To: Warden and Members of County Council

From: Director of Corporate Services

Credit Rating Review - 2013

RECOMMENDATION

1. **That the County of Oxford's Credit Rating Research Update, dated November 21, 2013, as prepared by Standard & Poor's be received for information.**

REPORT HIGHLIGHTS

- 'AA' rating affirmed by Standard & Poor's based on continued strong budgetary performance, very positive liquidity and moderate debt burden
- Outlook is stable – reflects expectation that in the next two years the County will to continue to generate operating and after-capital surpluses, maintain its healthy liquidity position and the debt burden will stay moderate

Implementation Points

- Standard & Poor's Research Update summary report was published on November 21, 2013
- Standard & Poor's will release their full Research Update report during the week of November 25, 2013

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-.

The County Treasurer has prepared this report.

Risks/Implications

- There are no risks or implications that could result by adopting the recommendation contained within this report.
- The confidence conveyed by a 'AA' rating can quickly be diminished if it were to be downgraded even slightly in the future, therefore it is important remain vigilant in monitoring and controlling the County's strong position through sound financial policy and procedures.

Strategic Plan

The initiative contained within this report supports the values and strategic directions as set out in the Strategic Plan as it pertains to the following Strategic Directions:

1. A County that Thinks Ahead and Wisely Shapes the Future
iii. Apply social, financial and environmental sustainability lenses to significant decisions by assessing options in regard to: *life cycle costs and benefit/costs - including debt, tax and reserve levels and implications.*

5. A County that Performs and Delivers Results
ii. Deliver exceptional services by: *developing and tracking key performance indicators against goals and report results.*

DISCUSSION

Background

In 2000, Standard & Poor's purchased the Canadian Bond Rating Service who, in the past, prepared the annual credit rating analysis for the County. This is the eleventh report that Standard & Poor's has prepared for the County.

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 No. 1 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. However, those 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

Attached as Attachment No. 2 is the Standard & Poor's Research Update summary report dated November 21, 2013 which indicates Standard & Poor's continued confidence in Oxford's financial position by affirming the AA/Stable rating that was upgraded in 2012 from AA-/Positive (2011). During the eleven year period that Standard & Poor's has carried out a review of the County's credit rating it has improved over the years from A+/Positive. The full report issued by Standard & Poor's is not available at the time of publishing this Report, but will be circulated to Council when received during the week of November 25th.

For comparison purposes, the following is a list of other Canadian municipalities' ratings:

Municipality	Current Rating
Barrie (City of)	AA/Stable
Brantford (City of)	AA+/Stable
Guelph (City of)	AA+/Positive
Kingston (City of)	AA/Stable
Essex (County of)	AA-/Positive
Simcoe (County of)	AA-/Stable
Wellington (County of)	AA/Positive
Oxford (County of)	AA/Stable

In addition to the positive attributes mentioned in the attached report prepared by Standard & Poor's that have resulted in an affirmed 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; the overarching Long Term Financial Sustainability Plan; debt management and reserves policies.

As for the County's weaknesses cited in the report, Standard & Poor's believe that Oxford has a less diversified economy than that of its peers.

Conclusions

In summary, the stable outlook enhances the County's borrowing and lending opportunities in the short-term as it continues to be comparable with that of its peers. Further, the Standard & Poor's Research Statement suggests that the outlook could be raised to positive if the County can demonstrate sustained after-capital surpluses or decreases in its tax-supported debt to operating revenues.

SIGNATURE

Departmental Approval:

Original signed by

Lynn S. Buchner, CGA
Director of Corporate Services

Approved for submission:

Original signed by

Peter M. Crockett, P.Eng.
Chief Administrative Officer

ATTACHMENTS

Attachment No. 1 – Standard & Poor's Credit Rating Definitions
Attachment No. 2 – Standard & Poor's Research Update, dated November 21, 2013

Attachment No. 1

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.

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Research Update:

County of Oxford 'AA' Ratings Affirmed On Continued Strong Budgetary Performance; Outlook Stable

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Research Update:

County of Oxford 'AA' Ratings Affirmed On Continued Strong Budgetary Performance; Outlook Stable

Overview

We are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on the County of Oxford.

- The affirmation reflects our view of the county's strong budgetary performance, very positive liquidity, and moderate debt burden.
- The stable outlook reflects our expectations that in the next two years, Oxford will continue to generate superior operating and after-capital surpluses, its liquidity position will remain robust, and tax-supported debt burden will stay moderate.

Rating Action

On Nov. 21, 2013, Standard & Poor's Ratings Services affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the County of Oxford, in the Province of Ontario. The outlook is stable.

Rationale

The ratings on Oxford reflect Standard & Poor's assessment of the county's strong budgetary performance, very positive liquidity, and moderate debt burden. The ratings also reflect our view of the "predictable and well-balanced" local government framework, our opinion of the positive impact of Oxford's financial management on its credit profile, and the lack of material contingent liabilities. We believe that a somewhat constrained budgetary flexibility on the expenditure side and a relatively concentrated economy partially constrain the credit strengths.

We expect Oxford to continue generating very strong near-term operating surpluses of above 20% of adjusted operating revenues. After being in deficit in the past several years due to higher capital expenditures, the county's after-capital balances recorded a surplus in 2012. As capital spending tends to decrease, we believe Oxford will continue to generate after-capital surpluses throughout our two-year outlook horizon. A sustained track record of after-capital surpluses will create upward pressure on the credit rating.

