

Overview of Credit Rating Process and Local & Regional Government Criteria

Presentation to the City of Hamilton

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I. Introduction

The purpose of the following presentation is to:

- Explain the credit rating process;
- Explain the criteria that applies to international (non-U.S.) LRGs;
- Examine Hamilton's rating in relation to the criteria; and
- Compare Hamilton's rating to other similarly rated LRGs.

I. Introduction: What is a credit rating?

- **A credit rating is a forward-looking opinion on the general creditworthiness of an obligor, debt security, or other financial obligation.**
- **Creditworthiness is defined as the ability and willingness of an issuer to meet its financial obligations in full and on time.**
- **S&P intends for each rating level to connote the same general level of creditworthiness for issuers and issues in different sectors and at different times.**
- **Credit ratings are not buy, sell, or hold recommendations, or a measure of asset value. Nor are they intended to signal the suitability of an investment. They are not intended as guarantees of credit quality or as exact measures of default probability.**

The Credit Rating Process

II. The Credit Rating Process

- **Broadly speaking, the rating surveillance process tracks through three successive stages:**
 - 1) Collecting and organizing information;**
 - 2) Analyzing the information and reviewing the ratings (for affirmation or revision) in a rating committee; and**
 - 3) Communicating the rating decision.**
- **Surveillance of credit ratings is ongoing; however a full review of each rating is done annually augmented by portfolio reviews and event-driven reviews as needed.**

II. The Credit Rating Process: Collecting information

- **The analytical team obtains all relevant publicly available information for review before meeting management;**
- **The analytical team meets with management in order to review various aspects of the LRGs operations, generally following an agenda which mirrors the rating factors as set out in the criteria;**
- **This is an opportunity for S&P to become more familiar with the economic and political profile, management team and strategies, capital plans, and financial profile of the LRG;**
- **Management may also share non-public or confidential information which S&P will not disclose without permission;**
- **Open and candid interaction with management is key to the proper surveillance of an entity's credit rating and is maintained even when the rating is not under direct review.**

II. The Credit Rating Process: Rating committee

- **The analytical team reviews the material gathered at the management meeting and works with management to ensure that any questions are dealt with before the rating committee;**
- **Analysts employ fundamental credit analysis in accordance with S&P methodology and criteria and follow a systematic framework to arrive at a rating recommendation;**
- **Members of the rating committee contribute their own ideas and experience, and the rating recommendation and supporting arguments may continue to evolve and be refined during the committee process. The final rating is the result of the committee vote for each individual rating factor and the overall rating.**

II. The Credit Rating Process: Communicating the rating

- **Once the rating committee determines the rating, the analytical team notifies management and discusses the major supporting considerations;**
- **S&P will then provide one advance copy of our research update to management to review within a two hour window;**
- **S&P will take comments into consideration but is not obligated to make any changes. A change that corrects a factual error or prevents the inadvertent release of confidential information will be adopted;**
- **S&P will then release the rating to the market by both electronic means and print media at which point the rating is public and can be disseminated by the issuer.**

International Local and Regional Government Criteria

III. Background: International LRG criteria

- **International LRG rating criteria focuses on eight rating factors, with quantitative and qualitative inputs resulting in a score between “1” (strongest) and “5” (weakest).**
- **Exception is the institutional framework score where S&P assigns scores from “1” (strongest) to “6” (weakest).**
- **The quantitative factors determine the so called “anchor score”, which can then be adjusted based on qualitative factors up or down by one (in exceptional cases by two) categories (an adjustment of up to three categories is possible for the liquidity score).**
- **Finally, the eight scores result in a “matrix outcome”. This matrix outcome might be adjusted by some “overriding factors” resulting in the final rating.**

