S&P Global
Ratings

RatingsDirect®

Hamilton

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Supportive institutions and prudent financial management will support the City of Hamilton's creditworthiness as the economy recovers.	We believe that the budgetary impact of the pandemic will be limited as the economy recovers and support continues.
-- The city's economic diversification should help it recover as COVID-19 restrictions are lifted.	--We expect Hamilton's budgetary performance will be resilient given cost-containment measures and provincial transfers.
--We expect the city's management will help maintain its fiscal sustainability through the recovery.	--We forecast sustained operating surpluses and modest after-capital deficits through 2023.
--Hamilton's relationship with the Province of Ontario will remain well balanced and generally supportive.	--Despite some new borrowing, we expect Hamilton's debt burden will remain very low and the city's robust liquidity will continue to support its creditworthiness.

S&P Global Ratings' long-term issuer credit and senior unsecured debt ratings on the City of Hamilton, in the Province of Ontario, are 'AA+'. As COVID-19 restrictions ease, we expect that Hamilton's economy will recover largely in line with that of other municipalities in Ontario. We believe Hamilton's strong economic diversification will facilitate the city's recovery. The city will continue to prudently manage expenses while also receiving support from higher levels of government. This 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 very low debt.

Outlook

The stable outlook reflects our expectation that, in the next two years, Hamilton's fiscal performance will be largely resilient, 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 improvement 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

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

As social distancing and pandemic-related restrictions ease, we believe that Hamilton’s economy will recover in line with the recovery expected across Canada in 2021. We believe Hamilton continues to demonstrate characteristics of a resilient economy, including 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$53,000 in 2021.

We expect the city's management will prudently manage the city's finances through the economic recovery. 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.

Budgetary performance will remain stable, and the debt burden will remain very low.

The temporary provision of funding from higher levels of government, along with the cost-containment measures implemented by the city, will continue to mitigate the impact of the pandemic on Hamilton’s public finances. We expect operating balances, on average, will remain strong at about 16% of operating revenues from 2021-2023. These surpluses will facilitate capital spending that we expect to average 27% of total spending over the next three years, which will contribute to moderate deficits after capital spending that average 2.6% of total revenues during the same period.

We expect that the city will issue about C$338 million in debt from 2021-2023. This includes about C$88 million for City Housing Hamilton's housing projects. As a result, we expect the city's debt burden will rise to just above 30% of consolidated operating revenues by 2023. In our view, the city's debt is mitigated by its very high operating balances. Hamilton's debt consists of long-term debentures, mortgages on City Housing Hamilton properties, and a very 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 very high operating surpluses. By our calculations, the city's average free cash and liquid assets are almost C$1 billion and will represent about 14x 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.

City of Hamilton Selected Indicators

Mil. C$	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenue	1,641.1	1,656.7	1,696.5	1,734.8	1,788.2	1,821.2
Operating expenditure	1,431.3	1,391.3	1,394.0	1,445.1	1,488.4	1,532.7
Operating balance	209.8	265.4	302.5	289.6	299.8	288.5
Operating balance (% of operating revenue)	12.8	16.0	17.8	16.7	16.8	15.8
Capital revenue	210.0	157.7	130.8	231.0	205.6	164.6
Capital expenditure	408.3	445.2	487.9	624.7	555.9	454.3
Balance after capital accounts	11.5	(22.1)	(54.6)	(104.1)	(50.5)	(1.2)
Balance after capital accounts (% of total revenue)	0.6	(1.2)	(3.0)	(5.3)	(2.5)	(0.1)
Debt repaid	44.1	52.2	48.1	53.9	62.7	49.3
Gross borrowings	110.8	0.0	55.5	31.2	110.0	197.3
Balance after borrowings	78.3	(74.3)	(47.3)	(126.8)	(3.2)	146.8
Direct debt (outstanding at year-end)	484.9	432.7	436.3	413.6	460.9	608.9
Direct debt (% of operating revenue)	29.6	26.1	25.7	23.8	25.8	33.4
Tax-supported debt (outstanding at year-end)	484.9	432.7	436.3	413.6	460.9	608.9
Tax-supported debt (% of consolidated operating revenue)	29.6	26.1	25.7	23.8	25.8	33.4
Interest (% of operating revenue)	0.8	0.8	0.7	0.9	0.8	0.8
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	46,453.9	46,326.7	43,258.2	52,948.3	54,410.6	55,679.7

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. C$--Canadian dollar. $--U.S. dollar.

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

- Sovereign Risk Indicators, Oct. 12, 2021. An interactive version is available at http:www.spratings.com/sri

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S. July 15, July 15, 2019
- General Criteria: Principles of Credit Ratings, Feb. 16, 2011
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

Related Research

- Institutional Framework Assessments for International Local and Regional Governments, Oct. 6, 2021
- Economic Outlook Canada Q4 2021: Growth Delayed, Sep. 24, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Public Finance System: Canadian Municipalities, May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside of The U.S., July 15, 2019
- Guidance: Sovereign Rating Methodology, July 8, 2021

Ratings Detail (as of October 25, 2021)*

Hamilton (City of)

Ratings Detail (as of October 25, 2021)*

Issuer Credit Rating	AA+/Stable/--
Senior Unsecured	AA+
Issuer Credit Ratings History	
16-Jun-2017	AA+/Stable/--
24-Jun-2016	AA/Positive/--
12-Nov-2008	AA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.