COMMITTEE AGENDA

TO Corporate Administration, Finance and Enterprise Committee

DATE November 12, 2012

LOCATION Council Chambers, Guelph City Hall, 1 Carden Street

TIME 5:00 p.m.

DISCLOSURE OF PECUNIARY INTEREST AND GENERAL NATURE THEREOF

CONFIRMATION OF MINUTES- October 9, 2012 and October 9, 2012 closed meeting minutes

PRESENTATIONS (Items with no accompanying report)

None

CONSENT AGENDA
The following resolutions have been prepared to facilitate the Committee’s consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with separately. The balance of the Corporate Administration, Finance & Enterprise Committee Consent Agenda will be approved in one resolution.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>CITY PRESENTATION</th>
<th>DELEGATIONS</th>
<th>TO BE EXTRACTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAFE-44</td>
<td>Corporate Strategic Plan (CSP) Work Plan 2013-2016 and 2013 Resource Requirements</td>
<td>Ann Pappert, CAO</td>
<td></td>
</tr>
<tr>
<td>CAFE-45</td>
<td>Standard and Poor’s Credit Rating</td>
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Resolution to adopt the balance of the Corporate Administration, Finance & Enterprise Committee Consent Agenda.
ITEMS EXTRACTED FROM CONSENT AGENDA
Once extracted items are identified, they will be dealt with in the following order:
   1) delegations (may include presentations)
   2) staff presentations only
   3) all others.

CLOSED MEETING

THAT the Corporate Administration, Finance & Enterprise Committee now hold a meeting that is closed to the public with respect to:

   1. Appointment of Citizens to Various Committees
      S. 239 (2) (b) of the Municipal Act – personal matters about identifiable individuals

NEXT MEETING: Tuesday December 4, 2012
A meeting of the Corporate Administration, Finance and Enterprise Committee was held on Tuesday October 9, 2012 in the Council Chambers at 5:00 p.m.

Present: Councillors Hofland, Kovach, Laidlaw, Wettstein and Mayor Farbridge

Also Present: Councillors Bell, Dennis, Findlay and Furfaro

Staff Present: Ms. A. Pappert, Chief Administrative Officer; Mr. M. Amorosi, Executive Director, Corporate & Human Resources; Mr. A. Horsman, Executive Director, Finance & Enterprise; Mr. D. McCaughan, Executive Director, Operations, Transit & Emergency Services; Ms. T. Agnello, Deputy Clerk; and Ms. J. Sweeney, Council Committee Co-ordinator

**Disclosure of Pecuniary Interest and General Nature Thereof**

There were no disclosures.

1. Moved by Mayor Farbridge
   Seconded by Councillor Wettstein
   
   THAT the minutes of the Corporate Administration, Finance and Enterprise Committee meeting held on September 10, 2012 be confirmed as amended to show Councillor Laidlaw as being absent and not present.

   VOTING IN FAVOUR: Councillors Hofland, Kovach, Laidlaw, Wettstein and Mayor Farbridge (5)

   VOTING AGAINST: (0) Carried

**Consent Agenda**

The following items were extracted from Corporate Administration, Finance & Enterprise Committee October 9, 2012 Consent Agenda:

- **CAFE-2012 A.38** Corporate Energy Program Strategic Business Plan
- **CAFE-2012 A.39** City Land Sale Approval Process and Guidelines for the Sale of City-Owned Land – Hanlon Creek Business Park
- **CAFE-2012 A.40** Prices for the Sale of City-Owned Land – Hanlon Creek Business Park
- **CAFE-2012 A.43** August 2012 Operating Variance Report
2. Moved by Mayor Farbridge
   Seconded by Councillor Laidlaw
   THAT the balance of the Corporate Administration, Finance & Enterprise Committee October 9, 2012 Consent Agenda, as identified below, be adopted:

   a) **2012 Mid-Year Investment Performance Report**

   Mr. A. Horsman

   THAT report FIN-12-39 dated October 9, 2012, with respect to the 2012 Mid-Year investment portfolio performance and holdings be received for information.