III. Analytical framework for rating international LRGs

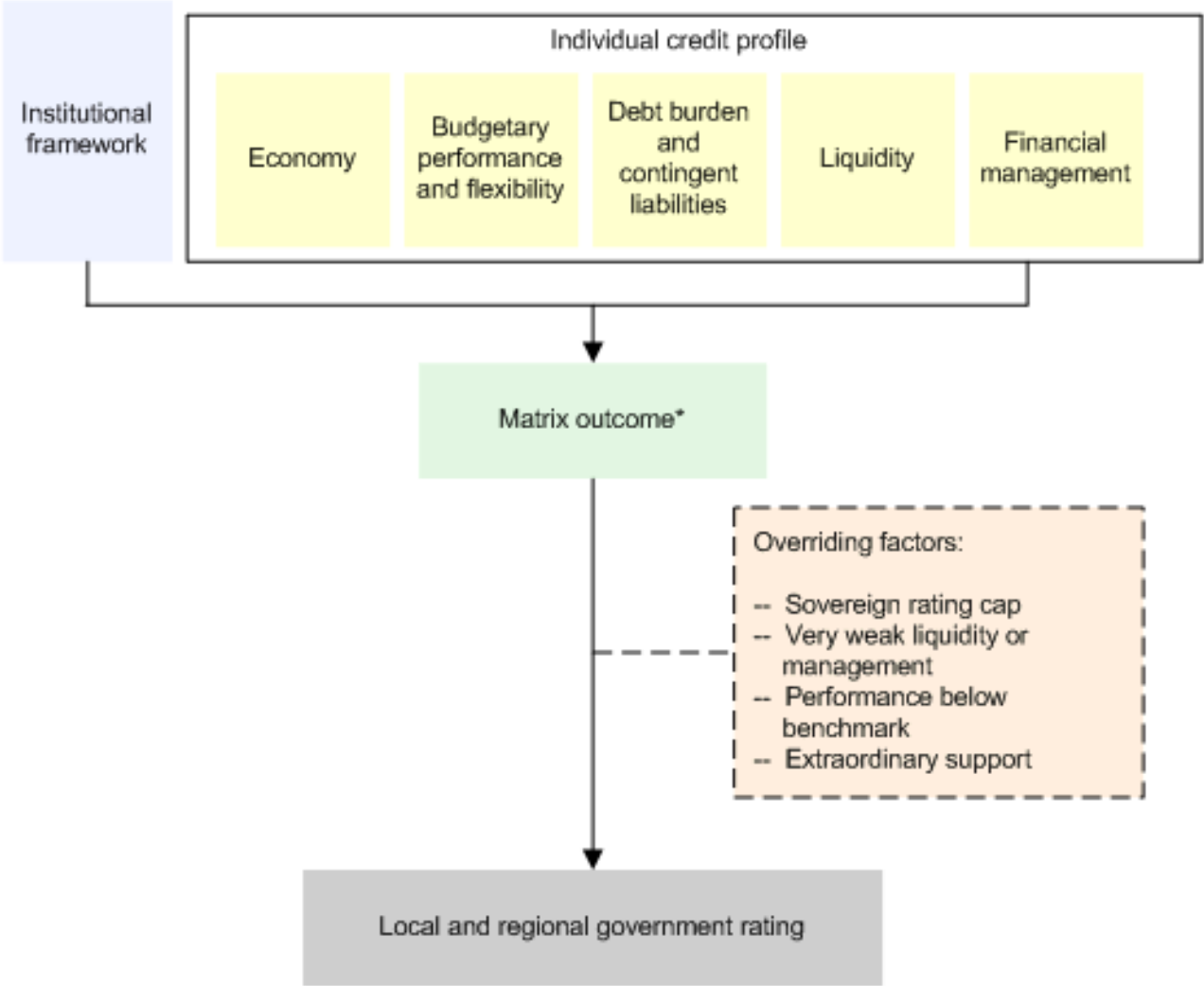
The analytical framework to rate non-U.S. LRGs consists of combined quantitative and qualitative analysis around eight major factors:

- **Institutional framework** – the only LRG rating factor that Standard & Poor's assesses on a country basis for each level of government.

The seven remaining factors are based on the individual characteristics of an LRG and are combined in a weighted average to determine the Individual Credit Profile (ICP):

- **Economy**
- **Financial management**
- **Budgetary flexibility**
- **Budgetary performance**
- **Liquidity**
- **Debt burden**
- **Contingent liabilities**

III. Analytical framework for rating international LRGs



*See table 1 for further details. LRGs—Local and regional governments.
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III. Analytical framework for rating international LRGs

Table 1. Individual Credit Profile matrix for determining an indicative LRG credit level

		Individual credit profile									
		Score	1	1.5	2	2.5	3	3.5	4	4.5	5
Score	Descriptor	Extremely strong	Very strong	Strong	Relatively strong	Intermediate	Relatively weak	Weak	Very weak	Extremely weak	
Institutional framework	1	Predictable & supportive	AAA	AAA	AA+	AA	AA-	A	BBB+	BB+	SG
	2	Predictable & well balanced	AAA	AA+	AA	AA-	A+	A-	BBB	BB	SG
	3	Evolving but sound	AAA	AA	AA-	A+	A-	BBB	BB+	BB-	CCC/CC
	4	Consolidating & uneven	-	A+	A	A-	BBB	BB+	BB-	B	CCC/CC
	5	Developing & unbalanced	-	A-	BBB+	BBB	BB+	BB-	B	B-	CCC/CC
	6	Volatile & underfunded	-	-	BBB-	BB+	BB-	B+	B-	CCC+	CC

