liquidity	Exceptional
Debt Burden	Very low
Contingent Liabilities	Very low

S&P Global Ratings bases its ratings on local and regional governments on the 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," published on June 30, 2014, summarizes how the eight factors are combined to derive the foreign currency rating on the government.

Key Sovereign Statistics

Sovereign Risk Indicators, April 11, 2019. 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

Related Research

- Americas Economic Snapshots: U.S. Data Starts To Improve At First Quarter's End, April 24, 2019
- Public Finance System Overview: Canadian Municipalities, July 18, 2018
- Default, Transition, And Recovery: 2017 Annual International Public Finance Default Study and Rating Transitions, June 11, 2018