

To: Warden and Members of County Council

From: Director of Corporate Services

Credit Rating Review - 2023

RECOMMENDATION

1. That the County of Oxford's Credit Rating Update, attached to Report No. CS 2023-32, dated September 12, 2023, as prepared by Standard & Poor's be received for information.

REPORT HIGHLIGHTS

- AAA rating affirmed by Standard & Poor's based on the County's prudent financial management practices and strong budgetary performance remaining consistent
- Outlook is stable – reflects expectation that within the next two years the County will continue to demonstrate strong budgetary balances and maintain a healthy liquidity position

Implementation Points

Standard & Poor's Rating Update report was published on September 12, 2023.

Financial Impact

The AAA/Stable long-term issuer credit and senior unsecured debt rating allows the County to secure financing at a lower rate due to its strong capacity to meet financial commitments.







The AAA credit rating allows the County to generate more revenues through higher yield investment instruments that are not permitted to municipalities with ratings less than AA-.

Communications

The Standard & Poor's report represents an independent analysis of the County's creditworthiness and will be provided to Infrastructure Ontario for assessing the County and Area Municipalities' ability to service long term debt; the banking institution that provides banking services for the County for debt and investment indicators; and the County's Auditor.

Furthermore, Standard & Poor's independent credit report is based on ratings universally applied to local and regional governments outside of the United States which provides an effective performance indicator of the fiscal management and health of the County for taxpayers who financially support County services.

Strategic Plan (2020-2022)

					
WORKS WELL TOGETHER	WELL CONNECTED	SHAPES THE FUTURE	INFORMS & ENGAGES	PERFORMS & DELIVERS	POSITIVE IMPACT
		3.iii.	4.ii.	5.ii.	

DISCUSSION

Background

The Standard & Poor's Rating serves issuers, investors, and intermediaries in the Canadian financial markets by expressing preferred share ratings (determined in accordance with global rating criteria) in terms of rating symbols that have been actively used in the Canadian market over a number of years.

A credit rating is an independent assessment of an entity's ability and willingness to make timely payments of principal and interest. Factors for determining a credit rating include: state of the economy, expenditures, taxation capacity, and existing debt burden.

The *Municipal Act* authorizes the use of investment instruments for municipalities which includes commercial paper and asset-backed securities. Municipalities with a credit rating of AA- or better may invest directly in these instruments. Alternatively, municipalities with less than an AA- rating may invest indirectly through "ONE – The Public Sector Group of Funds."

Commercial paper includes promissory notes or drafts of corporations maturing in less than one year, typically offering a higher return with a slightly higher risk over treasury bills. Asset-backed securities are represented by bonds that earn a return from a stream of loan or mortgage payments at a higher rate of return and higher risk. Due to the increase in exposure to risk inherent in these investment opportunities, the above-mentioned safeguards were built into the *Act*.

Comments

Standard & Poor's annual Rating Update report dated September 12, 2023 based on their review of the County's actual 2022 financial results; 2023 budget variances; year end projections; and, ten-year capital and debt plans. The Report (Attachment 1) summarizes the comprehensive analysis that forms the basis of Standard & Poor's continued confidence in Oxford's financial position and management which resulted in affirming a AAA/Stable rating and outlook.

Table 1 below provides the County's credit rating history as prepared by Standard & Poor's, followed by Table 2 that compares the County's credit rating to other municipal clients in Ontario of Standard & Poor's.

Table 1 – Credit Rating History (years of change in rating only)

2022	AAA/Stable
2015	AA+/Stable
2012	AA/Stable
2011	AA-/Positive
2007	AA-/Stable
2006	A+/Positive
2001	A+/Stable

Table 2 – Credit Rating Comparisons

Municipality	Current Rating
Barrie (City of)	AA+/Stable
Essex (County of)	AAA/Stable
Guelph (City of)	AAA/Stable
Haldimand (County of)	AA/Stable
Lambton (County of)	AA+/Stable
Niagara (Regional Municipality of)	AA+/Stable
Norfolk (County of)	AA/Stable
Simcoe (County of)	AA+/Stable
Wellington (County of)	AAA/Stable
Windsor (City of)	AA+/Stable
Oxford (County of)	AAA/Stable

In addition to the positive attributes mentioned in the attached report update prepared by Standard & Poor's that resulted in affirmation of the rating for the County, other contributing factors include: the effective application of the County's receivables management, investment and purchasing policies; the continuity of long-term capital plan; debt management; reserves policy; the overarching Long Term Financial Sustainability Plan; Asset Management Plan; Risk Management Policy; Community Sustainability Plan and passing budgets before the start of the fiscal year.

As cited in the report, Standard & Poor's indicates that even during uncertain conditions the County will take the necessary measures to address its spending needs and maintain healthy balances. Nevertheless, they could lower the rating over the next two years if the County's capital program expands beyond their base-case assumptions, leading to after-capital accounts moving into a deficit of greater than 5% of operating revenues and a debt burden of more than 60% of operating revenues.

In spite of the foregoing, it is Standard & Poor's opinion that Oxford will take the necessary measures to ensure that the County's debt burden will remain at a manageable level, as a large proportion of funding will be sourced from reserves. They also reference that the County's exceptional liquidity position and supportive institutional framework continue to bolster its credit profile.

Conclusions

In summary, the AAA/Stable rating positions the County well for borrowing and lending opportunities in the short-term as it continues to be comparable with that of its peers. In addition, the annual comprehensive, independent review results in a professional opinion that represents an important performance indicator for Council and the public regarding the County's financial management and health, which is of particular interest during these challenging economic times.

SIGNATURES

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ATTACHMENT

Attachment 1 – Standard & Poor’s Rating Update, dated September 12, 2023