SG - speculative grade. LRG - local and regional government

- **The Institutional Framework score for all LRGs within Canada is “2”.**
- **S&P expects that the LRG rating would in most cases fall within one notch of the matrix outcome, based on the LRG’s positioning relative to peers.**



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IV. Assessing ICP: Economy

The economy score aims to measure how economic factors are likely to impact an LRG's revenue generation capability and spending needs and ultimately its ability to service debt in the medium to long term. In assessing the economic strength of an LRG, S&P reviews the following factors: wealth and income levels, diversification of the economic structure, demographic profile, and growth prospects.

GDP per capita **(nominal USD)	>35.000	>25.000	>12.000	>4.000	<4.000
Anchor score:	1	2	3	4	5
Qualitative factors with a positive impact on the anchor score:			Qualitative factors with a negative impact on the anchor score:		
<p>-Above-average growth prospects compared to peers in the anchor category, supporting robust revenue growth (e.g. expected medium term trend in real GDP growth $\geq 3\%$ p.a. in mature economies and $\geq 6\%$ p.a. in developing economies).</p> <p>- Exceptionally broad and diversified economy compared to peers in the anchor category (e.g. capital city in a developing economy) providing a strong resilience to economic cycles.</p>			<p>- Negative budget impact from demographic profile: population decline and/or high share of dependent population have a material negative impact on future revenue growth and expenditure needs.</p> <p>- Very volatile and/or concentrated economy with significant exposure to a single vulnerable or cyclical industry (>20% of GVA*** or employment) and/or to a single tax-payer (>20% of tax revenues), leading to potential revenue volatility.</p> <p>- Very high unemployment ($\geq 15\%$) if it has material impact on the LRG's budget.</p> <p>- Limited growth prospects due to structural economic and/or natural handicaps and/or large infrastructure needs leading to flat or declining medium term trend in real GDP growth.</p>		
<p>Overall economic score = the 'anchor score' is adjusted by one and exceptionally two categories up or down based on the net effect of the qualitative factors. The adjustment impact of each qualitative factor may vary from 1 (in most cases) to exceptionally 2 categories depending on the materiality of its deviation from its peer group.</p>					

** 3 year average using average annual exchange rate ***GVA: gross value added

IV. Assessing ICP: Financial management

The financial management score aims to measure how the quality of an LRG's financial management and its political context are likely to affect its willingness and ability to service debt over time by analyzing its:

- **Transparency and disclosure;**
- **Budgeting;**
- **Long-term capital and financial planning;**
- **Revenue and expenditure management;**
- **Debt management;**
- **Reserve and liquidity management;**
- **Management of government-related entities;**
- **Political and managerial strength; and**
- **External risk management.**

Some factors would drive our entire assessment down if they are assigned the lowest score. Those factors are "transparency and disclosure," "debt management," "liquidity management," and "political and managerial strength."

IV. Assessing ICP: Financial management

Descriptor	Characteristics
Very positive	The LRG has very prudent fiscal targets backed by widespread political support and implemented by sophisticated management. It has transparent and well-defined financial policies reflected in reliable and public long-term planning and very good reporting. The management demonstrates a high degree of expertise, through very good planning and monitoring, prudent and well-defined debt and liquidity management, and active external risk management.
Positive	The LRG has prudent financial policies and practices that ensure a good degree of transparency and fiscal discipline through the electoral cycles. The management demonstrates relevant expertise, through good planning and monitoring, prudent debt and liquidity management, and some monitoring of external risks.
Neutral	The LRG has generally prudent financial policies, but they are frequently changed and may lack precision. The management is transparent and has adequate expertise, with good though not detailed planning and monitoring and generally prudent debt and liquidity management. But it may lack a comprehensive strategy to manage external risks.
Negative	The LRG's financial management is underdeveloped in some areas. In a stress scenario, the government may lack the political strength to impose fiscal discipline. Reporting meets the legal standard but is not very detailed and timely. Planning and monitoring are limited. The management of debt and liquidity may be unpredictable to a degree, while any external risk mitigation is minimal.
Very negative	The LRG has a weak financial and credit culture, including poor monitoring and reported information that meets just the minimum requirements to maintain a rating. A lack of political stability makes it difficult to impose fiscal discipline. The management lacks the relevant skills for planning and monitoring. The management of debt and liquidity is unpredictable and sometimes aggressive, while key external risks have not been identified.

