S&P Global
Ratings

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County of Oxford

September 19, 2022

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Supportive institutions and prudent financial management practices strengthen the credit profile.	Strong budgetary performance will keep reliance on debt low.
Steady income levels with an economy based on manufacturing and agriculture.	The County of Oxford will continue to generate robust operating margins despite recent economic headwinds.
The county's prudent financial management will continue to allow it to produce strong operating results and maintain a healthy liquidity position.	A track record of modest after-capital surpluses will help mitigate debt issuance.
The county's relationship with the Province of Ontario has been stable and generally supportive and expected to remain the same.	A robust liquidity position will continue to support the county's creditworthiness.

On June 1, 2022, S&P Global Ratings raised its rating on the County of Oxford to 'AAA' from 'AA+', following the revision of the Canadian municipal institutional framework assessment to extremely supportive and predictable from very predictable and well-balanced (see "Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, " published June 1, 2022, on RatingsDirect). The county has prudent financial management practices, and we expect its strong budgetary performance will remain consistent. Oxford's operating balances, averaging 20% of operating revenues, and the capital surplus keep the debt burden low. The county's low debt and its exceptional liquidity position are key credit strengths.

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 healthy liquidity and its tax-supported debt burden will be about 43% of operating revenue by 2024.

Downside scenario

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

Rationale

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

Oxford's economy is generally stable; the population continues to steadily increase and 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. 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 ongoing uncertainty surrounding auto sales globally remains a risk 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$56,006 in 2022.

Although there were some changes in its management team, the county keeps 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 the county's 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.

Strong budgetary performance will keep reliance on debt low.

We expect Oxford will continue generating strong budgetary performance in our 2020-2024 base-case period, with operating balances averaging 20% of operating revenues, and after capital surpluses averaging 7% of operating revenues. To date, the county's budgetary performance hasn't deteriorated as a result of COVID-19 pandemic or recent economic headwinds, as revenues keep flowing and the grants received from the province in 2020-2022 related to the pandemic were adequate.

In addition, we expect that, even during uncertain conditions, 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. The 10-year capital plan totals C$495 million, with water and wastewater and public works such as transit and road maintenance making up the bulk of the projects. We expect the county will spend C$40 million on capital projects each year on average in 2022-2024.

The county’s borrowings will total about C$12 million by year-end, including C$10 million on behalf of the lower-tier municipalities. This will drive Oxford’s tax-supported debt as a proportion of operating revenues to about 43% in 2024, while the repayments will keep the same pace. 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 an exceptional liquidity position. We estimate free cash balances and investments will be about C$269 million in the next 12 months, which will be sufficient to cover more than 18x 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$	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	181	193	205	210	210	215
Operating expenditure	142	152	165	171	168	173
Operating balance	40	42	40	40	41	42
Operating balance (% of operating revenue)	21.9	21.5	19.6	18.8	19.8	19.4
Capital revenue	10	12	11	12	15	11
Capital expenditure	31	34	39	38	48	34
Balance after capital accounts	19	19	12	14	8	18
Balance after capital accounts (% of total revenue)	9.8	9.5	5.7	6.2	3.7	8.2
Debt repaid	11	12	12	12	12	9
Gross borrowings	1	2	4	12	24	6
Balance after borrowings	8	10	5	13	20	15
Direct debt (outstanding at year-end)	93	88	83	83	95	92
Direct debt (% of operating revenue)	51.2	45.3	40.4	39.4	45.2	42.5
Tax-supported debt (outstanding at year-end)	93	88	83	83	95	92
Tax-supported debt (% of consolidated operating revenue)	51.2	45.3	40.4	39.4	45.2	42.5
Interest (% of operating revenue)	2.0	1.8	1.5	1.2	1.1	1.1
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	46,328.7	43,258.3	51,987.9	56,006.4	58,012.8	58,081.4

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.

Ratings Score Snapshot

Key rating factors	Scores

Institutional framework	1
Economy	2
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 11, 2022. An interactive version is 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 20222: Near-Term Growth To Slow Amid Faster Rate Hikes And Surging Inflation, June 27, 2022
- Institutional Framework Assessments For International Local And Regional Governments, June 15, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Ratings Detail (as of September 19, 2022)*

Oxford (County of)	
Issuer Credit Rating	AAA/Stable/--
Senior Unsecured	AAA
Issuer Credit Ratings History	
01-Jun-2022	AAA/Stable/--
09-Sep-2015	AA+/Stable/--
27-Nov-2012	AA/Stable/--

*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.