   b) **Amending Agreement to a Development Charge Early Payment Agreement – Wurth Canada Limited, Hanlon Creek Business Park**

   REPORT

   THAT the Mayor and Clerk be authorized to execute an Amending Agreement to a Development Charge Early Payment Agreement between the Corporation of the City of Guelph and Wurth Canada Limited, for the lands described as all of Block 9, Registered Plan 61M-169 in the Hanlon Creek Business Park, as outlined in the report of the General Manager of Economic Development dated October 9, 2012.

   VOTING IN FAVOUR: Councillors Hofland, Kovach, Laidlaw, Wettstein and Mayor Farbridge (5)

   VOTING AGAINST: (0)

   Carried

**Corporate Energy Program Strategic Business Plan**

Mr. A. Horsman, Executive Director Finance & Enterprise, introduced the Corporate Energy Program Strategic Business Plan. He advised that the funding of the plan will be addressed during the 2013 budget deliberations.

Mr. R. Kerr, Corporate Manager Community Energy, highlighted the Corporate Energy Program Strategic Business Plan contained as part of the meeting agenda.

In response to questions, clarification was provided with respect to the projects implemented from the energy audits conducted on city facilities; and calculations of estimated paybacks.
3. Moved by Councillor Kovach
   Seconded by Mayor Farbridge

REPORT

THAT the report dated October 9, 2012 entitled ‘Corporate Energy Program Business Plan’ be received;

AND THAT the business case within the Corporate Energy Program Strategic Business Plan dated September 2012 be received as supporting material for Corporate Energy’s 2013 Capital and Operating budget requests;

AND THAT the Capital and Operating budget resources required to implement the Corporate Energy Program Strategic Business Plan be referred to the 2013 budget process for consideration;

AND THAT staff report back annually on the corporate energy program dashboard and business case.

VOTING IN FAVOUR: Councillors Hofland, Kovach, Laidlaw, Wettstein and Mayor Farbridge (5)

VOTING AGAINST: (0)

Carried

City Land Sale Approval Process and Guidelines for the Sale of City-Owned Land – Hanlon Creek Business Park

Mr. P. Cartwright, General Manager of Economic Development, summarized the report contained in the agenda. He advised that the current process is not timely and responsive to business needs and that the proposed process will expedite land sales.

4. Moved by Councillor Laidlaw
   Seconded by Mayor Farbridge

THAT the Corporate Administration, Finance & Enterprise Committee how hold a meeting that is closed to the public with respect to:

Sale of City Land
S. 239 (2) (c) of the Municipal Act – proposed or pending acquisition or disposition of land.

Carried

The meeting recessed into closed session.

5. Moved by Councillor Kovach
   Seconded by Councillor Laidlaw

THAT staff be given direction with respect to the sale of city land.

Carried
October 9, 2012

Corporate Administration, Finance & Enterprise Committee

The meeting reconvened in public session.

6. Moved by Mayor Farbridge
   Seconded by Councillor Wettstein

REPORT

THAT a process for the sale of city-owned land within the Hanlon Creek Business Park, as attached to the October 9, 2012 report entitled ‘City Land Sale Approval Process and Guidelines – Hanlon Creek Business Park’ be approved;

AND THAT the approval to approve, amend and/or terminate Offers to Purchase/Agreement of Purchase and Sale for the sale of city-owned lands within the Hanlon Creek Business Park be delegated to the General Manager of Economic Development;

AND THAT the City Solicitor be authorized to complete all transactions relating to the Hanlon Creek Business Park and execute, on behalf of the City, all documents relating thereto;

AND THAT the guidelines for the sale of city-owned land within the Hanlon Creek Business Park, as attached to the October 9, 2012 report entitled ‘City Land Sale Approval Process and Guidelines – Hanlon Creek Business Park’ be approved;

AND THAT the General Manager of Economic Development be directed to negotiate the purchase price for the sale of city-owned land within the Hanlon Creek Business Park, subject to the parameters outlined in the October 9, 2012 confidential report entitled ‘Negotiation of the Purchase Price for the Sale of City-Owned Land – Hanlon Creek Business Park’.