IV. Assessing ICP: Budgetary flexibility

The budgetary flexibility score aims to measure how much an LRG could increase its revenues or reduce its expenditures in case of need, in order to maintain its debt servicing ability. An LRG's revenue flexibility depends, in our view, on three main factors:

- Its ability to raise taxes, fees, or tariffs;
- The political willingness and economic limits that could curb use of this flexibility; and
- Potential revenues from asset sales.

	Modifiable revenues as % of adjusted operating revenues				
Capex as % of total expenditures	>70%	>50%	>30%	>10%	<10%
>15%	1	2	3	4	4
<15%	2	3	3	4	5
Qualitative factors with a positive impact on the anchor score:			Qualitative factors with a negative impact on the anchor score:		
<p>- Demonstrated capacity and willingness to cut operating spending (by more than 5%), thanks to a flexible cost structure, flexible legislation and/or widespread political support.</p> <p>- Above-average capacity to generate revenues from assets sales (outstanding of sellable assets estimates to > 20% of the LRG's revenues).</p>			<p>- Very limited adjustment capacity on modifiable revenues (by less than 3%) either because tax rates are already high or because tax collections levels are very low or because tax pressure is above peer and/or because of lack of political willingness to increase taxes.</p> <p>- Very limited capacity to cut expenditures, because of significant infrastructure needs or large scale projects and/or because of significant pressure on operating costs and/or because of political priorities.</p>		
<p>Overall flexibility score = the 'anchor' score is adjusted by one and exceptionally two categories up or down based on the net effect of the qualitative factors. The adjustment impact of each qualitative factor generally counts for 1 category.</p>					

IV. Assessing ICP: Budgetary performance

The budgetary performance score aims to measure the level and volatility of an LRG's expected cash flows from operations and investment activities, available to service debt within a forward looking perspective. It also aims to gauge the efficiency of the LRG's financial policy.

	Balance after capital accounts as % total adjusted revenues *				
Operating balance as % adjusted operating revenues *	> 0	<-5%	<-10%	<-15%	> -15%
> 5%	1	2	3	4	4
<5%	2	3	3	4	5
< 0%	NA	4	4	5	5
Qualitative factors with a positive impact on the anchor score:	Qualitative factors with a negative impact on the anchor score:				
<ul style="list-style-type: none"> - Expected structural improvement *: if our baseline forecasts evidence a material structural improvement from the period average*, we would adjust the score to the level of the expected performance. - High cash reserves levels: in cases where deficits are temporary and can be totally or partially covered by cash reserves, the score would be adjusted to reflect the level deficits uncovered by reserves 	<ul style="list-style-type: none"> - Expected structural deterioration: if our baseline forecasts evidence a material structural deterioration from the period average*, we would adjust the score to the level of the expected performance. - Significant volatility in performance because high inflation and/or very cyclical revenues and/or dependence on volatile state transfers and/or exposure to event risk. - Under estimated cash outflows: in cases where good ratios hide significant under spending and/or large unpaid suppliers debt and/or off-budget financing through public companies. 				
Overall performance score = the 'anchor' score is adjusted by one and exceptionally two categories up or down based on the net effect of the qualitative factors. The adjustment impact of each qualitative factor generally counts for 1 category.					

* based on the average of 2 years actuals, current year budget or estimate and 2 years Standard & Poor's forecasts

IV. Assessing ICP: Liquidity

The liquidity score aims to measure how an LRG's internal sources of liquidity, such as cash reserves and cash flow generation, and external sources, namely bank lines and market access, are likely to impact its debt servicing capability in a forward looking perspective.

