

County of Simcoe

10/20/2021

This report does not constitute a rating action.

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Credit Highlights

Overview

Credit context and assumptions

A stable economy, prudent financial management, and a supportive institutional framework are the cornerstones of the County of Simcoe's creditworthiness.

--The county's stable economy will support the local recovery from the effects of the COVID-19 pandemic.

--Prudent financial management practices underpin the sustainability of Simcoe's budgetary performances and debt burden.

--The county's relationship with the province of Ontario will remain well balanced and supportive.

Base-case expectations

Strong budgetary performance and very strong liquidity will keep reliance on debt minimal.

--Simcoe will continue to generate robust operating margins, allowing it to fund its capital plans largely internally.

--Modest after-capital deficits will minimize the need for new debt issuance.

--The county's extremely strong liquidity levels will continue to backstop its creditworthiness.

S&P Global Ratings' long-term issuer credit rating on the County of Simcoe is 'AA'. Provincial grants and cost containment by Simcoe have alleviated much of the pressures on the operating budget brought on by the COVID-19 pandemic and the county continues to generate healthy operating surpluses. Although we anticipate that after-capital balances will fluctuate in line with capital plans, after-capital deficits will remain below 5%, on average, over the next two years. Simcoe will continue to manage its capital expenditures prudently and rely primarily on internal sources for funding, which will minimize new debt issuance in 2022 and 2023 and keep the debt burden at very low levels. Except for some sectors, the local economy has remained largely resilient to the pandemic. We expect the local economy will expand in line with the rest of the country as the pandemic recedes. Financial management practices will remain prudent, including the maintenance of very strong liquidity levels.

Outlook

The stable outlook reflects our expectation that, in the next two years, the county's budgetary performances will remain relatively stable as pandemic-related restrictions are rolled back. We expect tax-supported debt will stay low in 2021, peaking at about 20% of operating revenues, as most capital projects will be internally financed. We believe available liquidity 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 boosted after-capital deficits past 5% of total revenues on a sustained basis and increased debt levels to above 60% of operating revenues.

Upside scenario

We could take a positive rating action in the next two years if more detailed medium-term capital budgeting, coupled with modest economic momentum that strengthens budgetary performances, leads to consistent after-capital surpluses.

Rationale

Financial management is prudent and institutions remain broadly supportive, but a less favorable socioeconomic profile continues to be a rating constraint.

The County of Simcoe benefits from its advantageous location along Highway 400 and its proximity to the Greater Toronto Area to the south. The county also benefits from a sizable public sector including Canadian Forces Base Borden, which helps to stabilize 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\$53,000. Simcoe's stable economy has proved largely resilient to the effects of the pandemic and we expect this will continue, recognizing that some sectors have been hit harder than others in line with the experience of the rest of the country. Nevertheless, the unemployment rate is higher, and housing starts lower in 2021 than pre-pandemic levels. The pace of economic activity should recover in line with the rest of the country as the pandemic recedes. More structurally, 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 the local labor force and hinder investment. However, Simcoe's focus on diversifying the economy and attracting and retaining younger skilled workers could start reversing those trends.

The county continues to demonstrate political and managerial strength through generally good political consensus in passing budgets and the transparency and disclosure of its financial statements. Management prepares detailed one-year operating budgets with prudent spending practices and assumptions. However, capital budgeting is less detailed than that of peers. We believe the county demonstrates relevant 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 financial policies. While we consider the debt policy prudent, Simcoe lacks a formal liquidity policy.

We believe Simcoe, like other Canadian municipalities, benefits from a very predictable and well-balanced local and regional government framework that has demonstrated a high degree institutional stability. 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 budgets. Municipalities generally are able to match expenditures with revenues except for capital spending, which can be intensive. Operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions.

Healthy operating surpluses will allow the county to continue to internally finance most capital spending while keeping debt very low and liquidity very strong.

The impacts of the pandemic on budgetary performance in 2020 were largely alleviated by pandemic support grants from the province and the county's cost-containment efforts and we expect this will continue for 2021. We anticipate that Simcoe's operating

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balances will remain, on average, around 10% of operating revenues in our base-case scenario for 2019-2023, which is in line with historical norms. Implementing the capital plan, which is focused on roads but also includes a variety of other services, will result in an average after-capital deficit of approximately 1% of total revenues over the same period. We expect annual after-capital deficits will likely peak in 2022.

Simcoe issued C\$43 million in May 2021 and is unlikely to require additional debt funding over the next two years, as its current financial planning anticipates funding capital projects from internal resources. Accordingly, we expect that tax-supported debt will peak in 2021 at about 19% of operating revenues before declining to about 16% in 2023. Interest costs will continue to represent less than 1% of operating revenues. Overall, Simcoe's debt burden will remain very low compared with that of peers.

In our opinion, Simcoe's liquidity remains very strong. We estimate total free cash (after considering any after-capital deficits and interest costs) of about C\$120 million will be enough to cover more than 20x the 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.

County of Simcoe Selected Indicators

Mil. C\$	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenue	370.5	371.5	392.6	393.6	406.5	417.0
Operating expenditure	320.6	331.9	351.7	357.0	365.2	372.0
Operating balance	49.9	39.6	41.0	36.6	41.3	45.0
Operating balance (% of operating revenue)	13.5	10.7	10.4	9.3	10.2	10.8
Capital revenue	32.5	44.2	51.3	58.7	72.4	106.0
Capital expenditure	84.4	99.0	83.7	80.6	139.0	158.3
Balance after capital accounts	(2.0)	(15.2)	8.5	14.6	(25.3)	(7.3)
Balance after capital accounts (% of total revenue)	(0.5)	(3.7)	1.9	3.2	(5.3)	(1.4)
Debt repaid	2.5	2.6	4.0	3.5	4.3	4.4
Gross borrowings	0.0	27.3	0.0	43.6	0.0	0.0
Balance after borrowings	(4.5)	9.6	4.5	54.7	(29.6)	(11.6)
Direct debt (outstanding at year-end)	35.7	40.5	36.5	76.6	72.3	67.9
Direct debt (% of operating revenue)	9.6	10.9	9.3	19.5	17.8	16.3
Tax-supported debt (outstanding at year-end)	35.7	40.5	36.5	76.6	72.3	67.9
Tax-supported debt (% of consolidated operating revenue)	9.6	10.9	9.3	19.5	17.8	16.3
Interest (% of operating revenue)	0.3	0.3	0.3	0.4	0.5	0.5
Local GDP per capita	--	--	--	--	--	--
National GDP per capita	60,195.8	61,465.9	58,015.8	65,247.8	68,256.2	69,600.8

County of Simcoe Selected Indicators

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

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
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 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

Related Criteria

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

Related Research

- Economic Outlook Canada Q4 2021: Growth Delayed But Not Derailed, Sept. 24, 2021

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- 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

Ratings Detail (as of October 19, 2021)*

Simcoe (County of)

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

18-Dec-2014	AA/Stable/--
19-Dec-2013	AA-/Positive/--
13-Apr-2007	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.

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