VOTING IN FAVOUR: Councillors Hofland, Kovach, Laidlaw, Wettstein and Mayor Farbridge (5)

VOTING AGAINST: (0)

Carried

Prices for the Sale of City-Owned Land – Hanlon Creek Business Park Phase 1

Mr. P. Cartwright, General Manager of Economic Development, summarized the report contained in the agenda. He provided a comparison of land prices in the surrounding municipalities and reviewed the proposed pricing structure.
7. Moved by Councillor Kovach
   Seconded by Mayor Farbridge

REPORT
THAT the prices for the sale of city-owned land within the Hanlon Creek Business Park Phase 1, as attached to the October 9, 2012 report entitled ‘Prices for the Sale of City-Owned Land – Hanlon Creek Business Park Phase 1’, be approved;

AND THAT the General Manager of Economic Development report back to Committee/Council on an annual basis to review and establish prices for the sale of city-owned land within the Hanlon Creek Business Park Phase 1 for each subsequent year;

AND THAT the city pay real estate commissions to brokers/realtors who have introduced and registered their client with the Economic Development Office, in the total amount of up to 5% of the total purchase price plus HST on the commission, from the proceeds of the sale on closing.

VOTING IN FAVOUR: Councillors Hofland, Kovach, Laidlaw, Wettstein and Mayor Farbridge (5)

VOTING AGAINST: (0)

Carried

August 2012 Operating Variance Report

In response to questions, Mr. Horsman, Executive Director of Finance & Enterprise, advised that previous years actual costs are taken into consideration when preparing the budget.

8. Moved by Councillor Kovach
   Seconded by Councillor Laidlaw

Mr. A. Horsman
THAT the Finance report FIN-12-42 dated October 9, 2012 entitled 'August Operating Variance and Revenue Report’ be received for information purposes.

VOTING IN FAVOUR: Councillors Hofland, Kovach, Laidlaw, Wettstein and Mayor Farbridge (5)

VOTING AGAINST: (0)

Carried
9. Moved by Mayor Farbridge  
   Seconded by Councillor Kovach  
That the meeting of the Corporate Administration, Finance & Enterprise Committee of October 9, 2012 be adjourned.

Carried

The meeting adjourned at 6:33 p.m.

........................................
Chairperson
Members of the Corporate Administration, Finance & Enterprise Committee.

**SUMMARY OF REPORTS:**

The following resolutions have been prepared to facilitate the Committee’s consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with immediately. The balance of the Corporate Administration, Finance & Enterprise Committee Consent Agenda will be approved in one resolution.

### A Reports from Administrative Staff

<table>
<thead>
<tr>
<th>REPORT</th>
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<tr>
<td>CAFE-2012 A.44)</td>
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<td>CORPORATE STRATEGIC PLAN (CSP) WORK PLAN 2013-2016 AND 2013 RESOURCE REQUIREMENTS</td>
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Report will be distributed separately.

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<td>CAFE-2012 A.45)</td>
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<td>STANDARD AND POOR’S CREDIT RATING</td>
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THAT Finance Report titled “FIN-12-46 Standard & Poor’s Credit Rating” be received for information.

attach.
SUMMARY

Purpose of Report:
To provide an overview of the credit rating process undertaken by Standard & Poor’s and highlight the final findings resulting from the review.

Committee Action:
That Committee and Council receive the report for information purposes only.

RECOMMENDATION
That Finance Report titled “FIN-12-46 Standard & Poor’s Credit Rating” be received for information.

