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Research Update:

Regional Municipality of Halton Ratings Affirmed At 'AAA'; Outlook Remains Stable

Primary Credit Analyst:

Nineta Zetea, Toronto + 1 (416) 507 2508; nineta.zetea@spglobal.com

Secondary Contact:

Julia L Smith, Toronto (1) 416-507-3236; julia.smith@spglobal.com

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Overview

- We expect the Regional Municipality of Halton will maintain robust budgetary performances, with strong operating and after-capital surpluses, while its tax-supported debt ratio will continue to decrease in the next two years.
- We are affirming our 'AAA' long-term issuer credit and senior unsecured debt ratings on Halton.
- The stable outlook reflects our expectation that, in the next two years, the region will keep its debt burden below 60% of operating revenues, and maintain exceptional liquidity balances and superior budgetary performance.

Rating Action

On June 11, 2018, S&P Global Ratings affirmed its 'AAA' long-term issuer credit and senior unsecured debt ratings on the Regional Municipality of Halton, in the Province of Ontario. The outlook is stable.

Outlook

The stable outlook reflects our expectation that, in the next two years, Halton will maintain a very strong budgetary performance with operating surpluses above 10% of adjusted operating revenues and moderate after-capital surpluses. The outlook also reflects our belief that the region's tax-supported debt burden will not exceed 60% of consolidated operating revenues, and the economy and liquidity will remain healthy.

Although unlikely, we could take a negative rating action in the next two years if Halton's capital funding strategy proved to be insufficient and resulted in consistent after-capital deficits; and higher-than-expected debt issuance resulted in a significantly higher tax-supported debt burden.

Rationale

We have updated our base-case scenario for the region and extended our forecast horizon through 2020. We believe that Halton's robust surpluses, coupled with large developer contributions, will continue to entirely fund the

relatively high level of capital spending and minimize debt borrowing in the next two years. We also believe the region will continue to benefit from a supportive framework and a very solid economy.

Robust economy and financial management support the ratings.

In our opinion, Halton benefits from a very strong and well-diversified economy, with high median household income, consistent population growth, and good socioeconomic and demographic characteristics. Although regional GDP data are not available, we estimate that the region's GDP per capita would be in line with the provincial average in 2015-2017 of about US\$44,000 given its fairly high median household income. Based on the 2016 Census, its population was 9.3% higher in 2016 than in 2011, significantly above the province's 4.6% growth. The service-based sectors continue to contribute to the region's economic diversification, which was historically centered in the manufacturing sector (the Ford Motor Co. plant in the Town of Oakville is the region's largest employer). As well, hospitals, schools, local governments, and other public-sector entities provide a stable employment base. Halton is in southern Ontario, on the western edge of the GTA.

In our view, Halton's management is very strong, and has consistently proven its capacity to implement its strategic plan and budget. The region provides robust, comprehensive, and transparent disclosure and has well-defined financial policies and a well-documented financial plan. It approves operating and capital budgets with multiyear outlooks annually, and has a demonstrated history of good actual performance versus budgets. Like other Canadian municipalities, Halton can issue debt only to finance capital expenditures, and we believe it has prudent and conservative policies as well as a stable and well-qualified management team to govern its debt and liquidity management. Halton demonstrates what we view as good political and managerial strength. This has enabled it to enact structural changes, as shown through the evolution of its long-term capital plan in the past several years, reflecting both revised growth estimates and good financial discipline.

We believe Halton, like other Canadian municipalities, 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. 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.

Effective pay-as-you go capital financing to contribute to lower debt burden while strong budgetary performance continues.

We expect the region will continue to generate very healthy operating

surpluses relative to those of its peers, averaging 25.0% of adjusted operating revenue from 2016-2020. Halton typically generates moderate surpluses after taking into account capital revenues and expenditures, helping to maximize pay-as-you-go financing for capital projects and mitigating the need to issue additional debt. Although the region will incur elevated levels of capital spending on core infrastructure in the medium term, we expect this to be largely funded by developer contributions. As a result, we estimate after-capital surpluses to remain healthy and average 7.6% of total revenues from 2016-2020.

Halton's performance is supported by its high degree of budgetary flexibility, which we expect to remain largely stable within our two-year outlook horizon. High modifiable revenues, primarily from taxes, fees, and user charges, typically account for about 80% of operating revenues. We expect them to remain above 75%, on average, in our base-case scenario. We also expect capital expenditures to average 37.2% of total expenditures for 2016-2020. Nevertheless, in our opinion, Halton's limited ability to materially cut operating expenditures somewhat constrains its budgetary flexibility. While large capital spending suggests some ability to defer unessential capital projects, we believe that its operating expenditure flexibility is somewhat limited, similar to that of many Canadian municipalities, primarily due to provincially mandated service levels, collective agreements with employees, inflation, and political pressures.