Access to external liquidity	Characteristics
Exceptional	Same as 'strong' + legally-defined exceptional access to sources of liquidity from other levels of governments or government-owned bank or agency
Strong	<ul style="list-style-type: none"> - Proven track-record of sufficient access to a deep and liquid capital market at all times including during periods of severe market dislocation such as 2008 and 2009 - Access to a strong and diversified pool of domestic and international banks (BICRA score 1 to 3)
Satisfactory	<ul style="list-style-type: none"> - Limited track record of issuance on the capital market - Access to a strong and diversified pool of domestic and international banks (BICRA score 1 to 4)
Limited	<ul style="list-style-type: none"> - Possible legal restrictions on the use of debt instruments for liquidity management - Limited development of domestic capital market for LRGs - Generally good access to the domestic banking system, but limited number of players in the LRG field and/or moderate strength of the domestic banking system (BICRA score 4 to 8)
Uncertain	<ul style="list-style-type: none"> - Possible legal restrictions on the use of debt instruments for liquidity management -Undeveloped domestic capital market for LRGs -Weak domestic banking system with limited number of lenders to LRGs (BICRA score 7 to 10)

IV. Assessing ICP: Liquidity

In analyzing liquidity, Standard & Poor's focuses on the:

- Importance of the national framework;
- Internal cash flow generation capability;
- External liquidity deriving from committed bank facilities and market access; and
- Use of stress analysis in cases where LRGs encounter substantial market turbulence.

Free cash & liquid assets as % of next 12 months debt service	(Free cash and liquid assets + committed bank lines) As % of next 12 months debt service				
	>100%	>120%	80-120%	80-40%	<40%
Anchor score:	1	2	3	4	5
Qualitative factors with a positive impact on the anchor score:			Qualitative factors with a negative impact on the anchor score:		
<ul style="list-style-type: none"> - Access to external liquidity is 'exceptional' (2 categories up) or 'very strong' (1 category up). - Very robust and stable internal cash flow generation capacity compared to peers in this category (operating balance before interest / debt service \geq 2) 			<ul style="list-style-type: none"> - Access to external liquidity is 'limited' (1 category down) or 'uncertain' (2 categories down). - Very large expected funding needs from working capital and investments, including potential large amounts of unpaid supplier debt at the level of the LRG or its companies (>4 months of operating spending). - Very high volatility of cash flows and/ or very lumpy debt amortization profile with large bullet maturities not captured in the 12 month coverage ratio. 		
<p>Overall liquidity score = the 'anchor' score is adjusted by one and exceptionally two or three categories up or down based on the net effect of the qualitative factors. The adjustment impact of each qualitative factor may vary from 1 (in most cases) to 2 categories (in cases when access to external liquidity is 'exceptional' or 'uncertain').</p>					

IV. Assessing ICP: Debt burden

The debt burden score aims to measure how our expectations for the level, structure, and sustainability of an LRG's debt is likely to impact its debt servicing capability in a forward looking perspective.

Anchor Score Derived from Combined Ratios					
	Tax-supported debt§ as % consolidated operating revenues *				
Interest as % of operating revenues	<30%	<60%	<120%	<180%	>180%
< 5%	1	2	3	4	N/A
5-9%	2	3	4	4	5
>9%	N/A	4	5	5	5
Qualitative factors with a positive impact on the anchor score:			Qualitative factors with a negative impact on the anchor score:		
<p>- Net direct debt* much lower than peers in the same category: in cases when LRGs have debt but also structurally high cash reserves</p>			<p>- Potential significant volatility in debt burden from high exposure to market risks: for instance exposure to interest rates or currency fluctuations, very short term maturity profile (<2 years), aggressive use of derivative instruments, that could lead to an increase of the cost & level of debt to the next category.</p> <p>- Large share of unfunded pension liabilities with no clear policy to reduce the deficit over time (> to 50% of operating revenues)</p>		
<p>Overall debt score = the 'anchor' score is adjusted by one and exceptionally two categories up or down based on the net effect of the qualitative factors. The adjustment impact of each qualitative factor generally counts for 1 (in most cases) to exceptionally 2 categories depending on the materiality of its deviation from its peer group.</p>					

§) based on forecasted debt level in a two years horizon for investment grade credits and one year for non investment grade credits.

IV. Assessing ICP: Contingent liabilities

The contingent liabilities score measures to what extent the risk of occurrence of some off-balance sheet risks and their relative size are likely to impair an LRG's capacity to repay its debt in the medium to long term.

