S&P Global
Ratings

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# City of Hamilton

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**PRIMARY CONTACT**

**Hector Cedano, CFA**
Toronto
1-416-507-2536
hector.cedano
@spglobal.com

**SECONDARY CONTACT**

**Julia L Smith**
Toronto
416-507-3236
Julia.Smith
@spglobal.com

This report does not constitute a rating action.

## Credit Highlights

### Overview

| Credit context and assumptions | Base-case expectations |
|---|---|
| Supportive institutions and prudent financial management practices will bolster the City of Hamilton's creditworthiness. | Budgetary performance will remain strong and debt will remain manageable. |
| Hamilton’s diverse economy fared relatively well during the COVID-19 pandemic. | The city will continue generating modest after-capital deficits as it proceeds with its capital plan. |
| The city's long-term financial management practices will allow the city to continue posting healthy operating balances. | The debt burden will remain relatively stable as debt repayment will offset new debt issuance. |
| An extremely predictable and supportive institutional framework supports the ratings. | Hamilton's robust liquidity will continue to support its creditworthiness. |

On June 1, 2022, S&P Global Ratings raised its rating on the City of Hamilton to ‘AAA’ from ‘AA+’, following the revision of the Canadian municipal institutional framework assessment to extremely supportive and predictable from very predictable and well-balanced (see “**Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment**,” published June 1, 2022, on RatingsDirect). We estimate that the city will continue posting healthy operating balances and modest after-capital deficits as it proceeds with its capital plan. Hamilton will issue debt to help fund part of its capital spending but we expect the debt burden will remain manageable and relatively stable as debt repayment will offset new debt issuance. We estimate debt service coverage will remain higher than 100% in our forecast horizon.

## Outlook

The stable outlook reflects S&P Global Ratings' expectations that, in the next two years, the city will continue to implement prudent long-term financial planning policies such that its budgetary performance remains strong, generating modest after-capital deficits. We expect the debt burden will remain relatively stable and will represent about 21% of operating revenues at year-end 2024. In addition, we estimate that its liquidity position will remain very high, with the debt service coverage ratio staying well above 100% over the next two years.

### Downside scenario

We could lower the rating in the next two years if flat or declining revenues or higher spending led to sustained after-capital deficits of more than 5% of total revenues and we expected additional borrowings to increase the debt burden to more than 30% of operating revenues.

## Rationale

Supportive institutions and prudent financial management practices will bolster the City of Hamilton's creditworthiness.

We believe Hamilton continues to demonstrate characteristics of a resilient economy, including diversification. Although historically rooted in steel production, the economy has expanded into other sectors, including advanced manufacturing, aerospace, agribusinesses, food processing, life sciences, digital media, and goods transport. Although municipal GDP data are unavailable, we believe that Hamilton's GDP per capita is in line with the national level, which we estimate will be about US$54,000 in 2022.

In our view, Hamilton demonstrates prudent financial management policies. Its 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.

As do other Canadian municipalities, Hamilton benefits from an extremely predictable and supportive local and regional government framework that has demonstrated high institutional stability and evidence of systemic extraordinary support in times of financial distress. Most recently through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. Although provincial governments mandate a significant proportion 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) through reserve contributions. Municipalities have demonstrated a track record of strong budget results and, therefore, debt burdens, on average, are low relative to those of global peers and growth over time has been modest.

Budgetary performance will remain strong and debt will remain manageable.

We believe economic headwinds will not result in deterioration in the city’s budgetary performance. In our base-case scenario for 2020-2024, we expect operating balances to remain high at about 14% of operating revenues, on average. Although the pandemic has diminished, the city has a COVID-19 reserve fund that it could use to cover most of the projected gap for 2022 of C$37.5 million. The gap is primarily caused by higher housing, public health, and paramedic and firefighting costs. We expect an after-capital deficit of 3% of total revenues, on average, in 2020-2024 as Hamilton carries out its capital plan.

