

RatingsDirect®

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
<p>We expect supportive institutions and stable management will continue in Haldimand County, while the economy will remain somewhat concentrated.</p> <ul style="list-style-type: none">• We expect Haldimand's operating balance to decline in 2020 due to the impact of the global coronavirus pandemic on the county's economy.• 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.	<p>A steady stream of capital projects will require moderate levels of new debt.</p> <ul style="list-style-type: none">• We forecast Haldimand will experience budgetary stress in 2020 due to the COVID-19 pandemic but that the county will continue to maintain its large operating surpluses from 2021 onward.• 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' expectation 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 during the outlook horizon while maintaining a healthy liquidity position.

Downside scenario

We could take a negative rating 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 is 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. As the global spread of COVID-19 continues, we expect the county will not be immune from the expected deterioration in economic activity and increased budgetary stresses in 2020. While the impact of the pandemic will depend on its rate of spread and duration, S&P Global Ratings' baseline assumption is that the pandemic will peak about midyear globally (see "The Escalating Coronavirus Shock Is Pushing 2020 Global Growth Toward Zero," published March 30, 2020). Therefore, we expect Haldimand's economic activity and financial performance will rebound starting in 2021 and 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 2020-2022, 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 council.

We expect supportive institutions and stable management will continue, while the economy will remain somewhat concentrated.

We believe that management's adequate expertise in implementing policy changes and accountability will continue over the next two years. Mayor Ken Hewitt was reelected for his third term in 2018. We expect broad policy continuity throughout the remainder of his term. At the same time, 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 a conservative internal 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 tourism, manufacturing, agri-food processing, health care and social assistance, and retail. Stelco, CGC Inc., and Imperial Oil are the largest employers in the area and account for much of Haldimand's employment. Given the county's employment base concentration in cyclical sectors, disrupted operations at any of the companies could adversely affect Haldimand's economic well being, in our view. Although GDP data are not available at the local level, we believe the county would have GDP per capita at least in line with that of Canada, based on its income levels as per the latest available census data. We estimate the national GDP per capita to be more than US\$41,000 in 2020.

We believe that Haldimand's demographic profile constrains economic growth prospects. The county's population is estimated to be about 48,000 and is projected to increase to about 68,000 by 2046. As per the county, 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 the county.

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 will proceed with capital projects over our forecast horizon that will lead to after-capital deficits that average 4.7% of total revenues from 2018-2022. While the county will finance some of these projects with internal resources, supported by high operating surpluses that average 17% of operating revenues over this same period, some projects will require new debt. The largest of these projects are the Caledonia Arterial Road, work on the Caledonia wastewater treatment plant, work on the Jarvis wastewater system, and work on two fire/EMS facilities. In addition, we expect the county will continue with its heavy transportation-related capital spending, including the acceleration of its gravel road pavement program.

Haldimand's steady debt repayments and operating revenue growth will somewhat temper new debt issuance of about C\$48 million from 2019-2022. We forecast that tax-supported debt will reach 46% of operating revenues by 2022. 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.

Although the COVID-19 pandemic will have an impact on cash flows for 2020, we believe that Haldimand will continue to maintain healthy liquidity levels. We estimate that the county's total free cash is about C\$96 million, which will cover more than 6x estimated debt service over the next 12 months. We expect this ratio will remain well above 100% during the outlook horizon. Similar to that of its domestic peers, Haldimand's access to external liquidity is satisfactory, in our view.

Key Statistics

Table 1

Haldimand County--Selected Indicators					
	--Fiscal year ended Dec. 31--				
(Mil. C\$)	2018	2019bc	2020bc	2021bc	2022bc
Operating revenues	123	127	126	133	138
Operating expenditures	103	106	106	109	112

Table 1

Haldimand County--Selected Indicators (cont.)					
(Mil. C\$)	--Fiscal year ended Dec. 31--				
	2018	2019bc	2020bc	2021bc	2022bc
Operating balance	20	21	20	24	25
Operating balance (% of operating revenues)	16.0	16.8	15.7	18.1	18.4
Capital revenues	8	7	7	7	7
Capital expenditures	36	35	36	36	36
Balance after capital accounts	(9)	(6)	(9)	(4)	(3)
Balance after capital accounts (% of total revenues)	(7.0)	(4.7)	(6.6)	(3.1)	(2.2)
Debt repaid	5	5	8	7	7
Gross borrowings	0	33	0	4	11
Balance after borrowings	(14)	21	(16)	(7)	1
Direct debt (outstanding at year-end)	43	70	62	60	64
Direct debt (% of operating revenues)	34.6	54.9	49.6	44.9	46.1
Tax-supported debt (outstanding at year-end)	43	70	62	60	64
Tax-supported debt (% of consolidated operating revenues)	34.6	54.9	49.6	44.9	46.1
Interest (% of operating revenues)	1.3	1.1	1.6	1.4	1.4
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	60,011	61,290	58,634	62,727	64,658

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

Haldimand County--Ratings Score Snapshot	
Key rating factors	Scores
Institutional framework	2
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.

Key Sovereign Statistics

- Sovereign Risk Indicators, Dec. 12, 2019. Interactive version available at <http://www.spratings.com/sri>

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Public Finance System: Canadian Municipalities, May 12, 2020
- Credit Conditions North America: Rising Recession Risk Adds To Trade, Rate Uncertainty, Sept. 30, 2019
- Guidance: Methodology for Rating Local and Regional Governments Outside of the U.S., July 15, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019

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