BACKGROUND
In late spring 2012, the City of Guelph issued a request for proposal to provide credit rating services for the City. As part of this request, proponents were asked to outline:

• Corporate Identity and Profile;
• Project Team highlighting qualifications, knowledge and skill;
• Relevant and past experience;
• Project Methodology focusing on the approach and work plan to ensure successful completion; and
• Project schedule and critical milestones.

The City received proposals from DBRS Limited and Standard and Poor’s Rating Services. Following a detailed review by the selected evaluation team, the contract to provide credit rating services for the City of Guelph was awarded to Standard and Poor’s.

Standard and Poor’s rates local and regional governments in Canada and the US to determine the risk to credit profiles arising from liquidity, financial management and contingent liabilities. Standard and Poor’s is a recognized leader of financial market intelligence and known by investors worldwide.
The purpose of establishing a good credit rating is to ensure that the municipality demonstrates and maintains a sound financial position in order to meet its long-term planning, financial and management objectives. When rating local and regional governmental organizations, Standard and Poor’s uses a combined qualitative and quantitative framework of eight main factors to establish the ratings. These main rating factors consist of:

- Institutional framework;
- Economy;
- Financial management;
- Budgetary flexibility;
- Budgetary performance;
- Liquidity;
- Debt burden; and
- Contingent liabilities.

REPORT
On August 24, 2012 Standard and Poor’s affirmed the City’s ‘AA’ long-term credit and debt rating and revised the outlook on the City of Guelph to positive from stable. The rating reflects Guelph’s solid economic base and nationally low unemployment rate, strong liquidity levels and moderate debt levels over the long-term as a result of the City’s modified 10-year capital plan that places more emphasis on infrastructure renewal and replacement. The City’s reduced reliance on debt funding has placed the City’s debt as a percentage of operating revenues ratio in line with its domestic peers.

Weaknesses identified as part of Standard and Poor’s review include persistent after-capital deficits and a labour force that remains exposed to the struggling manufacturing sector. After-capital deficits occur when revenue remaining after normal operating expenditures are funded is less than total in-year capital spending. Standard and Poor’s noted that high reserve levels balance these revenue shortfalls.

As part of their review, Standard and Poor’s also noted the following changes to the City’s position over the course of 2011:

Economy:
- The construction value of building permits was down 46% in 2011 largely because 2010 was an exceptional year with permits issued for several large facilities, including a large data centre and the Organic Waste Processing Plant.
- The recently developed downtown secondary plan aims to support continued development and revitalization of the downtown core. Standard and Poor’s specifically acknowledged the City’s first new residential downtown development in over a decade.
- Guelph’s economy remains somewhat reliant on the manufacturing sector; a large public sector base helps stabilize the employment base. In addition,
the City of Guelph’s average household income and unemployment rate are both trending in line with, or below, the provincial average.

**Strong Financial Management:**
- Standard and Poor’s noted that the City provides transparent, easy to access disclosure of information. The City prepares detailed operating and capital budgets which are updated annually and staff include a 9-year capital forecast for Council’s information.
- The development of the City’s budgets and on-going monitoring and reporting processes are supported by a robust set of financial policies dealing with debt management, reserve and reserve funds and investments.
- Outstanding legal matters involving Wellington County and Wellington-Dufferin-Guelph Public Health have been largely resolved and it is not expected that they will have significant financial impacts on the City.
- Recent restructuring of City departments, which may lead to some short-term disruptions, will ultimately lead to greater operational effectiveness.

**Budgetary Flexibility & Performance**
- Wages and benefits exert significant pressure on the City’s operating budget and are often subject to collective agreements.
- Historically, capital expenditures have accounted for approximately 20% of total expenditures and Standard and Poor’s expects this to continue through the outlook horizon.
- Guelph’s budgetary performance has been fairly stable in the last five years, although it is considered to be marginally below the median for ‘AA’ rated peers. It is also expected that the City will continue to experience modest after-capital deficits in the short-term, which are expected to be offset by high reserve levels.

