



INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	January 16, 2019
SUBJECT/REPORT NO:	2018 S&P Global Ratings Credit Review (FCS19008) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Rosaria Morelli (905) 546-2424 Ext. 1390
SUBMITTED BY:	Brian McMullen Acting General Manager Finance and Corporate Services Corporate Services Department
SIGNATURE:	

Council Direction:

Not Applicable

Information:

On November 8, 2018, S&P Global Ratings (“S&P”) affirmed its ‘AA+ / Stable’ long-term issuer credit rating and its ‘AA+’ senior unsecured debt rating on the City of Hamilton.

The S&P Research Update entitled “City of Hamilton Ratings Affirmed At ‘AA+’; Outlook is Stable” and dated November 8, 2018 (the “Update”) is attached as Appendix “A” to Report FCS19008.

The City has maintained its ‘AA+ / Stable’ long-term issuer credit rating and its ‘AA+’ senior unsecured debt rating, both by S&P, since November 14, 2017, when S&P published its last Research Update on the City of Hamilton. Staff’s Information Report FCS17069(a) relates to this publication of November 14, 2017.

S&P first raised the City’s long-term issuer credit rating to ‘AA+ / Stable’ from ‘AA / Positive’ and the City’s senior unsecured debt rating to ‘AA+’ from ‘AA’ on June 16, 2017, when it published its Research Update on the City of Hamilton. Staff Information Report FCS17069 relates to this publication of June 16, 2017.

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’s rating on the City reflects the credit rating agency’s assessment of the City’s creditworthiness. S&P highlights the City’s moderately growing economy and solid management as well as the City’s high and increasing operating surpluses, modest deficits after capital spending, large internal liquidity levels and low debt burden.

S&P does not expect major policy deviations under the new Council elected on October 22, 2018. S&P also continues to believe that the City’s management team will focus on increasing efficiencies in spending, which would enhance the City’s strong budgetary performance. S&P expects the City to gradually improve its budgetary processes.

S&P noted that under a stress scenario requiring additional funding, the City might be constrained given its moderate budgetary flexibility. In S&P’s view, the City has limited ability to meaningfully cut operating expenditures and has a large infrastructure deficit (estimated at \$3.5 B) which might mean capital spending would be difficult to defer. At the same time, S&P noted that the City has sustainable debt levels and high liquidity that would facilitate funding in a stress scenario.

In the Update, S&P provides its assessment of the City in terms of S&P’s eight Key Rating Factors, shown in Table 1 and on page six of the Update. S&P’s description for each Key Rating Factor is unchanged from the last S&P Research Update on November 14, 2017.

**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 continues 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 could raise the ratings if the City’s “economy was to grow significantly, causing operating surpluses to rise such that they would fully and consistently finance the City’s capital program, leading to structural surpluses after capital spending.” In addition, S&P advised that this condition would need to be accompanied by substantial improvements in S&P’s assessment of the City’s financial management and no deterioration in the other rating factors.

S&P noted that it could lower its ratings on the City if a situation arose whereby the City is required to rely more heavily on debt issuance such that the debt burden increased substantially above 30% of operating revenues for a sustained period. S&P cited a scenario whereby lower-than-expected economic growth might impair the City’s revenue base, which might lead to larger after-capital deficits (rising above 10% of revenue) that might require the City to increase its debt issuance.

Hamilton’s credit rating in comparison to other Ontario municipalities is shown in Table 2. Each of the ratings is with “Stable Outlook”.

**Table 2
Credit Rating Comparison**

Municipality	S&P¹	Moody’s²
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 ³	AA	Aa1
City of Windsor	AA	–

¹ Ratings obtained from S&P website

² Moody’s Investors Service

³ also rated AA by DBRS

– denotes not rated

A history of the City's credit ratings is shown in Table 3.

**Table 3
Hamilton's¹ Credit Rating History**

Rating Agency	Rating (Outlook Stable unless otherwise marked)	
S&P	AA+	2018
	AA+:	2017 (November 14)
	AA+	2017 (June 16)
	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	1995-2001
	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" – Research Update: City of Hamilton Ratings Affirmed At 'AA+'; Outlook is Stable

RM/dt