Halton estimates that its gross borrowing in the near term will be small, limited to the needs of its lower-tier municipalities. As a result, we expect the region to maintain a low debt burden in the next two years, which will decline significantly to 51% in fiscal 2020. As well, we believe that interest payments on the consolidated tax-supported debt will account for less than 3% of operating revenue, keeping the debt load very manageable. In addition, the region's debt burden represents less than three years of operating surpluses, which mitigates our assessment of the debt burden. Halton's sustained capital spending and issuance on behalf of lower-tier municipalities (which we include in our calculation) have led to a growing debt burden in recent years. At Dec. 31, 2017, tax-supported debt stood at C\$590 million, reflecting C\$33 million of new debt on behalf of the region's local municipalities. This resulted in a tax-supported debt-to-consolidated operating revenues ratio of 66%.

Halton continues to benefit from exceptional internal liquidity support and satisfactory access to external liquidity for financing needs, given its proven ability to issue into various markets, including that for public debt, and the presence of a secondary market for Canadian municipal debt instruments. We also believe that the region demonstrates very robust internal cash flow generation capability, with operating balances expected to be greater than 2x its debt service. We estimate that Halton's adjusted average cash and liquid assets total about C\$1.9 billion in fiscal 2019, which are sufficient to cover close to 25x the estimated debt service for the year.

Halton does not have any significant off-balance-sheet or contingent liabilities. Liabilities related to employee benefits and landfill closure

costs at fiscal year-end 2017 equaled 5.5% of consolidated operating revenues, and do not have a significant impact on the region's credit profile.

Key Statistics

Table 1

Regional Municipality of Halton -- Selected Indicators						
-- Fiscal year ended Dec. 31 --						
(Mil. C\$)	2015	2016	2017	2018bc	2019bc	2020bc
Operating revenues	840	870	899	928	959	989
Operating expenditures	622	648	670	698	722	748
Operating balance	219	222	229	230	237	241
Operating balance (% of operating revenues)	26.0	25.5	25.5	24.8	24.7	24.4
Capital revenues	277	296	248	251	263	302
Capital expenditures	383	454	374	381	405	449
Balance after capital accounts	113	64	102	100	95	94
Balance after capital accounts (% of total revenues)	10.1	5.5	8.9	8.5	7.8	7.3
Debt repaid	59	61	61	57	55	53
Gross borrowings	184	64	33	26	21	40
Balance after borrowings	239	67	74	69	60	80
Modifiable revenues (% of operating revenues)	80.8	80.2	79.1	79.2	79.4	79.7
Capital expenditures (% of total expenditures)	38.1	41.2	35.8	35.3	35.9	37.5
Direct debt (outstanding at year-end)	625	623	590	559	518	501
Direct debt (% of operating revenues)	74.4	71.7	65.6	60.3	54.0	50.6
Tax-supported debt (outstanding at year-end)	625	623	590	559	518	501
Tax-supported debt (% of consolidated operating revenues)	74.4	71.7	65.6	60.3	54.0	50.6
Interest (% of operating revenues)	2.4	2.5	2.3	2.1	2.0	1.9
National GDP per capita (single units)	55,673	56,129	58,418	59,938	61,829	63,688

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. Base case reflects S&P Global Ratings' expectations of the most likely scenario. Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade.

Ratings Score Snapshot

Table 2

Regional Municipality of Halton -- Ratings Score Snapshot	
Key rating factors	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Very strong

Table 2

Regional Municipality of Halton -- Ratings Score Snapshot (cont.)	
Key rating factors	Assessment
Budgetary Flexibility	Strong
Budgetary Performance	Very strong
Liquidity	Exceptional
Debt Burden	Very low
Contingent Liabilities	Very low

Note: S&P Global Ratings' credit ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the foreign currency rating on the government.

Key Sovereign Statistics

Sovereign Risk Indicators, April 10, 2018. Interactive version available at <http://www.spratings.com/sri>

Related Criteria

- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Americas Economic Snapshots, May 2018
- Default, Transition, and Recovery: 2016 Annual Non-U.S. Local and Regional Government Default Study and Rating Transitions, May 8, 2017
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, Sept. 21, 2017
- Public Finance System Overview: Canadian Municipalities, Dec. 1, 2016

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

Halton (Regional Municipality of)

Issuer Credit Rating	AAA/Stable/--
Senior Unsecured	AAA

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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