**Liquidity, Debt Financing & Contingent Liabilities**
- Guelph continues to maintain a strong liquidity position which helps the City’s credit rating profile. Adjusted cash and liquid assets at the end of 2011 equal more than 650% of the estimated debt servicing for 2012. While the City is expected to draw significantly on its reserve funds to fund its capital plan during 2012, it is believed that liquidity will remain adequate.
- Guelph’s debt load is considered moderate and in line with similarly rated domestic peers. Tax-supported debt at the end of 2011 was 39.8% of operating revenues and it is expected that this ratio will gradually decline through the outlook horizon and that debt servicing requirements will remain modest at 5% of total revenues.
- Guelph does not have contingent liabilities that would be considered significant and has reserves in place to cover more than half of these liabilities. The City is also involved in several legal cases, particularly one involving a construction contractor involved in the building of City Hall. At this point, the potential impact is unknown, but it is not expected to materially affect the City given its strong liquidity position.
CORPORATE STRATEGIC PLAN
2.3 Ensure accountability, transparency and engagement
3.3 Strengthen citizen and stakeholder engagement and communications

FINANCIAL IMPLICATIONS
An “AA” rating assists the City in securing lower interest rates when issuing debt to finance large capital expenditures, resulting in savings to the organization.

DEPARTMENTAL CONSULTATION
Finance & Enterprise Services, Planning and Building Services were consulted with respect to information requested as part of Standard and Poor’s review.

COMMUNICATIONS
Communications regarding the City’s credit and long-term debt position to City Council and members of the public was coordinated with Standard and Poor’s media release.

ATTACHMENTS
Standard and Poor’s Research Update: City of Guelph Outlook Revised to Positive on Expected Continued Good Liquidity

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“original signed by Al Horsman”

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Table Of Contents

Major Rating Factors
Rationale
Outlook
Comparative Analysis
Ontario Municipalities Benefit From A Well-Balanced And Predictable Institutional Framework
Low Unemployment Boosts Economy
Good Financial Management Despite Recent Turnover
Expenditures Constrain Budgetary Flexibility
City Expects To Maintain Good Budgetary Performance
Liquidity To Remain Strong Despite Near-Term Draws On Reserves
Less Reliance On Debt Financing Should Gradually Lower Debt Burden
Related Criteria And Research
City of Guelph

Major Rating Factors

Strengths:
- Stable economy with low unemployment
- Robust liquidity
- Debt burden that we expect to moderate in the medium term

Weaknesses:
- Budgetary performance that persistent after-capital deficits hamper
- Labor force that remains exposed to struggling manufacturing sector

Rationale

The ratings on the City of Guelph, in the Province of Ontario (AA-/Negative/A-1+), reflect Standard & Poor's Ratings Services' opinion of the city's stable economy, its strong liquidity, and a debt burden that we expect to moderate over the next several years. We believe that persistent-but-modest after-capital deficits and continuing exposure to the manufacturing sector, which has struggled in Ontario, constrain the ratings.

We believe Guelph's economy is relatively well-diversified for a city of its size. Its unemployment rate remains below the provincial average and is in fact, among the lowest in Canada. Manufacturing still accounts for a large portion of the labor base, and the region is host to several auto parts manufacturers. A strong, stable public sector with a large university, schools, hospitals, and municipal, county, and provincial government offices offset this concentration, in our opinion.

Guelph has maintained what we view as robust liquidity, with free cash and liquid assets as well as total reserves and reserve fund balances trending upwards in recent years (all figures Standard & Poor's-adjusted). Under our conservative base case scenario, which forecasts significant use of liquidity to fund capital, we believe that free cash and liquid assets will remain sufficient to cover more than 350% of total debt service throughout our two-year outlook horizon.

