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Research Update:

County of Simcoe 'AA' Rating Affirmed On Exceptional Liquidity And Very Low Debt

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria

Related Research

Ratings List

Research Update:

County of Simcoe 'AA' Rating Affirmed On Exceptional Liquidity And Very Low Debt

Overview

- We are affirming our 'AA' long-term issuer credit rating on the County of Simcoe.
- The affirmation reflects our assessment of the county's exceptional liquidity, very low debt burden and contingent liabilities, and strong budgetary performance.
- The stable outlook reflects our expectation that, in the next two years, Simcoe's liquidity will remain exceptional, tax-supported debt will stay below 30% of projected consolidated operating revenues, and budgetary performance will remain strong.

Rating Action

On Dec. 5, 2016, S&P Global Ratings affirmed its 'AA' long-term issuer credit rating on the County of Simcoe, in the Province of Ontario. The outlook is stable.

Rationale

The rating reflects S&P Global Ratings' assessment of the county's very low debt burden and contingent liabilities, strong economy and budgetary performance, and exceptional liquidity. These factors are only partially offset by our view of the county's average budgetary flexibility. The rating also reflects our opinion of the very predictable and well-balanced institutional framework and the county's satisfactory financial management.

We expect Simcoe's tax-supported debt will remain very low at less than 30% in the next two years, given the county's modest borrowing plans and moderate debt repayments in 2016-2018. In addition, the county's very high operating balances mitigate the debt burden further, with the 2016-2018 cumulative operating balance under our base-case scenario exceeding the direct debt outstanding at year-end 2018. At the end of 2015, the county's tax-supported debt declined to C\$52.3 million or 18% of consolidated operating revenues (all figures S&P Global Ratings-adjusted), from 21% in 2014. The county expects its interest payments to consume less than 0.5% of annual operating revenue in the next two years. Simcoe's contingent liabilities are also very low, in our view, and consist mainly of landfill post-closure liabilities, which are largely covered by annual budget allocations.

We believe that the county's economy generated average GDP per capita above

US\$38,000 in 2013-2015 but likely somewhat less than the provincial average of about US\$45,500. We view Simcoe's economy as strong and fairly stable, although less diversified than that of its peers, which we believe limits its growth prospects somewhat. Outside of the single-tier cities of Barrie and Orillia, the economy relies principally on tourism, farming, and auto manufacturing, which together accounted for 30% of the labor force in recent years.

We estimate Simcoe's modifiable revenues will remain slightly below 70% of adjusted operating revenues on average, in our 2014-2018 base-case forecast period, and that capital expenditures will increase in the next several years and will account for almost 18% of total expenditures, in that same period. However, we believe that, similar to that of many Canadian peers, the county's budgetary flexibility is somewhat constrained on the expense side because the province mandates a majority of its services while wages and benefits make up a notable portion of operating expenditures and can exert significant pressure on operating budgets because they are often subject to collective agreements, which can further limit budgetary flexibility.

The county's budgetary performance remained stable in 2015, posting an operating surplus of 10.7% of operating revenues and a surplus after capital accounts of 3.6% of total revenues. For the 2014-2018 base-case forecast period, we expect that Simcoe's operating balances will remain near current levels, but that after-capital balances will show a slight deficit that will not exceed 5% of total revenues, on average, given the county's capital plan, which calls for higher capital spending in the next several years for projects related to roads construction and affordable housing.

In our view, Simcoe's financial management is satisfactory, with political and managerial strength demonstrated by generally good political consensus in passing budgets without major amendments or delays and a good degree of transparency and disclosure in its financial statements. We believe it demonstrates relevant expertise through adequate planning and monitoring. Simcoe exhibits prudent debt and liquidity management, although its forecast is less detailed than that of some peers. The county has what we consider to be a robust set of financial policies, and annual financial statements are audited and unqualified. It provides transparent, easy-to-access disclosure to pertinent information and prepares detailed operating and capital budgets.

In our view, Canadian municipalities benefit from a very predictable and well-balanced institutional framework that has demonstrated a high degree of 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 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 and landfill closure costs) through reserve contributions.