In 2022-2024, Hamilton plans to issue about C$156 million of debt to fund part of its capital projects. Nevertheless, we expect tax-supported debt will remain relatively stable and will represent about 21% of operating revenues at year-end 2024 as debt repayment will offset new debt issuance. Interest costs accounted for about 1% of operating revenues in 2021 and we expect they will remain stable during our two-year outlook horizon.

In our view, Hamilton's liquidity is a key credit strength. We estimate total free cash in the next 12 months will be enough to cover more than 13x the estimated debt service for the period. We expect this ratio will remain well above 100% during the outlook horizon.

### City of Hamilton Selected Indicators

| Mil. C$ | 2019 | 2020 | 2021 | 2022bc | 2023bc | 2024bc |
|---|---|---|---|---|---|---|

## City of Hamilton Selected Indicators

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating revenue | 1,657 | 1,697 | 1,826 | 1,808 | 1,813 | 1,864 |
| Operating expenditure | 1,391 | 1,394 | 1,585 | 1,618 | 1,576 | 1,619 |
| Operating balance | 265 | 302 | 241 | 190 | 237 | 245 |
| Operating balance (% of operating revenue) | 16.0 | 17.8 | 13.2 | 10.5 | 13.1 | 13.2 |
| Capital revenue | 158 | 131 | 139 | 177 | 130 | 153 |
| Capital expenditure | 445 | 488 | 447 | 512 | 376 | 443 |
| Balance after capital accounts | (22) | (55) | (67) | (146) | (9) | (45) |
| Balance after capital accounts (% of total revenue) | (1.2) | (3.0) | (3.4) | (7.3) | (0.5) | (2.2) |
| Debt repaid | 52 | 48 | 52 | 60 | 46 | 52 |
| Gross borrowings | 0 | 55 | 17 | 10 | 129 | 17 |
| Balance after borrowings | (74) | (47) | (102) | (195) | 73 | (80) |
| Direct debt (outstanding at year-end) | 433 | 436 | 401 | 351 | 434 | 399 |
| Direct debt (% of operating revenue) | 26.1 | 25.7 | 22.0 | 19.4 | 23.9 | 21.4 |
| Tax-supported debt (outstanding at year-end) | 433 | 436 | 401 | 351 | 434 | 399 |
| Tax-supported debt (% of consolidated operating revenue) | 26.1 | 25.7 | 22.0 | 19.4 | 23.9 | 21.4 |
| Interest (% of operating revenue) | 0.8 | 0.7 | 0.6 | 0.6 | 0.7 | 0.9 |
| Local GDP per capita ($) | -- | -- | -- | -- | -- | -- |
| National GDP per capita ($) | 46,328.7 | 43,258.3 | 51,987.9 | 54,003.3 | 54,648.0 | 56,475.0 |

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 | 1 |
| Economy | 1 |
| Financial management | 2 |
| Budgetary performance | 2 |
| Liquidity | 1 |
| Debt burden | 1 |
| Stand-alone credit profile | aaa |
| Issuer credit rating | AAA |

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, July 11, 2022. An interactive version is available at http:www.spratings.com/sri

## Related Criteria

- Sector And Industry Variables | Criteria | Governments| Sovereigns: Sovereign Rating Methodology, Sept. 28, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Economic Outlook Canada Q4 2022: Canadian Growth To Slow On Higher Interest Rates And U.S. Weakness, Sept. 26, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

### Ratings Detail (as of October 13, 2022)*

| | |
|---|---|
| **Hamilton (City of)** | |
| Issuer Credit Rating | AAA/Stable/-- |
| Senior Unsecured | AAA |
| **Issuer Credit Ratings History** | |
| 01-Jun-2022 | AAA/Stable/-- |
| 16-Jun-2017 | AA+/Stable/-- |
| 24-Jun-2016 | AA/Positive/-- |

## Ratings Detail (as of October 13, 2022)*

*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.