The city’s recent capital plans have been modified to place more emphasis on infrastructure renewal and replacement, reduce debt-financed projects, and push some growth-related projects into later years. This has resulted in our expectation of debt moderating to closer to 30% of operating revenues by 2016 from almost 40%. This level is in line with that of domestic peers and should remain very manageable, in our view.

Guelph has generated what we view as healthy operating balances, but these have weakened slightly in recent years. High capital expenditures, particularly in 2010 and 2011, have resulted in persistent, although modest, after-capital deficits. This has hampered the city's budgetary performance. Although we expect that modest after-capital deficits, not materially exceeding 5%, will continue throughout the outlook horizon, Guelph does have substantial cash reserves which it can use to internally finance them.
Outlook

The positive outlook reflects Standard & Poor's expectation that throughout the two-year outlook horizon, Guelph will maintain robust liquidity levels, tax-supported debt will not materially exceed current levels (and should in fact decline slightly within several years), and after-capital deficits will not materially exceed 5% of total revenues. We could revise the outlook to stable if operating performance were to falter or capital spending were higher than expected resulting in operating balances of less than 5% of operating revenue or consistent after-capital deficits greater than 5% of total revenue. A meaningful decline in liquidity levels would also place downward pressure on the ratings. We could raise the ratings if the city's financial performance were to meet our expectations and there were no material weakening of the local economy.

Comparative Analysis

Guelph's comparable peer group consists of the Canadian cities of Barrie (AA/Stable/--) , Belleville (AA-/Stable/--), Brantford (AA+/Stable/--), Kingston (AA-/Positive/--), Peterborough (AA-/Stable/--), Regina (AA+/Stable/--), and Windsor (AA/Stable/--). All of these are in Ontario except for Regina, which is the capital of Saskatchewan (AAA/Stable/A-1+). We tend to draw economic comparisons with peers at the local municipal level in Canada from demographic and labor market data, residential and nonresidential construction trends, and other indicators such as tourism activity. The unemployment rate in Guelph has historically trended below both the provincial average and the median rate for 'AA' rated local and regional governments (LRGs) and compares well with that of its domestic peers except for Regina, which has consistently had one of the lowest unemployment rates in Canada. In our opinion, Guelph has a fairly well diversified economy for a city of its size.

Comparisons of financial results show that Guelph's operating balances have declined slightly in the past several fiscal years, but the five year average remains in line with the median for 'AA' rated LRGs. Guelph has experienced modest after-capital deficits over the past five years as the city has worked to replace its aging infrastructure. Some domestic peers, such as Barrie, have significant after-capital deficits because of growth, while Regina has managed to maintain high after-capital surpluses by deferring some capital. Like most Canadian municipalities, Guelph maintains what we view as a strong liquidity position, and its debt burden is in line with that of similarly rated Canadian LRGs but lower than that of many international peers.

Ontario Municipalities Benefit From A Well-Balanced And Predictable Institutional Framework

We view the Canadian provincial-municipal intergovernmental system as being "well-balanced and predictable" because of its maturity and stability, low-to-moderate degree of mismatching of revenues and expenditures, moderate levels of transparency and accountability, and strong likelihood of extraordinary support from provincial governments.

Provincial-municipal relationships have proven to be more dynamic than the federal-provincial one, largely because the municipal governments are established through provincial statute and not the constitution. Historically, the
provinces have taken a more active role in municipal affairs than the federal government in provincial matters. Although there have been long periods of relative stability, provincially imposed large-scale changes to municipal revenue powers and expenditure responsibilities have occurred.

Provinces mandate a significant proportion of municipal spending and, through legislation, require municipalities to pass balanced operating budgets (although they also provide operating fund transfers). Nevertheless, municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be intensive for some. Many have been limited in their ability to renew their infrastructure, roads, water, and wastewater, due to constraints on fee and property tax increases. Property taxes are the primary source of own-source revenues for Canadian municipalities, followed by fees and transfers from both the provincial and federal governments. Chief expenditure categories of Canadian municipalities are transportation services, which include roads and transit; environmental services, which include water distribution and treatment and wastewater collection; protection services such as fire and police; and recreation and cultural services. Small and rural municipalities generally receive higher provincial transfers, for both operating and capital programs, compared with those of their more urban counterparts, but there are no formal equalization schemes.

