

RatingsDirect®

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

Table Of Contents

Key Rating Factors

Outlook

Rationale

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria

Related Research

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
<p>Supportive institutions and prudent financial management will support Haldimand County's creditworthiness.</p> <ul style="list-style-type: none"> • 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. • Strong financial management will continue to allow the county to post healthy operating balances. • We believe the county's relationship with the Province of Ontario will remain well balanced and generally positive. 	<p>Steady stream of capital projects will require moderate levels of new debt.</p> <ul style="list-style-type: none"> • Haldimand will continue to generate large operating margins despite the near-term impact of the pandemic on the county's fiscal position. • Operating surpluses in conjunction with moderate debt issuance will finance the county's sizable capital program. • 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.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.