



# INFORMATION REPORT

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	December 4, 2019
<b>SUBJECT/REPORT NO:</b>	2019 S&P Global Ratings Credit Rating Review (FCS19089) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
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<b>SIGNATURE:</b>	

## COUNCIL DIRECTION

Not Applicable.

## INFORMATION

On October 18, 2019, S&P Global Ratings affirmed its 'AA+' long-term issuer credit and senior unsecured debt ratings on the City of Hamilton and maintained the 'Stable' outlook.

Appendix "A" attached to Report FCS19089 respecting S&P Global Ratings Research Update: City of Hamilton 'AA+' Ratings Affirmed; Outlook is Stable dated October 18, 2019 (the "Update") is S&P's published report on the City of Hamilton.

The City has maintained a 'AA+ / Stable' credit rating by S&P Global Ratings ("S&P") in each year since June 16, 2017, which is when S&P raised the rating to 'AA+' with 'Stable' outlook from 'AA' with 'Positive' outlook.

In the Update, S&P said that they expect the City to maintain its fiscal performance over the next two years. S&P expects that the City's stable fiscal performance together with its high liquidity and low debt will allow the City to fund its capital projects without impairing its creditworthiness.

Additionally, the rating agency expects the City of Hamilton to maintain its position as one of the most economically diversified cities in Canada over the next several years with growth in diverse industry and manufacturing sectors providing economic resilience for the City.

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S&P said that although they view the possibility of an upgrade unlikely in the next two years, they “could raise the ratings if Hamilton’s economy were 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.” This condition would be in combination with substantial improvements in the City’s financial management (supported by this stronger budget performance) as assessed by S&P and with no deterioration in S&P’s other rating factors.

S&P said that it could lower the City’s credit rating in the future if an outcome arose that “caused the city to rely more heavily on debt issuance, increasing the debt burden substantially above 30% of operating revenue for a sustained period; and if we did not believe that the debt burden was mitigated by high operating surpluses.” S&P cited global trade disputes or a downturn in the housing market as possible shocks that may result in lower-than-expected economic growth, which could hurt the City’s revenue base and stress the rating if after-capital deficits approach 10% of revenue.

Table 1 of Report FCS19089 shows the City of Hamilton Ratings Score Snapshot taken from Table 2 on pages 4 and 5 of the Update. The Snapshot contains S&P’s six key rating factors, the stand-alone credit profile and the issuer credit rating together with S&P’s assessments or scores. The six factors are institutional framework, economy, financial management, budgetary performance, liquidity and debt burden.

**Table 1  
City of Hamilton Ratings Score Snapshot**

Key Rating Factors	Scores
Institutional framework	2
Economy	1
Financial management	2
Budgetary performance	2
Liquidity	1
Debt burden	1
Stand-alone credit profile	aa+
Issuer credit rating	AA+

S&P bases its ratings on the six rating factors as reflected in its revised credit rating methodology published on July 15, 2019. The assessment of institutional framework is on a six-point scale with ‘1’ being the strongest score and ‘6’ the weakest. The remaining five factors are assessed on a five-point scale with ‘1’ being the strongest score and ‘5’ the weakest. S&P’s stand-alone credit profile is the result for the credit rating before any sovereign-related overriding factors when relevant are applied and the issuer credit rating is the City’s credit rating.

The City has maintained top scores for the economy, liquidity and debt burden factors and second-best scores for the institutional framework, financial management and budgetary performance factors. The City has a stand-alone credit profile score of 'aa+' and S&P applied no sovereign-related overriding factors to the profile. The issuer credit rating is 'AA+'.

The scores are equivalent to the assessments in last year's Ratings Score Snapshot in S&P's Research Update dated November 8, 2018 that was attached as Appendix "A" to Report FCS19008, 2018 S&P Global Ratings Credit Rating Review. This year's Snapshot does not contain the budgetary flexibility and contingent liabilities factors, shown in last year's Snapshot, because these factors are now incorporated within the budgetary performance and the debt burden factors, respectively, owing to S&P's revised methodology.

Hamilton's credit rating in comparison to other large Ontario municipalities is shown in Table 2. Unless marked otherwise, each of the ratings has a 'Stable' outlook.

**Table 2  
Credit Rating Comparison**

<b>Municipality</b>	<b>S&amp;P<sup>1</sup></b>	<b>Moody's<sup>2</sup></b>
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+/(Positive)	Aaa
City of Barrie	AA	–
City of Kingston	AA	–
Regional Municipality of Niagara	AA	–
City of Ottawa	AA	Aaa
City of Toronto <sup>3</sup>	AA	Aa1
City of Windsor	AA	–

<sup>1</sup> Ratings obtained from S&P website

<sup>2</sup> Moody's Investors Services Inc.

<sup>3</sup> also rated AA by Dominion Bond Rating Service Limited

– denotes not rated

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

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**Table 3  
Hamilton's<sup>1</sup> Credit Rating History**

<b>Rating Agency</b>	<b>Rating (Outlook 'Stable' unless otherwise marked)</b>	
S&P	AA+	2019
	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 <sup>2</sup>
	AA+	1994-1999 <sup>2</sup>
	AAA	1989-1994 <sup>2</sup>
	Moody's	Aa3
Aa2		1988-1995
DBRS	AA	2004-2009
	AA+	1994-2004

<sup>1</sup> City of Hamilton and, prior to amalgamation, the Regional Municipality of Hamilton-Wentworth

<sup>2</sup> 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 FCS19089 – S&P Global Ratings Research Update: City of Hamilton 'AA+' Ratings Affirmed; Outlook is Stable

RM/dt