S&P Global Ratings

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County of Wellington

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Table Of Contents

County of Wellington

This report does not constitute a rating action.

Key Rating Factors

Issuer Credit Rating
AA+/Stable/--

Credit context and assumptions	Base-case expectations
Stable economy and strong management practices will continue to support the County of Wellington's creditworthiness. • Steady population growth and above-average income levels will continue to support the growing property tax base despite near-term pressures related to the COVID-19 pandemic. • Wellington's strong and improving financial management practices, coupled with its stable economy and advantageous location, will allow it to produce strong budgetary performance and maintain a healthy liquidity position. • A very predictable and well-balanced local and regional government framework supports the rating.	Strong budgetary performance will continue to assist in managing debt levels. • We believe pandemic-related funding in conjunction with cost-containment policies helps limit the financial impact on the county's budget. • We expect the county will continue to produce after-capital surpluses, and it will maintain a moderate debt burden as it proceeds with its capital plan. • The county's strong liquidity position will continue to support its creditworthiness.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that despite negative pressures stemming from the COVID-19 pandemic, the County of Wellington will maintain a healthy budgetary performance, with operating surpluses of more than 13% of adjusted total revenues, on average. We also expect that, although the county will increase its reliance on debt during the outlook horizon to fund its capital plan, it will maintain a manageable tax-supported debt burden of less than 30% of operating revenues and a robust liquidity position. The county's management team will continue institutionalizing financial management practices that are sophisticated, in our view, and we expect these will improve further.

Downside scenario

We could take a negative rating action in the next two years if deteriorating financial management practices lead to aggressive capital spending that pushes Wellington's tax-supported debt to more than 60% of operating revenues, coupled with weaker operating performance resulting in sustained after-capital deficits of more than 5% of total revenues.

Upside scenario

Notable expansion and diversification of the local economy in line with that of some of the county's higher-rated peers could result in a positive rating action. However, we view this scenario as unlikely in the next two years.

Rationale

We expect Wellington's stable economy will continue to support its healthy operating surpluses and robust liquidity, which will allow the county to manage its tax-supported debt during the outlook horizon. We believe the county's prudent financial management and cost-containment efforts will continue to contribute to a solid track record of good fiscal results. In our updated base-case scenario for 2021-2023, the county will issue about C$37 million for capital expenditures and we expect its tax-supported debt will reach 28% of operating revenues. We expect Wellington will continue to benefit from a supportive institutional framework.

Stable economy and strong management practices will continue to support Wellington's creditworthiness.

Wellington has a largely stable economy and an advantageous location, close to the Greater Toronto Area and the cities of Hamilton and Guelph, and along the Highway 401 corridor. Although municipal GDP data are unavailable, we believe that GDP per capita would be largely in line with the national level ($52,898 in 2020), based on high income levels. Jointly with the City of Guelph, Wellington won the C$10 million prize in the Smart Cities Canada challenge and will be putting together a multiyear plan to create a circular food economy--an initiative to re-invent how Guelph-Wellington produces, distributes, and consumes food. The county also expects to complete phase one of its broadband program in 2021 that will provide high speed internet access and further contribute to economic growth. Labor shortage remains a challenge, and the county is working with local municipalities and employers to attract workers.

We believe Wellington, like other Canadian municipalities, benefits 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.

Wellington's council and staff demonstrate stable, experienced, and effective leadership, and the county has prudent financial policies and practices that ensure a good degree of transparency and fiscal discipline. Financial management has been strengthening and we expect this will continue. The county produces 10-year operating budgets and tax-rate projections, approved annually; and uses realistic underlying assumptions, in our view. It also produces a 10-year capital budget with corresponding funding sources. We will continue to monitor the county's results against its long-term plan, especially as it navigates through the potential budgetary challenges stemming from the effects of and recovery from the global pandemic.

The county will maintain healthy operating balances and a moderate debt burden.

In our base-case scenario for 2021-2023, we expect operating balances will be stable at about 12% of adjusted operating revenues and aid in maintaining Wellington's after-capital surplus at just less than 1% of adjusted total revenues, on average. The county achieved a budget surplus in 2020, which was mainly due to a combination of cost-mitigation strategies and pandemic funding received from the provincial government. Although provincially mandated services and collective agreements with employees constrain Wellington's ability to cut spending somewhat, this is in line with other Canadian municipalities and, coupled with stable growth in the county, the management team has taken the necessary measures historically to produce consistently healthy operating results.

Annual surpluses and healthy reserves also help fund the county's capital plan and reduce its reliance on debt funding. We expect average capital spending of C$43 million per year through 2023, with spending on roadways accounting for more than 60% of the plan.

We expect Wellington's tax-supported debt burden (including the lower-tier municipalities' debt) will reach 28% of consolidated operating revenues in 2023. A large portion of future issuance is at the lower-tier level, and net of that, the county's own-purpose tax-supported debt increases modestly to 14% of operating revenues in 2023. The county's debt profile also benefits from high operating balances and very modest interest costs. Exposure to contingent liabilities is limited, in our view.

In addition to a low debt burden, Wellington has substantial liquidity. We estimate free cash balances and investments will be about C$125 million in the next 12 months. This should cover about 1,088% of next 12 months' debt service. Similar to that of other Canadian municipalities domestic peers, Wellington's access to external liquidity is satisfactory, in our view.

Key Statistics

Table 1

County of Wellington -- Selected Indicators

	--Fiscal year ended Dec. 31--				
	2019	**2020**	**2021bc**	**2022bc**	**2023bc**
Operating revenues	200	213	211	214	220
Operating expenditures	178	177	183	188	194
Operating balance	23	36	28	26	26
Operating balance (% of operating revenues)	11.3	17.0	13.2	12.1	12.0
Capital revenues	15	9	11	12	16
Capital expenditures	34	33	36	47	47
Balance after capital accounts	4	13	3	(10)	(4)
Balance after capital accounts (% of total revenues)	1.9	5.7	1.3	(4.3)	(1.8)

Table 1

County of Wellington -- Selected Indicators (cont.)					
	--Fiscal year ended Dec. 31--				
	2019	2020	2021bc	2022bc	2023bc
Debt repaid	7	9	6	13	10
Gross borrowings	10	0	3	17	16
Balance after borrowings	10	9	1	(5)	(10)
Direct debt (outstanding at year-end)	63	54	52	56	62
Direct debt (% of operating revenues)	31.5	25.5	24.4	26.0	28.0
Tax-supported debt (outstanding at year-end)	63	54	52	56	62
Tax-supported debt (% of consolidated operating revenues)	31.5	25.5	24.4	26.0	28.0
Interest (% of operating revenues)	1.1	1.0	0.9	0.9	0.9
National GDP per capita (single units)	61,466	58,016	65,195	67,992	69,683

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

County of Wellington -- Ratings Score Snapshot	
Key rating factors	**Scores**
Institutional framework	2
Economy	1
Financial management	2
Budgetary performance	1
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, July 12, 2021. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- 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

- Credit Conditions North America: Q3 2021: Looking Ahead, It's Looking Up, June 29, 2021
- Prudent Financial Management And A Strong Institutional Framework Are Helping Canadian Municipalities Negotiate The Impact of COVID-19, Nov. 30, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Ratings Detail (As Of July 20, 2021)*	
Wellington (County of)	
Issuer Credit Rating	AA+/Stable/--
Senior Unsecured	AA+
Issuer Credit Ratings History	
29-Aug-2014	AA+/Stable/--
16-Aug-2013	AA/Positive/--
07-Apr-2010	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.