With some capital projects being carried forward and the end of the infrastructure stimulus program (which results in lower capital spending), we believe the county's debt issuance will diminish and tax-supported debt to adjusted operating revenues will continue to gradually decrease in the near term. At fiscal year-end 2012 (Dec. 31), tax-supported debt was 42% of consolidated operating revenues, which is slightly below historical levels.

In our view, Oxford demonstrates good financial management, which has a positive impact on its credit profile. The county has what we consider to be a robust set of financial policies, and annual financial statements are audited and unqualified. It provides transparent, easy-to-access disclosure to pertinent information and prepares detailed operating and capital budgets.

In our opinion, Canadian municipalities benefit from a 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. 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 and landfill closure costs) through reserve contributions.

Like most Canadian municipalities, Oxford's budgetary flexibility is somewhat constrained on the expenditure side, given provincially mandated service levels, labor contracts, and inflation. The ability to set property taxes, utility rates, and user fees gives the county significant revenue-raising tools (modifiable revenues account for about 79% of operating revenue) and limits revenue volatility; however, we believe that economic and political pressures can limit the degree to which Oxford can use these.

We believe that the county's economy generated GDP per capita of above US$35,000 in fiscal 2012, somewhat below the provincial level of about US$50,000. We view the county's economy as stable, although less diversified than that of its peers. The economy relies principally on manufacturing, which accounted for 23% of Oxford's labor force in 2012.

Liquidity

In our opinion, the county's strong liquidity position has a very positive impact on the ratings. Adjusted free cash and liquid assets totaled C$92 million in 2012 and covered about 11x the estimated 2013 debt service. We believe that access to external liquidity is satisfactory. We expect that the county's liquidity position will remain sound and it will maintain a net creditor position throughout our outlook horizon.

Outlook

The stable outlook reflects Standard & Poor's expectations that, in the next two years, Oxford will continue to generate superior operating and after-capital surpluses, its liquidity position will remain robust, and tax-supported debt burden will stay moderate. We could revise the outlook to positive or raise the ratings if we see a sustained track record of after-capital surpluses or its tax-supported debt to operating revenues decreases below 30%. Conversely, an increase in tax-supported debt to more than 60% of projected operating revenues, a substantial weakening of the budgetary performance, and a sustained deterioration of the local economy could result in a downward revision to the outlook or ratings.

Published Rating Factor Scores

Table 1

County of Oxford -- Summary Of Published Rating Factor Scores*

Rating factor	Score
Institutional framework	Predictable and well-balanced
Financial management	Positive
Liquidity	Very positive

*Standard & Poor's ratings on local and regional governments are based on, among other things, a scoring system that covers eight main rating factors, as further explained in our criteria (see below). We publish our scores for the three rating factors above.

Key Statistics

Table 2

County of Oxford -- Economic Statistics

(%)	2010	2011	2012
Population	105,112	105,709	106,310
Population growth (%)	0.57	0.57	0.57
Unemployment rate (%)	8.60	8.80	8.70

Sources: Statistics Canada and Standard & Poor's.

Table 3

County of Oxford -- Financial Statistics

(Mil. C$)	2010	2011	2012	2013bc	2014bc	2015bc
Operating revenues	141	140	150	151	154	156
Operating expenditures	114	113	113	112	115	117
Operating balance	27	27	36	39	39	38
Operating balance (% of operating revenues)	19.17	19.26	24.23	25.71	25.20	24.66
Capital revenues	10	6	3	4	5	6
Capital expenditures (capex)	41	50	21	27	33	38
Balance after capital accounts	(4)	(17)	19	16	11	6
Balance after capital accounts (% of total revenues)	(2.94)	(11.29)	12.28	10.43	7.00	3.90
Debt repaid	5	5	6	6	6	7
Balance after debt repayment and onlending	(10)	(22)	13	11	5	(0)
Balance after debt repayment and onlending (% of total revenues)	(6.46)	(14.71)	8.59	6.80	3.12	(0.15)

Table 3

County of Oxford -- Financial Statistics (cont.)						
Gross borrowings	3	12	1	6	4	6
Balance after borrowings	(7)	(9)	14	17	9	6
Operating revenue growth (%)	7.34	(0.51)	7.00	1.07	1.52	1.37
Operating expenditure growth (%)	1.26	(0.62)	0.42	(0.91)	2.22	2.09
Modifiable revenues (% of operating revenues)	76.74	77.41	79.09	N/A	N/A	N/A
Capital expenditures (% of total expenditures)	26.55	30.59	15.40	19.19	22.05	24.37
Direct debt (outstanding at year-end)	60	67	62	63	61	60
Direct debt (% of operating revenues)	42.65	47.97	41.54	41.44	39.39	38.73
Tax-supported debt (% of consolidated operating revenues)	42.65	47.97	41.54	41.44	39.39	38.73
Interest (% of operating revenues)	2.08	2.74	2.00	1.88	1.85	1.80
Debt service (% of operating revenues)	5.84	6.31	5.76	5.61	5.85	6.00

bc--Base case, which reflects Standard & Poor's expectations of the most likely scenario. Downside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with an upgrade. N/A--Not applicable.

Key Sovereign Statistics

Sovereign Risk Indicators, July 1, 2013

Related Criteria And Research

Related Criteria

- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

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 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.

Ratings List

Ratings Affirmed

Oxford (County of)	
Issuer credit rating	AA/Stable/--
Senior unsecured debt	AA

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.