

County of Simcoe

October 17, 2023

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
A stable economy and strong and supportive institutional framework, coupled with prudent financial practices, strengthen the credit profile.	Healthy budgetary performance and strong liquidity will allow the county to internally finance most of the capital plan.
-- Stable income levels with an economy based on manufacturing, agriculture, and tourism.	-- Simcoe will continue to generate healthy operating margins, despite economic headwinds and rising costs.
-- Prudent financial management underpins sustainability of the budgetary performances.	-- Following recent delays in completion, capital projects are poised to regain momentum in 2024, resulting in temporary after-capital deficits until 2025.
-- The County of Simcoe's relationship with the Province of Ontario has been stable and supportive, and we expect it will remain the same.	-- Robust liquidity holdings will continue to support Simcoe's creditworthiness.

S&P Global Ratings' long-term issuer credit and senior unsecured debt ratings on the County of Simcoe, in the Province of Ontario, are 'AA+'. The stable outlook reflects our expectation that, over the next two years, Simcoe will sustain relatively stable budgetary performances, with operating balances stabilizing around 10%.

Higher planned capital expenditures, driven in large part by development of existing and new long-term care facilities with costs adjusted for inflation, will lead to temporary higher after-

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capital deficits in the next two years, but we expect these will represent less than 2% of total revenues in 2021-2025. We project that tax-supported debt will increase to about 22% of operating revenues by 2025 to support capital investments. In addition, we believe that the county will maintain its robust liquidity position, sufficient to cover all debt service costs within the next 12 months.

Outlook

The stable outlook reflects our expectation that, in the next two years, Simcoe's budgetary performance will remain healthy, although we do project temporary higher after-capital deficits through 2025 as the county progresses on its capital plan. We still view the county's financial management as prudent and effective. We expect that, with Simcoe leveraging strong sources of revenue, tax-supported debt will represent 22% of operating revenue by 2025. In addition, we see the county maintaining healthy liquidity that will cover all debt service costs in the next 12 months.

Downside scenario

In the next two years, we could take a negative rating action if greater-than-expected capital spending resulted in after-capital deficits of more than 5% of total revenues on a sustained basis and tax-supported debt above 60% of operating revenues.

Upside scenario

We could take a positive rating action in the next two years under the following conditions: enhanced visibility and detail in the county's financial plans, bolstered by modest economic momentum that, in turn, strengthens budgetary performance and results in consistent after-capital surpluses.

Rationale

A strong and predictable institutional framework underpins the credit profile of an expanding region.

Simcoe benefits from its advantageous location along Highway 400 and its proximity to the Greater Toronto Area to the south. It also benefits from a sizable public sector, including Canadian Forces Base Borden, contributing to the stability of the local economy. While GDP per capita is not available at the local level, we believe that it would be in line with the national level, at approximately US\$54,700. In our opinion, the county's weaker demographic trends relative to those of peers result in a less-favorable socioeconomic profile that could negatively affect growth prospects and delay capital projects. Despite Simcoe's exposure to specific sectors, notably tourism and auto manufacturing, which can potentially be more susceptible to market downturns, we observed a highly resilient economy through a robust labor force, and in some instances, expansion efforts. Moreover, Simcoe's focus on diversifying the economy and attracting skilled workers, coupled with our expectation that population growth in the county will persist in the medium term, could start reversing those trends.

The county exhibits political and managerial strength through consensus in passing budgets and maintaining transparency through disclosures in its financial statements. Management continues to prepare a thorough and detailed one-year operating budget with well-grounded assumptions. Although Simcoe does use projections for its capital budgeting, they tend to be less comprehensive than those of its peers. We believe the county showcases a good level of expertise through adequate planning and monitoring, although the accuracy of the long-term financial plan tends to decrease as the time horizon increases. The county has a robust set of

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financial policies. While we view the debt policy as prudent, Simcoe currently lacks a formal or standardized liquidity policy.

As do other Canadian municipalities, Simcoe 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.

