S&P Global
Ratings

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County of Oxford

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PRIMARY CONTACT

Hamzah Saeed
Toronto
1-416-507-2527
hamzah.saeed
@spglobal.com

SECONDARY CONTACT

Dina Shillis, CFA
Toronto
1-416-507-3214
dina.shillis
@spglobal.com

RESEARCH CONTRIBUTOR

Deepanshu Goyal
CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Gurgaon Haryana

This report does not constitute a rating action.

Key Rating Factors

Credit context and assumptions

Stable economy and strong management will support the County of Oxford's creditworthiness.

- Oxford's main industries, which include manufacturing and agriculture, continue to provide economic stability despite the near-term pressures related to the COVID-19 pandemic.
- The county's prudent financial management will continue to allow it to produce strong operating results and maintain a healthy liquidity position.
- We believe the county's relationship with the Province of Ontario will remain well balanced and generally supportive.

Base-case expectations

Strong budgetary performance will keep reliance on debt low.

- Oxford will continue to generate robust operating margins despite the near-term impact of the pandemic on the county's fiscal position.
- A track record of modest after-capital surpluses will help mitigate debt issuance.
- The county's extremely strong liquidity position will continue to support its creditworthiness.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, Oxford will continue to demonstrate very strong budgetary balances, with after-capital surpluses averaging 7% of total revenues, supported by prudent financial management practices. We also expect the county will maintain a healthy liquidity position and its tax-supported debt burden will decline to about 33% of operating revenue by 2023.

Downside scenario

We could lower the rating over the next two years if an external shock harms Oxford's economy, pressuring its budgetary performance, such that we see after-capital balances slipping into a deficit, and pushing the county's tax-supported debt to more than 60% of operating revenues.

Upside scenario

Although unlikely, we could raise the rating in the next two years if the local economy strengthened substantially, supported by higher-than-expected growth and notable diversification.

Rationale

The long-term issuer credit rating on the County of Oxford is ‘AA+’. We expect Oxford’s stable economy will continue to support its healthy operating surpluses and exceptional liquidity, which will allow the county to manage its tax-supported debt during the outlook horizon. We believe the county'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. In our updated base-case scenario for 2021-2023, the county will issue about C$18 million for capital expenditures, but we expect its tax-supported debt will decline to 33% of operating revenues, as repayments outpace borrowings; net of debt on-lent to lower-tier municipalities, the debt ratio will be almost 18% of operating revenues by fiscal 2023.

Stable economy and strong management will continue to support the County of Oxford's creditworthiness.

Oxford's economy is generally stable and continues to see steady increases in population and modest expansions at local employers, benefiting from the county's advantageous location near major highways and central markets in the Greater Toronto Area and the U.S. Although the county is an important hub for manufacturing and agriculture, its economy remains less diversified than that of some peers, with concentration in the auto industry. The continuing uncertainty surrounding global trade agreements and recent softening in global auto sales remain risks to Oxford's manufacturing sector. Although municipal GDP data are unavailable, we believe that GDP per capita would be largely in line with the national level, which we estimate to be about US$49,800.

The country exhibits disciplined financial management practices with an experienced management team, good long-term capital planning, and a strong budgeting process. Oxford typically passes budgets before the start of the fiscal year. The county produces detailed annual operating and capital budgets, operating projections, and a comprehensive 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 the county's strategic objectives during our outlook horizon, in part, due to the high degree of institutional stability Oxford enjoys.

Like other Canadian municipalities, Oxford benefits from a very predictable and well-balanced local and regional government framework that has demonstrated a high degree of institutional stability. 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. Canadian municipalities generally are able to match expenditures well with revenues, except for capital spending, which can be intensive. Operating surpluses typically fund capital expenditures and future liabilities through reserve contributions.

Strong budgetary performance will keep reliance on debt low.

Oxford benefits from a history of strong operating performance and we expect this trend will continue during the outlook horizon, with operating balances averaging 21% of operating revenues in 2019-2023, and after-capital surpluses averaging 7% of operating revenues. We expect that, despite uncertainty around transfers for capital, the county will take the necessary measures to address its spending needs and maintain healthy balances. Annual surpluses and healthy reserves also facilitate Oxford's ability to internally finance its capital plan and reduce reliance on debt. The 10-year capital plan totals C$523 million, with road maintenance and water and wastewater-related work making up the bulk of the projects. We expect the county will spend C$47 million each year on capital, on average, during the outlook horizon and post modest after-capital surpluses.

Oxford's borrowing will total almost C$15 million by year-end, including C$11 million on behalf of the lower-tier municipalities, with an additional C$3 million to be issued through 2023. We expect repayments will outpace borrowing, on average, and tax-supported debt will decline to 33% of operating revenues by 2023. Net of the on-lent debt, the county's debt burden is very low and the ratio falls to less than 18%. We expect interest costs will remain below 2% of operating revenues for the 2021-2023 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 county's debt profile also benefits from high operating balances and very modest interest costs. Exposure to contingent liabilities is limited, in our view.

In addition to the low debt burden, Oxford has a sizable and stable liquidity position. We estimate free cash balances and investments will be about C$254 million in the next 12 months, which will be sufficient to cover more than 17x its debt service requirements. Similar to that of its domestic peers, Oxford's access to external liquidity is satisfactory, in our view.

County of Oxford Selected Indicators

Mil. C$	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenue	177.7	181.3	193.3	198.6	205.0	211.0
Operating expenditure	139.5	141.6	151.7	157.1	162.9	168.8
Operating balance	38.2	39.7	41.6	41.5	42.0	42.2
Operating balance (% of operating revenue)	21.5	21.9	21.5	20.9	20.5	20.0
Capital revenue	11.3	9.8	11.9	15.3	16.3	14.5
Capital expenditure	34.7	30.8	34.0	46.4	49.3	44.0
Balance after capital accounts	14.7	18.7	19.4	10.4	9.0	12.8
Balance after capital accounts (% of total revenue)	7.8	9.8	9.5	4.8	4.1	5.7
Debt repaid	10.1	11.2	11.6	11.8	12.0	11.3
Gross borrowings	11.4	0.7	1.7	15.3	1.6	1.0
Balance after borrowings	16.0	8.2	9.5	13.8	(1.4)	2.5
Direct debt (outstanding at year-end)	96.2	92.8	87.7	91.1	80.8	70.5
Direct debt (% of operating revenue)	54.2	51.2	45.3	45.9	39.4	33.4
Tax-supported debt (outstanding at year-end)	96.2	92.8	87.7	91.1	80.8	70.5
Tax-supported debt (% of consolidated operating revenue)	54.2	51.2	45.3	45.9	39.4	33.4
Interest (% of operating revenue)	2.0	2.0	1.8	1.5	1.2	1.0
Local GDP per capita	--	--	--	--	--	--
National GDP per capita	60,195.8	61,465.9	58,015.8	65,195.3	67,992.0	69,683.2

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

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
Economy	2
Financial management	2
Budgetary performance	1
Liquidity	1
Debt burden	1
Stand-alone credit profile	Aa+
Issuer credit rating	AA+

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, Published July 12, 2021. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Risk Indicators For Canadian Local And Regional Governments, Sept. 1, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Aug. 2, 2021
- Credit Conditions North America: Q3 2021: Looking Ahead It's Looking Up, June 29, 2021
- Economic Outlook Canada Q3 2021: Growth Setback In The Spring Will Give Way to Summer Boom, June 28, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Prudent Financial Management And A Strong Institutional Framework Are Helping Canadian Municipalities Negotiate The Impact of COVID-19, Nov. 30, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019