



INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	December 6, 2017
SUBJECT/REPORT NO:	2016 S&P Global Ratings Credit Review (FCS17069(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

Council Direction:

Not Applicable.

Information:

On November 14, 2017, S&P Global Ratings (S&P) affirmed its AA+ credit rating with “Stable Outlook” on the City of Hamilton, five months after it raised the City’s credit rating to AA+ with “Stable Outlook” on June 16, 2017.

The S&P Research Update dated November 14, 2017 (“Update”) is attached as Appendix “A” to Report FCS17069(a). As a result of no material updates to S&P’s base-case scenario since S&P’s most recent review in June 2017, the Update contains no substantive changes compared with the last S&P Research Update dated June 16, 2017 (Report FCS17069).

On October 25, 2017, S&P undertook a credit rating review of the City, the second one in this fiscal year 2017, to realign its review and surveillance schedule for the City from around June every year (as has been the practice until now) to around November every year, starting in 2018. (The regulatory regime for credit rating agencies calls for a review at least once over a 12-month period.)

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

In the Update, S&P restated virtually all the points made in the Research Update dated June 16, 2017 and said there were no material updates to S&P's base-case scenario since the review in June 2017. In maintaining a "Stable Outlook" on the City's credit rating, S&P reiterated its expectation that "over the next two years, the city's large operating surpluses, combined with its high liquidity reserve and low debt, will allow Hamilton to sustainably finance its capital projects without weakening its creditworthiness".

S&P bases its rating for the City on its assessment (unchanged from the Research Update dated June 16, 2017) of eight key rating factors, shown below in Table 1 and on pages six and seven of the Update. S&P assigned a very favourable assessment for the institutional framework under which the City operates and for the City's economy, debt burden, liquidity, financial management and budgetary performance.

Table 1: City of Hamilton Ratings Score Snapshot

Key Rating Factor	Assessment
Institutional Framework	Very predictable and well balanced
Economy	Very strong
Financial Management	Strong
Budgetary Flexibility	Average
Budgetary Performance	Strong
Liquidity	Exceptional
Debt Burden	Very low
Contingent Liabilities	Very low

S&P continued to assess the City's budgetary flexibility at "Average" owing to provincially mandated service levels, labour contracts, inflation, and political pressures that limit operating expenditure cuts. S&P cited, again, the City's fiscal prudence, as demonstrated by cost cuts of nearly \$12 M in the 2017 budget. S&P updated their estimate of the City's available liquidity to \$811 M (from \$874 M) over the next 12 months and the City's available liquidity to cover debt service to 14 times (from 10.9 times) over the same period.

S&P restated that they could raise the City's ratings under a scenario whereby the City were to have structural surpluses after capital spending (arising from higher operating surpluses that would fully finance the capital program) combined with improvements in management's financial planning and certain improvements in budget processes. S&P restated that they could lower the City's ratings under a scenario whereby the debt burden were to rise significantly above 30% of operating revenue for a sustained period and the City's after-capital deficits were greater than 10% of total revenue.

Table 2 shows Hamilton's credit rating in comparison to other Ontario municipalities. Each of the ratings is with "Stable Outlook".

Table 2: Credit Rating Comparison

Municipality	S&P	Moody's¹
Regional Municipality of Durham	AAA	Aaa
Regional Municipality of Halton	AAA	Aaa
City of London	–	Aaa
Regional Municipality of Peel	AAA	Aaa
Regional Municipality of Waterloo	–	Aaa
City of Guelph	AA+	–
City of Hamilton	AA+	–
Regional Municipality of York	AA+	Aaa
City of Barrie	AA	–
City of Kingston	AA	–
Regional Municipality of Niagara	AA	–
City of Ottawa	AA	Aaa
City of Toronto ²	AA	Aa1
City of Windsor	AA	–

¹ Moody's Investors Service

² also rated AA by DBRS

– denotes not rated

Table 3: Hamilton's¹ Credit Rating History

Rating Agency	Rating (Outlook Stable unless otherwise marked)	
S&P	AA+:	2017
	AA /Positive :	2016
	AA:	2008-2015
	AA /Positive:	2005-2007
	AA:	2001-2004
	AA:	1999-2000 ²
	AA+	1994-1999 ²
	AAA	1989-1994 ²
	Moody's	Aa3
	Aa2	1988-1995
DBRS	AA	2004-2009
	AA+	1994-2004

¹ City of Hamilton and, prior to amalgamation, the Regional Municipality of Hamilton-Wentworth

² Prior to 2001, ratings shown under S&P are the ratings of Canadian Bond Rating Service, which was bought by S&P and its predecessor companies and announced on October 31, 2000.

Appendices and Schedules Attached

Appendix "A" to Report FCS17069(a) – S&P Global Ratings Research Update: City of Hamilton AA+ Ratings Affirmed; Outlook is Stable – November 14, 2017