Contingent liabilities Score	Characteristics
1	<ul style="list-style-type: none"> - The LRG has very limited contingent liabilities (no large GRES, no large litigation, no PPP or securitization, and no OPEBs.). - Or the LRG may have a share in some GRES, but the latter are operating in a very low risk industry and boast strong financial situation. They are a potential source of profit through asset sales rather than a liability.
2	<ul style="list-style-type: none"> - The LRG has a few self-supporting GRES of material size (debt >20% of the LRG's revenues), but they operate in low risk sectors and they have a good financial profile. - Litigations & other contingent risks are modest, representing an annual impact estimated at less than 2% of the LRG's budget size, or covered through adequate provisions.
3	<ul style="list-style-type: none"> - The LRG has a majority share in self-supporting large GRES, which stand-alone credit profile is estimated to be one or more rating categories below that of the LRG. We believe that the LRG would likely support those GRES in case of stress and the estimated maximum loss under a stress scenario is estimated to less than about 15% of the LRG's operating revenues - Litigations & other contingent risks are moderate (annual impact estimated to <4% of the LRG's budget size) or partially covered through provisions.
4	<ul style="list-style-type: none"> - The LRG has a majority share in one or more large self-supporting GRES, which stand-alone credit profile is estimated to be one or more rating categories below that of the LRG. We believe that the LRG would likely support those GRES in case of stress and the estimated maximum loss under a stress scenario is estimated to less than 30% of the LRG's operating revenues. - The LRG may be faced with natural catastrophes or geopolitical risks, but the probability of materialization of those risks is very low. - Litigations & other contingent risks are manageable (annual maximum impact estimated to <6% of the LRG's budget size).
5	<ul style="list-style-type: none"> - The LRG has a majority share in one or more large self-supporting GRES. We believe that the LRG would likely support these GRES in the event of financial stress and we estimate maximum loss under a stress scenario at more than about 30% of the LRG's operating revenues. Other contingent risks are potentially sizable but information to assess them is scarce. - The LRG could face natural catastrophes or geopolitical risks, but the probability of materialization of those risks is low.

Examining Hamilton's Credit Rating

V. Hamilton (AA/Stable)

The 'AA' ratings on Hamilton reflect Standard & Poor's view of the City's strong liquidity, good budgetary performance, and economic growth prospects. In our opinion, rising debt levels spurred by significant capital spending requirements and constrained budgetary flexibility partially offset these strengths.

The stable outlook reflects our expectations that throughout the two-year outlook horizon, Hamilton will maintain a strong liquidity position, budgetary performance will not deteriorate such that operating balances fall to below 5% of operating revenues, and that tax-supported debt will not materially exceed 60% of operating revenue.

V. Hamilton: Financial statistics

(%; all figures S&P adjusted)	2011	2010	2009	2008	2007
Capital expenditure/total expenditure	25.1	23.6	20.7	17.8	19.4
Modifiable revenue/operating revenue	83.8	76.9	82.0	81.4	81.4
Operating balance/operating revenue	13.6	18.8	7.1	13.2	12.7
Balance after capital accounts/total revenue	(1.9)	0.8	(10.8)	9.3	2.5
Free cash and liquid assets/debt service	968.5	1,320.8	1,334.6	1,523.7	1,600.6
Tax-supported debt/consolidated operating revenue	26.7	28.2	31.6	33.5	33.2
Interest/operating revenue	1.3	1.3	1.4	1.5	1.5

V. Hamilton: Economy

Pros:

- **Diversifying with good growth prospects;**
- **Integration with GTA economy and proximity to U.S. markets;**
- **Strong public sector including health care and post-secondary education.**

Cons:

- **Some concentration remains in manufacturing, particularly the steel industry, which continues to struggle;**
- **Household income below provincial average;**
- **Aging population (not unique to Hamilton).**

V. Hamilton: Financial management; contingent liabilities

Financial management:

- **Thorough and transparent reporting;**
- **Culture of best practices;**
- **Comprehensive long-range capital budget forecasts;**
- **Robust policies in place but lacking a debt management policy;**
- **Good working relationship with council.**

Contingent liabilities:

- **Mostly related to standard future employee benefits and obligations, and landfill post-closure costs;**
- **Considered moderate at 25% of 2011 operating revenue;**
- **Higher than many domestic peers but reserves are in place to cover about 20% of these liabilities.**

V. Hamilton: Budgetary flexibility

Pros:

- **Very high proportion of modifiable revenues reduces Hamilton's reliance on external funding and grants the City a greater autonomy over revenue sources;**
- **Capex as a percentage of total expenditures is also high, suggesting ability to defer capex in some instances.**

Cons:

- **Aging infrastructure limits deferability of capital spending;**
- **Wages and benefits account for almost half of all reported operating expenditures and are often subject to collective agreements;**
- **High level of spending on provincially mandated services limits ability to contain expenditures.**

