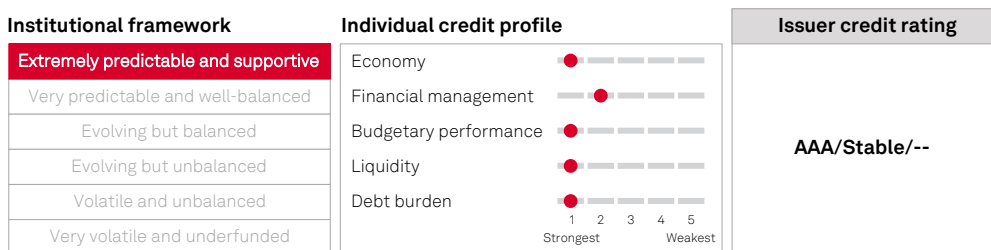


County of Wellington

September 12, 2024

This report does not constitute a rating action.

Ratings Score Snapshot



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Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Wellington will maintain stable income levels and low unemployment within a strong local economy.	The county will continue to post healthy operating balances, anchored by expanding tax receipts.
Prudent financial management practices strengthen the credit profile.	Strong budgetary performance will support a moderate debt burden, primarily consisting of debt issued by lower tiers.
Like other Canadian municipalities, Wellington's relationship with the Province of Ontario will remain extremely predictable and supportive.	Wellington will maintain an exceptional liquidity position and satisfactory market access.

S&P Global Ratings estimates that the County of Wellington will sustain strong financial performance in the next two years, as reflected by robust operating surpluses of about 13% of operating revenue. The county's capital plan has been steadily expanding, leading to anticipated pressures on the balance after capital accounts. Despite a projected deficit this year, we expect the county to post a modest after-capital surplus beyond 2024. Although these capital plans are primarily financed with accumulated reserves, they will require minimal debt issuance.

We estimate that the debt burden will increase to 26% of operating revenue by 2026. We expect lower tiers will issue 60% of the total tax-supported debt. In our view, the county's manageable debt and its exceptional liquidity position are key credit strengths.

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. Furthermore, we expect Wellington's debt burden will rise but remain manageable, at close to 30% of operating revenue. The county's liquidity position remains a credit strength.

Downside scenario

Although unlikely, we could lower the rating over the next two years if the county's capital program expands beyond our base-case assumptions, leading to after-capital deficits of greater than 5% of operating revenue on a sustainable basis and a debt burden of more than 60% of operating revenue.

Rationale

Strong local economic foundations and an extremely predictable and supportive institutional framework bolster Wellington's creditworthiness

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 local data is not available, we believe that Wellington's GDP per capita would be largely in line with the national level, which we estimate at about US\$54,300 in 2024. Generally, we estimate that the county's unemployment is lower than that of Ontario. Following residential and industrial development in recent years, we expect that Wellington will remain an attractive destination for new residents.

In our opinion, Wellington's management team is experienced and capable of effective leadership, as demonstrated through prudent financial policies. It produces clear goals and objectives observed through 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.

Like 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 COVID-19 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 are generally able to match expenditure well with revenue, except for capital expenditure (capex), which can be intensive. Any operating surpluses typically fund capex and future liabilities (such as postemployment obligations) through reserve contributions. Municipalities have demonstrated a track record of strong budget results and, therefore, average debt burdens are low relative to those of global peers, and growth over time has been modest.

While the surplus after-capital accounts will remain modest due to significant capex, the county's debt burden will remain low

Although provincially mandated services and collective agreements with employees constrain Wellington's ability to cut spending, we expect the county will take the necessary measures to address its spending needs and continue generating strong budgetary performance, with operating balances averaging 13% of operating revenue in our 2022-2026 base-case period.

The county has planned significant capital projects totaling C\$ 574 million over a 10-year capital plan. These include road and public works facility improvements, four ambulance stations, the development of Riverstown landfill, the new Erin library, and investment in social housing. Consequently, we estimate this capex will result in modest after-capital surpluses averaging 1.9% of total revenue in 2022-2026.

The county has accumulated reserves to meet most of its capital needs, accounting for 46% of the 2024 budget. However, we estimate it will issue C\$48 million in 2024-2026, including C\$34 million on behalf of the lower-tier municipalities. As a result, we forecast that tax-supported debt will be C\$77 million, or 26% of operating revenue, by 2026. Net of debt on behalf of lower-tier governments, the county's own-purpose tax-supported debt will be 11% of consolidated operating revenue by 2026. We believe that Wellington's lower-tier municipalities can support their obligations and will reimburse the county for all principal and interest payments as they come due. In turn, we recognize that there is a lower credit risk associated with this debt. We estimate interest costs will increase as the county issues more debt but remain very manageable at 1% of operating revenue in the next two years. In addition, Wellington's exposure to contingent liabilities is limited, in our view.

Wellington maintains an exceptional liquidity position. We estimate free cash balances and investments will be about C\$198 million in the next 12 months, which will be sufficient to cover more than 25x debt service requirements. Similar to that of domestic peers, the county's access to external liquidity is satisfactory, in our view.

County of Wellington Selected Indicators

Mil. C\$	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenue	226	245	263	270	282	293
Operating expenditure	195	211	226	236	245	255
Operating balance	31	34	36	34	37	38
Operating balance (% of operating revenue)	13.9	14.0	13.7	12.7	13.0	13.0
Capital revenue	15	17	14	32	29	28
Capital expenditure	22	33	44	71	64	61
Balance after capital accounts	25	18	6	(5)	2	5
Balance after capital accounts (% of total revenue)	10.3	6.9	2.2	(1.6)	0.5	1.5
Debt repaid	6	6	9	7	6	5
Gross borrowings	2	7	4	0	39	9
Balance after borrowings	23	20	3	(9)	37	11
Direct debt (outstanding at year-end)	55	56	46	39	73	77
Direct debt (% of operating revenue)	24.5	22.7	17.6	14.6	25.9	26.3

County of Wellington

County of Wellington Selected Indicators

Tax-supported debt (outstanding at year-end)	55	56	46	39	73	77
Tax-supported debt (% of consolidated operating revenue)	24.5	22.7	17.6	14.6	25.9	26.3
Interest (% of operating revenue)	0.8	0.7	0.6	0.5	0.8	1.1
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	52,496.8	55,509.4	53,431.2	54,307.4	57,061.1	60,568.6

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.

Rating Component Scores

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 8, 2024. Interactive version available at <http://www.spratings.com/sri>

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

- Economic Outlook Canada Q3 2024: Turning The Corner, June 24, 2024
- Institutional Framework Assessment: Canadian Municipalities Employ Flexibilities Within Fiscal Framework To Temper Cost Pressures, April 2, 2024
- S&P Global Ratings Definitions, June 9, 2023
- Sovereign Rating Methodology, Dec. 18, 2017

Ratings Detail (as of September 12, 2024)*

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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