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Ratings

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# Haldimand County

**Primary Credit Analyst:**
Hamzah Saeed, Toronto +1 (416) 507 2527; hamzah.saeed@spglobal.com

**Secondary Contacts:**
Hector Cedano, CFA, Toronto + 1 (416) 507 2536; hector.cedano@spglobal.com
Sabrina J Rivers, New York + 1 (212) 438 1437; sabrina.rivers@spglobal.com

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# Haldimand County

This report does not constitute a rating action.

## Key Rating Factors

| Issuer Credit Rating |
|---|
| AA/Stable/-- |

| Credit context and assumptions | Base-case expectations |
|---|---|
| Supportive institutions and prudent financial management will support Haldimand County's creditworthiness.<br>• Despite the impact of the COVID-19 pandemic, Haldimand's major employers, such as Stelco and Imperial Oil Ltd., will continue to provide economic stability despite their concentration in cyclical sectors.<br>• Strong financial management will continue to allow the county to post healthy operating balances.<br>• We believe the county's relationship with the Province of Ontario will remain well balanced and generally positive. | Steady stream of capital projects will require moderate levels of new debt.<br>• Haldimand will continue to generate large operating margins despite the near-term impact of the pandemic on the county's fiscal position.<br>• Operating surpluses in conjunction with moderate debt issuance will finance the county's sizable capital program.<br>• The county's strong liquidity position will continue to support its 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 during 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 COVID-19 pandemic continues, we expect the county will not be immune from the increased uncertainty around economic activity and budgetary performance in 2021. Although the impact of the pandemic will depend on the rate of virus spread and duration, we believe the county's prudent financial management and cost-containment efforts will continue to help generate strong fiscal results. These include sizable operating surpluses, moderate after-capital deficits, and a modest debt burden. In our updated base-case scenario for 2021-2023, we expect similar budgetary outturns, and that the debt burden will remain well below 60% of operating revenues and liquidity will be healthy.

### Supportive institutions and prudent financial management will support Haldimand County's creditworthiness.

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 corresponding funding sources. We believe that debt and liquidity management remains prudent, with a formal investment policy and a conservative internal debt limit.

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 wellbeing, 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 will be more than US$49,000 in 2021.

We believe that Haldimand's demographic profile constrains economic growth prospects. The county's population is estimated to be about 50,100 and is projected to increase to about 56,700 by 2031. As per the county, those 65 and over represented more than 18% of the total estimated population. Although 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.

### Steady stream of capital projects will require moderate levels of new debt

We expect Haldimand will proceed with capital projects over our forecast horizon that will lead to after-capital deficits that average 4.6% of total revenues from 2019-2023. While the county will finance some of these projects with internal resources, supported by high operating surpluses that average 16% of operating revenues over this same period, some projects will require new debt. The largest of these projects are the Caledonia Arterial Road, 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 assist in managing the county's new debt issuance of about C$24 million from 2020-2023. We forecast that tax-supported debt will reach 47% of operating revenues by 2023. This moderate debt level is supported by high operating surpluses, given that tax-supported debt is less than four years of these surpluses, along with very low interest costs, which represent less than 2% of operating revenues, on average.

Haldimand has a strong and stable liquidity position. We estimate free cash balances and investments will be about C$86 million in the next 12 months. This should cover about 10x next 12 months' debt service. 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** | **2019** | **2020bc** | **2021bc** | **2022bc** | **2023bc** |
| Operating revenues | 123 | 141 | 131 | 133 | 135 | 140 |
| Operating expenditures | 103 | 108 | 110 | 114 | 117 | 119 |
| Operating balance | 20 | 32 | 21 | 19 | 18 | 21 |
| Operating balance (% of operating revenues) | 16.0 | 23.0 | 16.1 | 14.1 | 13.6 | 14.8 |
| Capital revenues | 8 | 9 | 6 | 6 | 6 | 6 |
| Capital expenditures | 36 | 41 | 34 | 34 | 34 | 34 |
| Balance after capital accounts | (9) | 1 | (7) | (9) | (9) | (7) |
| Balance after capital accounts (% of total revenues) | (7.0) | 0.4 | (5.0) | (6.6) | (6.7) | (5.0) |
| Debt repaid | 5 | 5 | 8 | 7 | 7 | 7 |

**Table 1**

| Haldimand County--Selected Indicators (cont.) | | | | | | |
|---|---|---|---|---|---|---|
| | --Fiscal year ended Dec. 31-- | | | | | |
| (Mil. C$) | 2018 | 2019 | 2020bc | 2021bc | 2022bc | 2023bc |
| Gross borrowings | 0 | 33 | 0 | 11 | 4 | 9 |
| Balance after borrowings | (14) | 28 | (14) | (5) | (13) | (5) |
| Direct debt (outstanding at year-end) | 43 | 70 | 62 | 67 | 64 | 66 |
| Direct debt (% of operating revenues) | 34.6 | 49.7 | 47.8 | 50.1 | 47.1 | 47.0 |
| Tax-supported debt (outstanding at year-end) | 43 | 70 | 62 | 67 | 64 | 66 |
| Tax-supported debt (% of consolidated operating revenues) | 34.6 | 49.7 | 47.8 | 50.1 | 47.1 | 47.0 |
| Interest (% of operating revenues) | 1.3 | 1.0 | 1.6 | 1.4 | 1.2 | 1.0 |
| National GDP per capita (single units) | 60,196 | 61,466 | 57,994 | 63,315 | 65,056 | 67,332 |

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, April 12, 2021. An interactive version is 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: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Prudent Financial Management And A Strong Institutional Framework Are Helping Canadian Municipalities Negotiate The Impact of COVID-19, Nov. 30, 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

| Ratings Detail (As Of May 13, 2021)* | |
|---|---|
| **Haldimand (County of)** | |
| Issuer Credit Rating | AA/Stable/-- |
| Senior Unsecured | AA |
| **Issuer Credit Ratings History** | |
| 15-May-2017 | AA/Stable/-- |
| 21-May-2014 | AA-/Stable/-- |
| 23-May-2013 | A+/Stable/-- |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.