S&P Global
Ratings

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Summary:
City of Hamilton

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Summary:
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Issuer Credit Rating	AA+/Stable/--

Key Rating Factors

Credit context and assumptions	Base-case expectations
Supportive institutions and prudent financial management will support the City of Hamilton's creditworthiness as the economy navigates the COVID-19 pandemic and recovery. • The city's economic diversification should help it recover following a contraction this year. • We expect the city's management will help it to maintain its fiscal sustainability through the pandemic. • Hamilton's relationship with the Province of Ontario will remain well balanced and generally supportive.	We believe that the city's cost-cutting measures and provincial funding will mitigate the budgetary impact of COVID-19. • We expect Hamilton's budgetary performance will be resilient to COVID-19-related measures. • We forecast sustained operating surpluses and modest after-capital deficits through 2022. • Despite some new borrowing, we expect Hamilton's debt burden will remain very low and its robust liquidity will continue to support its creditworthiness.

Outlook

The stable outlook reflects our expectation that, in the next two years, Hamilton's fiscal performance will be largely resilient to the impacts stemming from the pandemic-related restrictions that we expect to be largely temporary, supported by prudent policies and a supportive institutional framework. We believe that the city's sound operating surpluses will lead to modest after-capital deficits, which will be partially funded with debt issuance, while allowing the city to maintain a healthy liquidity position.

Downside scenario

Over the next two years, we could lower the ratings if after-capital deficits approach 10% of revenue and cause 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.

Upside scenario

Although we view the possibility of an upgrade as remote over the next two years, we 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, combined with substantial improvements in our assessment of financial management, supported by stronger budgetary performance, and no deterioration in the other rating factors, could lead us to raise the ratings.

Rationale

While COVID-19 and its associated restrictions will affect some of Hamilton's revenues, particularly fee-based sources, in 2020 and 2021, as well as its spending, we expect that the city will manage the revenue losses through cost-containment measures and support from higher levels of government. These measures will help the city to maintain its robust operating balances and modest after-capital deficits. Furthermore, we expect that this performance will allow Hamilton to sustain its large liquid assets and low debt levels. We believe Hamilton's strong diversification will facilitate the city's recovery.

Hamilton's economic diversification will facilitate its recovery, supported by prudent financial management.

We believe Hamilton's economy will contract in 2020 and begin to recover over the next two years as social distancing measures ease. Despite what we view as a temporary shock, we believe Hamilton continues to demonstrate characteristics of a resilient economy, including its economic diversification. Although historically rooted in steel production, the city's economy has moved into other sectors, including advanced manufacturing, aerospace, agribusinesses, food processing, life sciences, digital media, and goods transport. We estimate that Hamilton's GDP per capita is approximately in line with that of the national economy at about US$42,000.

We expect the city's management, under Fred Eisenberger, who is serving his third term as mayor of Hamilton, will prudently manage the impact of the pandemic on the city's finances. The city's planning is facilitated by a four-year budget outlook and multiyear business plans. These plans complement Hamilton's thorough and transparent disclosure; long-term financial sustainability plans; long-term operating and spending forecasts; and robust policies for investments, debt, and risk management.

Hamilton's strong management operates in what we deem to be a very predictable and well-balanced local and regional government framework that has demonstrated a high degree of institutional stability. Although provincial governments mandate a significant portion 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 and landfill closure costs) through reserve contributions.

Operating performance will be resilient thanks to cost containment and relief funding.

To mitigate the revenue impact of COVID-19, which we expect will be temporary and largely related to rate- and fee-based revenues, management has implemented cost-containment measures. This, coupled with provincial relief funding, will likely be sufficient to cover the year-end shortfall, allowing for more room to proceed with planned initiatives and reduce future budget pressures. On average, we expect operating balances will remain strong at around 14% of operating revenues from 2020-2022. These surpluses will facilitate capital spending that we expect to average 24% of total spending over the next three years, which will contribute to moderate deficits after capital spending that average 3.1% of total revenues during the same period.

We expect that the city will issue about C$199 million from 2020-2022. This includes about C$44 million for City Housing Hamilton's housing projects. Nevertheless, we expect the city's debt burden will remain around 30% of consolidated operating revenues through the forecast horizon. In our view, the city's debt is also mitigated by its very high operating balances. Hamilton's debt consists of long-term debentures, mortgages on City Housing Hamilton properties, and a small amount related to capital leases. At the same time, we expect interest costs will remain very modest, at much less than 5% of operating revenues throughout the outlook horizon. We also believe the city's exposure to contingent liabilities is limited.

In addition to the city's very low debt burden, Hamilton has exceptionally high internal liquidity levels on which it can draw, complemented by very robust internal cash flow generation, as reflected in its very high operating surpluses. By our calculations, the city's average free cash and liquid assets are just over C$1 billion and will represent about 15x debt service. Beyond internal liquidity, Hamilton benefits from satisfactory access to external liquidity for refinancing needs, given its proven ability to issue debt into various markets, including that for public debt, and the presence of a secondary market for Canadian municipal debt instruments.

Key Statistics

Table 1

City of Hamilton -- Selected Indicators

	--Fiscal year--				
(Mil. C$)	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**
Operating revenues	1,641	1,657	1,663	1,769	1,790
Operating expenditures	1,431	1,391	1,428	1,505	1,551
Operating balance	210	265	235	264	239
Operating balance (% of operating revenues)	12.8	16.0	14.1	14.9	13.4
Capital revenues	210	158	154	176	169
Capital expenditures	408	445	437	500	480
Balance after capital accounts	12	(22)	(48)	(60)	(72)
Balance after capital accounts (% of total revenues)	0.6	(1.2)	(2.7)	(3.1)	(3.7)
Debt repaid	44	52	48	51	56
Gross borrowings	111	0	59	141	0
Balance after borrowings	78	(74)	(38)	30	(128)
Direct debt (outstanding at year-end)	485	433	443	533	477
Direct debt (% of operating revenues)	29.5	26.1	26.7	30.1	26.7
Tax-supported debt (outstanding at year-end)	485	433	443	533	477
Tax-supported debt (% of consolidated operating revenues)	29.5	26.1	26.7	30.1	26.7
Interest (% of operating revenues)	0.8	0.8	0.8	0.9	1.1
National GDP per capita (single units)	60,011	61,291	57,698	61,644	63,541

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

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 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

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Related Research

- Credit Conditions North America: Potholes on the Road to Recovery, Sept. 29, 2020
- S&P Global Ratings Definitions, Aug. 7, 2020
- Public Finance System: Canadian Municipalities, May 12, 2020
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019