

County of Wellington

September 25, 2023

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions

The County of Wellington's strong economy and stable tax base will sustain revenue growth despite near-term headwinds.

An experienced and capable management team, coupled with prudent financial policies, supports healthy budgetary performance.

An extremely predictable and supportive local and regional government framework bolsters our view of the county's creditworthiness.

Base-case expectations

Higher projected tax increases and growth in assessments will keep operating results strong, while increasing capital requirements, in part stemming from rising prices, will pressure after-capital results.

Borrowing needs, which include those on behalf of the lower-tier municipalities, will push the tax-supported debt burden to 35% of operating revenues.

Wellington will maintain an exceptional liquidity position and satisfactory market access.

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S&P Global Ratings' long-term issuer credit and senior unsecured debt ratings on the County of Wellington, in the Province of Ontario, are 'AAA'. We expect Wellington's healthy and stable economy, accompanied by a steady increase in a relatively wealthy population, will support the county's revenues during the outlook horizon. Despite inflationary pressures on both operating and capital costs, we expect operating balances to remain strong, at more than 10% of operating revenues. At the same time, we forecast capital spending to nearly double in the next two years, which will lead to weakening in after-capital results through 2025. However, we expect these will remain in a surplus position. We also expect management will remain prudent, prioritizing long-term fiscal sustainability, and will keep annual capital outlays and reliance on debt funding manageable. Healthy operating results and accumulated reserves will fund the growing capital plan, and although the debt burden is trending up, we project the rise will be gradual, reaching over 30% of consolidated operating revenues by 2025. The county's robust liquidity position is a key credit strength.

Outlook

The stable outlook reflects our expectation that, in the next two years, stable revenue sources and prudent financial management will support surpluses after-capital accounts, albeit smaller than in recent years. Furthermore, we expect Wellington's debt burden will rise but remain manageable, at about 35% of operating revenues. The county's liquidity position remains a credit strength.

Downside scenario

Although unlikely, we could take a negative rating action in the next two years if, coupled with prolonged operating pressures, a larger-than-expected capital plan resulted in sustained after-capital deficits of more than 5% of total revenues. We would also expect management to increase reliance on debt such that the tax-supported debt burden rose to more than 60% of operating revenues.

Rationale

Strong local economic foundations and effective management practices will position Wellington favorably in challenging conditions

We expect economic activity in Wellington will remain healthy and benefit from steady population increases. The county 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 of more than US\$54,700, based on high-income levels. We expect that, following robust residential development in recent years, Wellington will remain an attractive destination for new residents. The county continues to work with the local municipalities and employers to help attract and retain workers.

In our opinion, Wellington's management team is experienced and capable of effective leadership demonstrated through prudent financial policies, adoption of best practices for financial discipline, and addressing key potential issues that could affect the county. It produces clear goals and objectives observed through its 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 that indicate where future capital needs lie.

As do other Canadian municipalities, Wellington 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.

Stable revenue growth will support healthy operating balances, while inflationary pressures will escalate capital requirements

In our base-case scenario for 2023-2025, we expect operating balances will remain stable at about 13% of adjusted operating revenues, while after-capital results will decline but remain in a surplus. High earnings are also matched by notable expenditure growth, largely linked to salaries and wages. 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.

We expect inflation will pressure the capital plan as Wellington strategically relies on accumulated reserves to meet capital needs. Capital grants from senior levels of government are also an important source of funding, allowing for increased investment in infrastructure improvements targeting road networks, bridges, and culverts. We forecast Wellington's capital spending between 2023-2025 will increase to C\$62 million from C\$31 million. Development of five new ambulance stations to meet future needs, in collaboration with the City of Guelph, is one of the main drivers of the projected increase in spending. The 10-year plan totals C\$555 million, with road work and social and affordable housing accounting for over 75% of capital expenditures.

We believe that Wellington's tax-supported debt burden (including debt issued on behalf of lower-tier municipalities) will reach up to 35% of consolidated operating revenues by 2025. This is in line with the median debt burden of 'AAA' rated peers in Canada. The debt profile also benefits from very modest interest costs of less than 1% of operating revenues, which compares favorably with the median five-year average interest burden of similarly rated peers. Future issuance is in line with the increasing capital plan and corresponds with the needs of an expanding population. Net of debt on behalf of lower-tier governments, the county's own-purpose tax-supported debt will remain stable in the next two years, at less than 20% of consolidated operating revenues. We view exposure to contingent liabilities as limited.

Wellington's liquidity position remains a credit strength. Cash balances benefit from a favorable high interest rate environment. We estimate free cash balances and investments at C\$205 million in the next 12 months, sufficient to cover more than 30x of projected debt service in the next 12 months. Similar to that of other Canadian municipalities, Wellington's access to external liquidity is satisfactory, in our view.

County of Wellington Selected Indicators

Mil. C\$	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	213	226	246	249	259	269
Operating expenditure	177	195	209	217	223	230
Operating balance	36	31	37	32	36	40
Operating balance (% of operating revenue)	17.0	13.9	15.2	12.7	13.8	14.8
Capital revenue	9	15	17	12	20	25
Capital expenditure	33	22	33	31	50	62
Balance after capital accounts	13	25	21	13	6	3

County of Wellington Selected Indicators

Balance after capital accounts (% of total revenue)	5.7	10.3	8.1	5.1	2.2	0.9
Debt repaid	9	6	5	6	6	7
Gross borrowings	0	7	7	4	30	25
Balance after borrowings	9	28	23	13	32	25
Direct debt (outstanding at year-end)	54	55	56	53	77	95
Direct debt (% of operating revenue)	25.5	24.5	22.7	21.4	29.7	35.2
Tax-supported debt (outstanding at year-end)	54	55	56	53	77	95
Tax-supported debt (% of consolidated operating revenue)	25.5	24.5	22.7	21.4	29.7	35.2
Interest (% of operating revenue)	1.0	0.8	0.5	0.7	0.6	0.8
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	43,349.7	52,358.6	54,917.7	54,720.3	56,364.9	59,092.1

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	1
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

- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Local And Regional Government Risk Indicators: Canadian LRGs' Buoyant Fiscal Performance Will Persist Despite High Inflation And Near-Term Headwinds, Sept. 20, 2023
- Economic Outlook Canada Q3 2023: A First-Half Resurgence Will Give Way To An Inevitable Slowdown, June 26, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, March 24, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022

Ratings Detail (as of September 22, 2023)*

Wellington (County of)

Issuer Credit Rating	AAA/Stable/--
Senior Unsecured	AAA

Issuer Credit Ratings History

01-Jun-2022	AAA/Stable/--
29-Aug-2014	AA+/Stable/--
16-Aug-2013	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.

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