V. Hamilton: Budgetary performance

- **Robust operating balances are in line with peers and contribute to pay-as-you-go financing of capital expenditures;**
- **Volatility in after-capital balances and recent deficits are partially due to lower development-related revenues stemming from weaker development activity and subsidized industrial development charges;**
- **S&P expects that operating balances will remain near current levels but that fairly high capital spending on infrastructure renewal will keep after-capital balances in a deficit over the medium term.**

V. Hamilton: Liquidity and debt

- **Current liquidity level is superior to many peers and is supported by access to a C\$65 million line of credit;**
- **Draws on liquidity to internally finance some capital could result in loss of net creditor status (free cash and liquid assets minus debt) but overall liquidity expected to remain very strong.**

- **Debt is currently very modest at 27% of operating revenue and lower than some domestic peers;**
- **Capital budget indicates need for external debt to finance several large projects which could push ratio past 60% by 2014;**
- **Could trigger a change in the debt score but this in isolation would not likely result in a rating change;**
- **However, slower industrial activity and conservation efforts are likely to push back some major water and wastewater expansion projects and keep ratio closer to 40% within two-year outlook horizon.**

Peer Comparison

VI. Peer comparison

Hamilton's credit profile is enhanced by its strong liquidity and moderate debt load relative to peers. Most performance benchmarks are close to the average for similarly rated Canadian peers.

	Hamilton (5 year average)	Cdn. 'AA' LRGs (5 year average)	Variance (%)	Cdn. 'AA' LRGs (5 year median)	Variance (%)
Capital expenditures (% total expenditures)	21.3	21.2	0.1	21.1	0.2
Modifiable revenues (% operating revenues)	81.1	78.4	2.7	84.0	(2.9)
Operating balance (% operating revenues)	13.1	12.3	0.8	13.5	(0.4)
Balance after capital (% total revenues)	(0.0)	(2.9)	2.9	(0.6)	0.6
Free cash & liquid assets (% of debt service)	1,362.2	1,026.2	336.0	621.0	741.1
Tax-supported debt (% of consolidated operating revenues)	30.6	43.6	(13.0)	34.2	(3.6)
Interest (% of operating revenue)	1.3	2.3	(1.0)	1.9	(0.6)
Unemployment rate (%)	6.9	7.1	(0.2)	6.8	0.1

Green indicates a positive variance with respect to creditworthiness and **red** indicates a negative variance.

VI. Peer comparison

	Strengths	Weaknesses
Hamilton (AA/Stable)	<ul style="list-style-type: none"> - Strong liquidity - Good budgetary performance - Evolving economy with fair prospects for growth and further diversification 	<ul style="list-style-type: none"> - Likelihood of increasing debt load to fund significant capital requirements - Constrained budgetary flexibility
Brantford (AA+/Stable)	<ul style="list-style-type: none"> - Strong liquidity position - Low debt burden - Consistently healthy operating surpluses 	<ul style="list-style-type: none"> - Economy that is less diversified than that of peers - Moderate capital spending pressures that are likely to result in increased debt
Guelph (AA/Positive)	<ul style="list-style-type: none"> - Stable economy with low unemployment - Robust liquidity - Debt burden that we expect to moderate in the medium term 	<ul style="list-style-type: none"> - Budgetary performance that persistent after-capital deficits hamper - Labor force that remains exposed to struggling manufacturing sector
Windsor (AA/Stable)	<ul style="list-style-type: none"> - Low and declining debt burden - Robust liquidity - Healthy budgetary performance 	<ul style="list-style-type: none"> - A weaker economic base than that of domestic peers, with a relatively higher concentration in the manufacturing sector - Somewhat limited budgetary flexibility
Winnipeg (AA/Stable)	<ul style="list-style-type: none"> - Robust liquidity - Stable and highly diversified economy - Healthy budgetary performance 	<ul style="list-style-type: none"> - Increase in forecasted debt - Limited budgetary flexibility
Halifax (AA-/Stable)	<ul style="list-style-type: none"> - Strong liquidity - Steady economic performance - Healthy budgetary performance 	<ul style="list-style-type: none"> - Limited financial flexibility

Questions?

Glossary

VII. Glossary

Budgetary flexibility and budgetary performance:

Operating revenues. Recurrent revenues received by an LRG. Operating revenues are comprised of taxes and nontax revenues such as grants, operating subsidies, fines, and fees for services, tariffs, rents, and other sources levied by the LRG. They exclude capital revenues such as capital subsidies and sales of assets, and any revenues from borrowed funds.

