COMMUNICATION UPDATE

TO:	Mayor and Members City Council
DATE:	October 17, 2023
SUBJECT:	City of Hamilton 'AAA' Credit Rating (City Wide)
WARD(S) AFFECTED:	City Wide
SUBMITTED BY: **SIGNATURE:**	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department

On October 17, 2023, 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.

The City of Hamilton has maintained its credit rating of ‘AAA’ since June 1, 2022, when S&P Global Ratings raised the credit rating to ‘AAA’ from ‘AA+’.

In today’s published report, the rating agency said that over its forecast period from 2023 to 2025 it expects the City to have a relatively modest and stable debt burden and to continue to implement prudent long-term financial planning policies such that its budgetary performance remains strong.

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

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” – S&P Global Ratings City of Hamilton, October 17, 2023

S&P Global
Ratings

RatingsDirect®

City of Hamilton

October 17, 2023

Primary contact

Sabrina J Rivers
New York
1-212-438-1437
sabrina.rivers
@spglobal.com

Secondary contact

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

Research contributor

Hardik Dilip Dhabalia
CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Pune

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Population growth and a broad and diverse economy will continue to foster stability in the city's property tax base.	The city will continue generating modest after-capital deficits as it proceeds with its capital plan, supported by its strong operating balances.
The city's long-term financial management practices will allow Hamilton to continue posting healthy operating balances.	Despite issuance plans, the city's debt burden will remain relatively stable.
We believe the city's relationship with the Province of Ontario will remain extremely predictable and supportive.	Hamilton's robust liquidity will continue to support its creditworthiness.

S&P Global Ratings' long-term issuer credit rating on the City of Hamilton is 'AAA.' Despite the risks stemming from extant macroeconomic headwinds, we believe that its strong local economy will allow the city to continue posting healthy operating balances and modest after-capital deficits as it proceeds with its capital plan. Hamilton will issue some debt to fund part of its capital plan, but we expect that the debt burden will remain modest over the outlook horizon; similarly, we expect that debt service coverage will remain greater than 100% in our forecast.

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 20% of operating revenues at year-end 2025. In addition, we estimate that Hamilton's 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 borrowing 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 demonstrates 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. The city’s accessible location on the edge of the Greater Toronto Area supports its ability to attract business and investment. 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 2023.

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 the city'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.

Despite macroeconomic pressures, we believe the city’s budgetary performance will not deteriorate. In our base-case scenario for 2021-2025, we expect operating balances to remain high at about 13% of operating revenues, on average. This will be undergirded by Hamilton's stable property tax base. The city expects to see a surplus in its tax-supported results for 2023 and a small deficit in its rate-supported operations. We expect an after-capital deficit of 1% of total revenues, on average, in 2021-2025 as Hamilton carries out its capital plan. The capital spending associated with the C$3.4 billion Hamilton light rail transit (LRT) project will be equally funded by the provincial and federal governments, allowing the city to focus on infrastructure requirements and asset maintenance capital projects. With the project set to begin construction in 2024, the city will be financially responsible for the operating costs associated with the LRT system.

In 2023-2025, Hamilton plans to issue about C$200 million of debt to fund part of its capital projects, including C$140 million in debentures. Nevertheless, we expect tax-supported debt will remain relatively stable and will represent about 20% of operating revenues at year-end 2025 as debt repayment will help to offset new debt issuance. In 2022, interest costs accounted for about 1% of operating revenues, which we expect will remain stable during our 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 12x 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$	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	1,697	1,826	1,892	1,935	1,999	2,062
Operating expenditure	1,394	1,585	1,648	1,689	1,730	1,784
Operating balance	302	241	244	246	269	278
Operating balance (% of operating revenue)	17.8	13.2	12.9	12.7	13.5	13.5
Capital revenue	131	139	123	152	152	147
Capital expenditure	488	447	320	433	432	419
Balance after capital accounts	(55)	(67)	46	(35)	(10)	6
Balance after capital accounts (% of total revenue)	(3.0)	(3.4)	2.3	(1.7)	(0.5)	0.3
Debt repaid	48	52	52	46	48	49
Gross borrowings	55	17	4	4	179	18
Balance after borrowings	(47)	(102)	(2)	(78)	121	(25)
Direct debt (outstanding at year-end)	436	401	353	311	442	410
Direct debt (% of operating revenue)	25.7	22.0	18.7	16.1	22.1	19.9
Tax-supported debt (outstanding at year-end)	436	401	353	311	442	410
Tax-supported debt (% of consolidated operating revenue)	25.7	22.0	18.7	16.1	22.1	19.9
Interest (% of operating revenue)	0.7	0.6	0.5	0.5	0.5	0.9
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	43,349.7	52,358.6	54,917.7	54,414.8	55,764.6	58,226.4

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

1. Sovereign Risk Indicators, July 10, 2023, . An interactive version is available at http:www.spratings.com/sri

Related Criteria

- 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

2. Economic Outlook Canada Q4 2023: Sluggish Growth Ahead, Sept. 25, 2023
3. S&P Global Ratings Definitions, June 9, 2023
4. Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022

5. Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022
6. Institutional Framework Assessment: Canadian Municipalities, June 1, 2022

Ratings Detail (as of October 17, 2023)*

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/--

*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.