S&P Global
Ratings

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Research Update:

County of Oxford 'AAA' Issuer Credit Rating Affirmed; Outlook Is Stable

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Overview

- A larger capital plan will lead the County of Oxford to post modest after-capital deficits in the forecast horizon but will not lead to significant increases in debt.
- S&P Global Ratings affirmed its 'AAA' long-term issuer credit rating on Oxford.
- The stable outlook reflects our view that, with prudent financial management of its capital program, the county will continue to post strong budgetary results with modest after-capital deficits, on average, of about 2.5% and a moderate debt burden of about 49% of operating revenues.

Rating Action

On Sept. 12, 2023, S&P Global Ratings affirmed its 'AAA' long-term issuer credit rating on the County of Oxford, in the Province of Ontario. The outlook is stable.

Outlook

The stable outlook reflects S&P Global Ratings' expectations that, in the next two years, the county will continue to post strong budgetary results and keep ample levels of liquidity. Given the county's elevated capital plan that is predominantly funded by reserves, we also expect that although Oxford's balance after-capital accounts will move into a deficit of less than 5% of total revenues, the debt burden will rise only modestly to 49% of operating revenues in 2025.

Downside scenario

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 revenues on a sustainable basis and a debt burden of more than 60% of operating revenues.

Rationale

We expect Oxford will continue to manage its finances to maintain very strong budgetary results of about 20% of operating revenues. In addition, while the temporarily larger capital plan will lead to modest after-capital deficits in the next two years, we expect that the county's debt burden will remain at a manageable level, as a large proportion of funding will be sourced from reserves. In our view, the county's exceptional liquidity position and supportive institutional framework continue to bolster its credit profile.

Oxford's economy will remain stable while strong financial management will support the county's creditworthiness

Oxford's economy is generally stable despite global economic headwinds. The county is an important hub for manufacturing and agriculture, but its economy remains less diversified than that of some peers, with concentration in the auto industry. Local employers have modestly expanded, benefiting from the county's advantageous location near major highways and central markets in the Greater Toronto Area and the U.S. Oxford has a notable auto manufacturing sector, which could be affected by both positive and negative exogenous factors including weakening demand for autos and the Canadian response to the Inflation Reduction Act in the U.S. Nevertheless, we do not believe that these factors will have a material impact on the county's economic growth in the forecast horizon. While municipal GDP data is unavailable, we believe that Oxford's GDP per capita would be largely in line with the national level, which we estimate to be about US$54,700 in 2023.

The county has disciplined financial management practices, good long-term capital planning, and a strong budgeting process. Oxford typically passes budgets before the start of the fiscal year. It produces detailed annual operating and capital budgets, operating projections, and a detailed 10-year capital plan with corresponding sources of funding. Oxford has prudent financial policies and practices that ensure a good degree of transparency and fiscal discipline. We do not expect significant policy shifts in its strategic objectives during our outlook horizon, in part, due to the high degree of institutional stability Oxford enjoys.

As do other Canadian municipalities, the county 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, as such, debt burdens, on average, are low relative to global peers and growth over time has been modest.

Significant capital expenditures could lead to near-term after-capital deficits without a significant increase in the county's debt burden.

We expect Oxford will take the necessary measures to address its spending needs and will continue generating strong budgetary performance, with operating balances averaging 20% of operating revenues in our 2021-2025 base-case period. However, after-capital balances will weaken due to projects that were deferred during the pandemic; the county projects after-capital deficits averaging 2.5% of operating revenues for the same time period.

The 10-year capital plan increased to C$651.8 million in 2023 from a budget of C$495 million in 2022 and focuses on water and wastewater projects. We expect the county will, on average, annually spend C$72 million on capital projects in 2023-2025. Annual surpluses and healthy reserves facilitate Oxford's ability to internally fund most of the capital plan, primarily with C$434 million from reserves and C$75 million in debt.

The county's borrowings will total about C$24 million by year-end, including C$15 million on behalf of the lower-tier municipalities. This will raise tax-supported debt as a proportion of operating revenues to about 49% in 2025. We expect interest costs will remain below 2% of operating revenues for the 2022-2024 period. We believe that Oxford's lower-tier municipalities are able to support their obligations and will reimburse the county for all principal and interest payments as they come due. We recognize that there is a lower credit risk associated with this debt. The debt profile also benefits from high operating balances and very modest interest costs. In addition, Oxford's exposure to contingent liabilities is limited, in our view.

In addition to the moderate debt burden, Oxford has an exceptional liquidity position. We estimate free cash balances and investments will be about C$250 million in the next 12 months, which will be sufficient to cover more than 18x debt service requirements. Similar to that of its domestic peers, Oxford's access to external liquidity is satisfactory, in our view.

Key Statistics

Table 1

County of Oxford -- selected indicators

	--Fiscal year-end Dec. 31--					
(Mil. C$)	**2020**	**2021**	**2022**	**2023bc**	**2024bc**	**2025bc**
Operating revenues	193	205	212	219	226	233
Operating expenditures	152	165	171	176	180	184
Operating balance	42	40	41	43	46	49
Operating balance (% of operating revenues)	21.5	19.6	19.3	19.6	20.2	20.9
Capital revenues	12	11	12	16	18	17
Capital expenditures	34	39	66	67	76	73
Balance after capital accounts	19	12	(13)	(9)	(13)	(7)
Balance after capital accounts (% of total revenues)	9.5	5.7	(6.0)	(3.8)	(5.2)	(2.9)
Debt repaid	12	12	11	12	9	8
Gross borrowings	2	4	2	24	17	27

Table 1

County of Oxford -- selected indicators (cont.)

	--Fiscal year-end Dec. 31--					
(Mil. C$)	2020	2021	2022	2023bc	2024bc	2025bc
Balance after borrowings	10	5	(22)	3	(5)	12
Direct debt (outstanding at year-end)	88	83	76	88	95	115
Direct debt (% of operating revenues)	45.3	40.4	35.7	40.0	42.3	49.2
Tax-supported debt (outstanding at year-end)	88	83	76	88	95	115
Tax-supported debt (% of consolidated operating revenues)	45.3	40.4	35.7	40.0	42.3	49.2
Interest (% of operating revenues)	1.8	1.5	1.3	1.0	1.0	1.0
Local GDP per capita (single units)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
National GDP per capita (single units)	58,139	65,651	71,478	72,770	74,307	76,101

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 available.

Ratings Score Snapshot

Table 2

County of Oxford

Key rating factors	Scores
Institutional framework	1
Economy	2
Financial management	2
Budgetary perfomance	2
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

- 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
- Institutional Framework Assessments For International Local And Regional Governments, June 15, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022

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	
Oxford (County of)	
Issuer Credit Rating	AAA/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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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