Strength in revenues amid inflationary pressures will support healthy operating balances

Even when factoring in continued rising costs following a higher-than-expected increase in 2022, we forecast operating balance to sit slightly below 10% of operating revenues for 2023-2025. Expected healthy growth in assessments coupled with stability in provincial government grants supports strong revenue generation in our base case. Persistent elevated inflation will in turn keep pressure on salaries and wages, as well as extend to raw inputs in capital projects. Simcoe has a high level of involvement in provincially mandated services, and therefore is constrained by collective agreements and similar considerations, but this is in line with other Canadian municipalities. We believe the county can take the necessary measures to continue its high level of service and commitment for long term financial sustainability.

Capital activity will peak in 2024, with a modest decline the following year, resulting in after-capital deficits averaging 5% of total revenues through 2025. This is largely due to the Simcoe Village development, a long-term care residence and a major ongoing project, entering its next construction phase. However, we don't expect this level of spending to persist, and on average, balance after-capital results likely will demonstrate a modest deficit of about 1.7% of total revenues in 2021-2025. Given the generally favorable state of the county's infrastructure, management has been able to delay some capital projects as necessary. Nevertheless, we anticipate a resurgence in capital spending to ensure a manageable project backlog. The capital plan, which is focused on road infrastructure improvements, social housing, and long-term care facilities, is well aligned with the county's evolving demographic requirements.

Internal resources remain the primary funding source for Simcoe's capital plan. However, the county is exploring the possibility of new debt issuance, which we project will occur in 2025. This will result in tax-supported debt increasing to about 22% of operating revenue by 2025, which compares favorably with the median debt burden of 'AA' rated peers in Canada of about 83%. The county continues to benefit from very low interest costs representing less than 1% of operating revenues.

In our opinion, Simcoe's liquidity remains very strong. We estimate total free cash of about C\$138 million will be enough to cover more than 20x estimated debt service in the next 12 months. We expect this ratio will remain well above 100% during the outlook horizon. Similar to that of its domestic peers, the county's access to external liquidity is satisfactory.

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County of Simcoe Selected Indicators

Mil. C\$	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	393	427	452	474	489	506
Operating expenditure	352	379	426	428	441	459
Operating balance	41	48	26	46	48	47
Operating balance (% of operating revenue)	10.4	11.3	5.8	9.7	9.9	9.3
Capital revenue	51	47	55	57	101	83
Capital expenditure	84	101	75	91	185	157
Balance after capital accounts	9	(6)	6	12	(36)	(26)
Balance after capital accounts (% of total revenue)	1.9	(1.3)	1.2	2.3	(6.1)	(4.5)
Debt repaid	4	4	4	5	4	4
Gross borrowings	0	44	0	0	0	51
Balance after borrowings	5	34	2	8	(40)	20
Direct debt (outstanding at year-end)	36	76	72	68	63	110
Direct debt (% of operating revenue)	9.3	17.9	15.9	14.3	12.9	21.7
Tax-supported debt (outstanding at year-end)	36	76	72	68	63	110
Tax-supported debt (% of consolidated operating revenue)	9.3	17.9	15.9	14.3	12.9	21.7
Interest (% of operating revenue)	0.3	0.4	0.4	0.4	0.4	0.3
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	43,349.7	52,358.6	54,917.7	54,942.3	56,366.4	58,918.9

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	2
Financial management	3
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

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Ratings Score Snapshot

Key rating factors	Scores
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 10, 2023

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

- Economic Outlook Canada Q4 2023: Sluggish Growth Ahead, Sept. 25, 2023
- Local And Regional Government Risk Indicators: Canadian LRGs' Buoyant Fiscal Performance Will Persist Despite High Inflation And Near-Term Headwinds, Sept. 20, 2023
- Risk Indicators For Canadian Local And Regional Governments, Sept. 1, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 8, 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

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Ratings Detail (as of October 17, 2023)***Simcoe (County of)**

Issuer Credit Rating	AA+/Stable/--
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Issuer Credit Ratings History

01-Jun-2022	AA+/Stable/--
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18-Dec-2014	AA/Stable/--
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19-Dec-2013	AA-/Positive/--
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*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.

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