Consolidated operating revenues. Include the operating revenues of the LRG (as defined above) and the own commercial revenues (fees, sales, etc.) generated by the government-related entities whose debt is included in the LRG's tax-supported debt ratio. S&P deducts from the entities' revenues any sum that comes from the LRG itself (such as a subsidy or service contract).

Operating expenditures. Corresponds to the cost of an LRG's own operations and administration and to the provision of services to the population, directly or through other public bodies.

Operating balance. Defined as operating revenues minus operating expenditures (including interest expenses). S&P adjusts both revenues and expenditures for material non-cash or pass-through items, as explained in our public sector accounting reports.

Capital expenditures. Includes the maintenance of existing infrastructure and the development of new infrastructure.

Capital revenues. Consist mostly of asset sales and capital grants.

Balance after capital accounts. Calculated by adding capital revenues and subtracting capital expenditures from the operating balance. It is adjusted, when necessary, for material non-cash or pass-through items or exceptional factors.

VII. Glossary

Debt burden and contingent liabilities:

Interest payments. The amount of interest payments in the budget period, including the interest component of financial leases.

Debt service. Interest payments plus the amount of principal repaid during the year, including the capital component of financial leases and including one-off short-term debt fully repaid during the period. We believe that debt service on a revolving (rollover) credit line would be exaggerated if the full amount of turnover on the revolving line is recorded as repayment. Therefore, repayment under the revolving line should include only the maximum amount drawn under the line during the year, minus debt outstanding under the revolving line at year end.

Direct debt. Long- and short-term financial debt assumed directly by the borrower (loans, bonds, credits, and capitalized lease obligations) that an LRG is obliged to pay to another entity in accordance with an express agreement or for any other legally binding reason. This excludes guaranteed debt and the debt of government-related entities, unless serviced by the LRG on an ongoing basis. It includes debt serviced via subsidies from other levels of government unless the legal obligation to service this debt is transferred to the other government.

Net direct debt. Direct debt net of free cash and liquid assets (as defined in the liquidity analysis section).

Guaranteed debt. Debt on which the principal and interest payments are the responsibility of the LRG (guarantor) if the issuer primarily liable fails to perform. If an LRG has to service the debt that it has guaranteed, then the guaranteed amount should be included in its direct debt.

VII. Glossary

Public sector debt. Debt of the local government and its government-related entities, as well as the debt of any overlapping jurisdictions.

Tax-supported debt. It is calculated as follows:

Direct debt

+ guaranteed debt for GREs or other entities which are not self-supporting

+ non-guaranteed debt of GREs which are not self-supporting

+ debt of non-bank GREs which rating is equalized with that of the LRG based on an 'almost certain' likelihood of support (including if they are self-supporting) or where the GRE's debt is issued by a central treasury from the LRG (as occurs in Australia)

+ debt of PPPs and securitizations when the risk transfer to the private sector is not material enough to consider the public sector financial commitment as a contingent liability.

If S&P believes that the GRE is not self-supporting, or ultimately likely to rely on support from the LRG, S&P would consolidate in the tax-supported debt ratio all its debt and own revenues, regardless the percentage of ownership from the LRG.

VII. Glossary

Self-supporting debt. The debt of GREs that do not need financial support from the LRG and are not expected to do so in the future. Financial support includes any direct or indirect contribution aiming at balancing operating accounts, financing investments, or repaying debt, but not the transfer of a dedicated fee, nor the receipt of a revenue from the local government in exchange for a defined service. For the largest entities, which are significant in relation to the financial balance of the core LRG, S&P assesses the Stand Alone Credit Profile (SACP) of the company. Usually, in order to be considered as self-supporting, a company needs to have a SACP in the investment grade range or, in emerging markets, in the same category as the LRG. In cases when the companies receive important resources from the LRG in exchange for a service, S&P evaluates if it is a form of on-going support or the remuneration on market terms for a service that could be provided in comparable terms by a private contractor.

Net financial liabilities. The sum of net tax-supported debt and the actuarial valuation of unfunded pension obligations at year end.

Total revenues. Total revenues reported by an LRG excluding all operating and capital adjustments (double counting, offsets, off-budget funds, previous year results, borrowings, movements of reserves).

Stand-alone Credit Profile. It reflects Standard & Poor's opinion of an entity's creditworthiness, before taking into account the potential for direct entity-specific extraordinary intervention from a parent or a government.

GREs are companies that are often owned or controlled by an LRG and that are potentially affected by extraordinary government intervention during periods of stress.

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