




## COMMUNICATION UPDATE

<b>TO:</b>	Mayor and Members City Council
<b>DATE:</b>	October 21, 2022
<b>SUBJECT:</b>	City of Hamilton 'AAA' Credit Rating (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
<b>SIGNATURE:</b>	

On October 13, 2022, S&P Global Ratings released its Credit Rating for the City of Hamilton at 'AAA' with Stable outlook, as part of its annual credit rating review. The rating of 'AAA' is the highest possible rating on S&P Global Ratings' rating scale.

Earlier this year, on June 1, 2022, S&P Global Ratings had 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.

In the published report, the rating agency said that, over its forecast period from 2022 to 2024, it expects the City to have a relatively stable debt burden and to continue to implement prudent long-term financial planning policies which would lead to strong budgetary performance.

S&P Global Ratings cite that Hamilton continues to show characteristics of a resilient economy, including diversification and continues to have liquidity as a key strength.

### APPENDICES AND SCHEDULES ATTACHED

Appendix "A" – S&P Global Ratings City of Hamilton, October 13, 2022

# City of Hamilton

October 13, 2022

This report does not constitute a rating action.

## Credit Highlights

### Overview

#### Credit context and assumptions

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

Hamilton's diverse economy fared relatively well during the COVID-19 pandemic.

The city's long-term financial management practices will allow the city to continue posting healthy operating balances.

An extremely predictable and supportive institutional framework supports the ratings.

#### Base-case expectations

Budgetary performance will remain strong and debt will remain manageable.

The city will continue generating modest after-capital deficits as it proceeds with its capital plan.

The debt burden will remain relatively stable as debt repayment will offset new debt issuance.

Hamilton's robust liquidity will continue to support its creditworthiness.

#### 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

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

**City of Hamilton**

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

## 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.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.