S&P Global
Ratings

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Research Update:

Haldimand County 'AA' Ratings Affirmed; Outlook Remains Stable

May 7, 2024

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Overview

- We expect Haldimand County's increased capital works plan to require some larger-than-usual capital expenditures and debt issuances through 2026 and beyond.
- However, we expect that operating results will remain strong and stable, and liquidity will be more than sufficient to cover debt service.
- Therefore, S&P Global Ratings has affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the county.
- The stable outlook reflects our expectation that Haldimand will continue to generate strong operating results and moderate after-capital deficits on average through the outlook horizon, and that liquidity will remain strong.

Rating Action

On May 7, 2024, S&P Global Ratings affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on Haldimand County, in the Province of Ontario. The outlook is stable.

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 on average, supported by sound financial management practices and a steady economy. We also expect the county will keep its tax-supported debt burden manageable during the outlook horizon while maintaining a good liquidity position.

Downside scenario

We could take a negative rating action if weaker operating performance or cost overruns associated with elevated capital spending pushed Haldimand's after-capital deficits to greater than 5% of total revenues, and higher-than-planned external borrowing increased tax-supported debt to more than 120% of operating revenues.

Upside scenario

We could raise the rating if we expected the county to post sustained after-capital surpluses, or if shifts in the county's capital plan significantly diminished debt issuance needs. However, we view this scenario as unlikely during the next two years.

Rationale

In the near future, Haldimand is set to undertake a large capital plan for key water and wastewater infrastructure upgrades, which we expect will lead to modest after-capital deficits, driving up debt issuance both in and beyond the outlook horizon. At the same time, we believe that the county's prudent financial management will allow it to generate sizable operating surpluses and sustain levels of liquidity more than sufficient to cover 12 months of debt service.

Supportive institutions and prudent financial management continue to support Haldimand's creditworthiness.

In our view, Haldimand's local economy will continue to benefit from its proximity to the City of Hamilton, which offers business and employment opportunities to residents and local employers. In particular, the communities of Caledonia and Hagersville within the county have seen the most development and growth in recent years, which we expect will remain steady and ongoing. Haldimand's key industries are tourism, manufacturing, agri-food processing, and construction. Stelco and Imperial Oil Ltd. are among the largest employers in the area and account for much of the county's employment. We believe the employment concentration in these cyclical sectors could hamper the county's economy in the case of disrupted operations at either company. Although GDP data are not available at the local level, we believe the county would have GDP per capita in line with that of Canada, based on its income levels as per 2021 Census data. Thus, we estimate national GDP per capita will be more than US$55,400 in 2024.

Haldimand's demographic profile constrains economic growth prospects, in our view. The county's population is estimated to be about 49,216; as per the 2021 Census, approximately 21% of the population is over the age of 65, above the national level of 19%. Although new developments in Caledonia and Hagersville might work to offset this trend in the medium term, we believe aging demographics could still shrink the labor pool and hinder investment in the county.

We believe that management's expertise in implementing policy changes and accountability will remain stable over the next two years. The county presents a one-year, detailed tax-supported operating budget; a one-year, rate-supported operating budget; and 10-year tax- and rate-supported detailed capital plans with corresponding funding sources. We expect that debt and liquidity management will remain prudent, with a formal investment policy and a conservative internal debt limit. One of management's key priorities over the next several years is the development of a long-term financial strategy. At the same time, management is working to mitigate the impacts of employee turnover on management continuity.

As do other Canadian municipalities, Haldimand benefits from an extremely predictable and supportive local and regional government framework that has demonstrated high institutional stability and evidence of systemic extraordinary support in times of financial distress. Most recently through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. 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) through reserve contributions. Municipalities have demonstrated a track record of strong budget results and, therefore, debt burdens, on average, are low relative to those of global peers and growth over time has been modest.

An increasing capital plan will require moderate levels of new debt both in and beyond the outlook horizon.

