

To: Warden and Members of County Council

From: Director of Corporate Services

Credit Rating Review - 2021

RECOMMENDATION

1. **That the County of Oxford's Credit Rating Update, attached to Report No. CS 2021-40, dated September 16, 2021, as prepared by Standard & Poor's be received for information.**

REPORT HIGHLIGHTS

- AA+ ratings affirmed by Standard & Poor's based on the County's sound financial results and prudent financial management practices
- 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 while reducing its debt burden

Implementation Points

Standard & Poor's Rating Update report was published on September 16, 2021.

Financial Impact

The AA+/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 AA+ 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 Scale 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. Attachment 1 to this report provides the Standard & Poor's credit rating definitions.

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

Attachment 2 to this report is Standard & Poor's Rating Update report dated September 16, 2021. The Report 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 AA+/Stable rating and outlook.

Table 1 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 of Standard & Poor's.

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

2021	AA+/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)	AA+/Stable
Guelph (City of)	AA+/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)	AA+/Stable
Windsor (City of)	AA/Stable
Oxford (County of)	AA+/Stable

In addition to the positive attributes mentioned in the attached report 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 and Community Sustainability Plan.

As cited in the report, Standard & Poor's could downgrade the rating if Oxford's economy experiences a dramatic decline resulting in pressure on the County's budgetary performance and significant increases in debt, which is a potential threat with exposure to a global pandemic that continues to impact economic activity and increased budgetary pressures worldwide. Nonetheless, it is Standard & Poor's opinion that Oxford's strong financial management practices and cost containment efforts will help mitigate the direct budgetary impact of the pandemic and maintain healthy liquidity levels while minimizing reliance on debt.

Conclusions

In summary, the AA+/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

Report Author:

Original signed by _____

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Manager of Finance

Departmental Approval:

Original signed by _____

Lynn S. Buchner, CPA, CGA
Director of Corporate Services

Approved for submission:

Original signed by _____

Michael Duben, B.A., LL.B.
Chief Administrative Officer

ATTACHMENTS

Attachment 1 – Standard & Poor’s Credit Rating Definitions

Attachment 2 – Standard & Poor’s Rating Update, dated September 16, 2021

Standard & Poor's Credit Rating Definitions

A Standard & Poor's issue credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The issue credit rating is not a recommendation to purchase, sell, or hold a financial obligation, inasmuch as it does not comment as to market price or suitability for a particular investor.

Issue credit ratings are based on current information furnished by the obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any credit rating and may, on occasion, rely on unaudited financial information. Credit ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

Issue credit ratings can be either long term or short term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days—including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. The result is a dual rating, in which the short-term rating addresses the put feature, in addition to the usual long-term rating. Medium-term notes are assigned long-term ratings.

Long-Term Issue Credit Ratings

Issue credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;
- Nature of and provisions of the obligation;
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk. As such, they pertain to senior obligations of an entity. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation applies when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.) Accordingly, in the case of junior debt, the rating may not conform exactly with the category definition.

Rating	Definition
AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
BB, B, CCC, CC, and C	Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.
BB	An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
B	An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.
CCC	An obligation rated 'CCC' is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.
CC	An obligation rated 'CC' is currently highly vulnerable to nonpayment.

Rating	Definition
C	A subordinated debt or preferred stock obligation rated 'C' is currently highly vulnerable to nonpayment. The 'C' rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation are being continued. A 'C' also will be assigned to a preferred stock issue in arrears on dividends or sinking fund payments, but that is currently paying.
D	An obligation rated 'D' is in payment default. The 'D' rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.
Plus (+) or minus (-)	The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.
N.R.	This indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular obligation as a matter of policy.