Liquidity

In our opinion, Simcoe's liquidity position is exceptional and a key credit strength. We estimate that monthly adjusted free cash and liquid assets will average C\$28 million in 2017, which would be enough to cover more than 8x the forecast debt service payable in that year. We expect the county's coverage ratio to continue exceeding 100% in the next two years. In our view, the county has satisfactory access to external liquidity given its continued access to a strong and diversified pool of domestic banks.

Outlook

The stable outlook reflects our expectations that, in the next two years, Simcoe's liquidity will remain exceptional with debt service coverage ratios greater than 100%, its tax-supported debt will remain less than 30% of projected consolidated operating revenues, and its budgetary performance will remain strong. Although we view it as unlikely in the next two years, we could lower the rating if higher-than-expected capital expenditures led to debt service coverage ratios falling to less than 100% and either the debt burden exceeded 30% of consolidated operating revenues or budgetary performance deteriorated such that after-capital deficits exceeded 5% of total revenues. We could raise the rating if there were a measurable strengthening of the local economy and either budgetary flexibility improved such that modifiable revenues consistently accounted for more than 70% of operating revenue or budgetary performance improved such that sustained after-capital surpluses were generated.

Key Statistics

Table 1

County of Simcoe -- Economic Statistics					
	--Fiscal year-end Dec. 31--				
	2011	2012	2013	2014	2015
Population	279,766	283,123	286,520	289,959	293,438
Population growth (%)	1.2	1.2	1.2	1.2	1.2
Unemployment rate (%)	7.2	6.6	6.4	5.8	5.4

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. Sources typically include national statistical offices.

Table 2

County of Simcoe -- Financial Statistics						
	--Fiscal year-end Dec. 31--					
(Mil. C\$)	2013	2014	2015	2016bc	2017bc	2018bc
Operating revenues	270	283	293	301	306	315
Operating expenditures	250	254	262	272	280	293

Table 2

Operating balance	21	29	31	29	26	23
Operating balance (% of operating revenues)	7.6	10.4	10.7	9.6	8.4	7.2
Capital revenues	24	24	33	31	31	31
Capital expenditures	53	34	53	70	69	69
Balance after capital accounts	(9)	20	12	(9)	(12)	(16)
Balance after capital accounts (% of total revenues)	(3.0)	6.5	3.6	(2.8)	(3.6)	(4.5)
Debt repaid	3	5	6	4	3	3
Balance after debt repayment and onlending	(12)	15	6	(13)	(15)	(19)
Balance after debt repayment and onlending (% of total revenues)	(3.9)	4.9	1.8	(3.9)	(4.4)	(5.5)
Gross borrowings	0	0	0	4	10	10
Balance after borrowings	(12)	15	6	(9)	(5)	(9)
Operating revenue growth (%)	5.9	4.7	3.6	2.6	1.8	3.0
Operating expenditure growth (%)	7.8	1.5	3.3	3.9	3.1	4.4
Modifiable revenues (% of operating revenues)	70.4	69.3	68.3	68.8	69.0	69.6
Capital expenditures (% of total expenditures)	17.5	11.8	16.8	20.4	19.8	19.2
Direct debt (outstanding at year-end)	70	59	52	53	60	67
Direct debt (% of operating revenues)	26.1	21.0	17.8	17.5	19.6	21.2
Tax-supported debt (% of consolidated operating revenues)	26.1	21.0	17.8	17.5	19.6	21.2
Interest (% of operating revenues)	0.4	0.3	0.3	0.3	0.2	0.2
Debt service (% of operating revenues)	1.4	2.1	2.3	1.5	1.1	1.3

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. Base case reflects S&P Global Ratings' expectations of the most likely scenario. Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade.

Ratings Score Snapshot

Table 3

County of Simcoe -- Rating Score Snapshot	
Key Rating Factors	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Strong
Financial Management	Satisfactory
Budgetary Flexibility	Average
Budgetary Performance	Strong
Liquidity	Exceptional
Debt Burden	Very Low
Contingent Liabilities	Very Low

*S&P Global Ratings' ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the government's foreign currency rating.

Key Sovereign Statistics

Sovereign Risk Indicators, Oct. 13, 2016. Interactive version available at www.spratings.com/SRI.

Related Criteria

- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, April 21, 2016
- Public Finance System Overview: Canadian Municipalities, Dec. 1, 2016

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed

Simcoe (County of)

Issuer Credit Rating

AA/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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