Over the forecast horizon, our base-case scenario is that Haldimand will continue to generate high operating surpluses, averaging about 21% of adjusted operating revenues through the period 2022-2026. Although in recent years, Haldimand has generated positive after-capital balances, we expect to see a reversion to modest capital deficits as it undertakes its large capital plan in the face of below-trend economic growth. Therefore, we expect after-capital deficits will average 0.5% in the same period. Fueled by rising growth demands in the county, in particular in Caledonia and Hagersville, capital spending is set to increase in the next several years as the county undertakes multiple large capital projects, including its multiphase Wastewater Treatment Plant in Caledonia, while continuing work on its state-of-good-repair capital plan.

We view Haldimand's debt burden as modest, bolstered by steady repayments. High operating balances, additionally, will support the county in managing its debt burden. Over the outlook horizon, the county intends to issue C$65 million in debt to fund capital projects, resulting in a debt burden of 54% of operating revenues by 2026. We also believe that the county will issue additional debt beyond the outlook horizon related to the aforementioned capital plans, which we expect to push its cumulative debt burden above 60%. Of note, most of these issuances will be supported by water and wastewater rates, as well as developer contributions. Haldimand's high operating surpluses bolster our assessment of the county's debt, as do very low interest costs that represent less than 1.5% of operating revenues, on average.

Haldimand has a strong and stable liquidity position. We estimate free cash balances and investments will be about C$144 million in the next 12 months. This should cover about 15x the next 12 months' debt service. Like 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-end Dec. 31--					
(Mil. C$)	**2021**	**2022**	**2023bc**	**2024bc**	**2025bc**	**2026bc**
Operating revenues	139	154	151	156	160	163
Operating expenditures	102	115	121	124	127	132
Operating balance	38	40	31	33	33	31

Table 1

Haldimand County -- Selected indicators (cont.)

	--Fiscal year-end Dec. 31--					
(Mil. C$)	**2021**	**2022**	**2023bc**	**2024bc**	**2025bc**	**2026bc**
Operating balance (% of operating revenues)	27.0	25.7	20.3	20.9	20.4	19.0
Capital revenues	9	16	16	15	15	15
Capital expenditures	25	40	51	50	54	54
Balance after capital accounts	21	16	(4)	(2)	(7)	(8)
Balance after capital accounts (% of total revenues)	14.4	9.6	(2.4)	(1.4)	(3.8)	(4.6)
Debt repaid	7	8	8	7	9	14
Gross borrowings	8	4	0	14	49	2
Balance after borrowings	23	13	(12)	5	34	(20)
Direct debt (outstanding at year-end)	64	61	53	60	100	88
Direct debt (% of operating revenues)	45.9	39.4	34.8	38.3	62.6	54.1
Tax-supported debt (outstanding at year-end)	64	61	53	60	100	88
Tax-supported debt (% of consolidated operating revenues)	45.9	39.4	34.8	38.3	62.6	54.1
Interest (% of operating revenues)	1.3	1.2	1.2	1.0	1.2	2.5
National GDP per capita (single units)	65,825	72,249	72,047	73,083	74,672	77,095

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.

Ratings Score Snapshot

Table 2

Haldimand County -- Ratings score snapshot

Key rating factors	Scores
Institutional framework	1
Economy	3
Financial management	3
Budgetary perfomance	2
Liquidity	1
Debt burden	1

Table 2

Haldimand County -- Ratings score snapshot (cont.)

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 8, 2024. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- Institutional Framework Assessment: Canadian Municipalities Employ Flexibilities Within Fiscal Framework To Temper Cost Pressures, April 2, 2024
- Economic Outlook Canada Q2 2024: Staying Subdued, March 26, 2024
- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, March 26, 2024
- S&P Global Ratings Definitions, June 9, 2023

Ratings List

Ratings Affirmed	
Haldimand (County of)	
Issuer Credit Rating	AA/Stable/--
Haldimand (County of)	
Senior Unsecured	AA

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.