We believe financial information is quite timely. National accounting standards are strong and improving, in our view, although adoption can vary somewhat. Statutes require audited statements. While there are no national standards that apply to budgeting practices, a five-year capital budgeting process is usually the minimum. In addition, only current-year budgeting is required generally for operations.

The provinces have an established history assisting their distressed municipalities through grants.

**Low Unemployment Boosts Economy**

In our view, Guelph's economy is fairly stable and well-diversified given its population, but remains somewhat exposed to the manufacturing sector, which has struggled in Ontario in recent years. The city has exhibited stable population growth and has good transportation links with other markets, particularly, the Greater Toronto Area (GTA). Although regional GDP data is not available, we believe that Guelph's economy would generate GDP per capita not significantly different from the C$47,770 the province did in 2011. As well, a recent Ontario municipal study estimated the average household income was close to C$85,000, above the regional average but slightly below the provincial average of about C$87,000.

Guelph is in southwestern Ontario and has a population of 121,688 according to the 2011 Census data. This is a 5.9% increase from the last Census in 2006 and is close to the provincial growth rate of 5.7%. The city is designated as a growth area under the province's Places To Grow initiative, which expects that Guelph's population will reach 175,000 by 2031. Guelph's unemployment rate was 5.6% in 2011, from 7.9% in 2010, and the city has maintained a rate below the provincial average. The latest data shows that the three month moving average unemployment rate was down to 4.8% in July 2012, which was the fourth-lowest of all CMAs in Canada.

Manufacturing still accounts for a large portion of employment in the region, with auto parts manufacturer Linamar Corp. employing about 12,000 people. While this sector, and in particular the auto industry, has struggled in recent
years, the city reports that employment in this area has been fairly stable and that some manufacturers have been rehiring laid-off workers helping to compensate for the loss of other small manufacturers. Other major private-sector employers include a meat processor and distributor, a plastics packaging firm, an insurance provider, and another auto parts manufacturer. Guelph has a large public sector that helps to stabilize the employment base. The largest public-sector employers are the University of Guelph, the city itself, local school boards and hospitals, and the Ontario Ministry of Agriculture, Food and Rural Affairs.

The construction value of building permits the city issued was down 46% in 2011, but this is mostly because 2010 was an exceptional year, in which a large data center and organic waste processing facility were built. However, housing starts remained weak and well below historical levels. The city has recently developed a secondary plan for its downtown, with the aim of continuing to revitalize the center; in May 2012, Guelph approved the first downtown residential development project in over a decade, an 18-story condominium building with 130 units. The city also has a new intermodal facility that integrates regional and local bus and rail transit, including the new GO regional train service from Toronto, which will further integrate Guelph's economy into that of the surrounding region, in particular the diversified economies of the Kitchener-Waterloo-Cambridge region and the GTA.

Good Financial Management Despite Recent Turnover

In our view, Guelph demonstrates good financial management which has a positive impact on its credit profile. The city provides transparent, easy to access disclosure to pertinent information and prepares a detailed operating and capital budget annually as well as updates to its 10-year capital forecast. It also has a robust set of financial policies dealing with debt management, reserves, and investments. Although we believe management remains well qualified and experienced, there has been quite a bit of turnover among senior management recently, including a new chief administrative officer and CFO. The city has also recently restructured its departments which could lead to some disruptions in the near term but is ultimately designed to result in greater operational effectiveness.

In the past several years, Guelph has also had some issues outstanding with the County of Wellington (AA/Stable/--) over funding for a long-term care facility and with the regional public health unit over potential capital costs of a new facility, as well as other legal matters. Most of these have now been settled through mediation and settlements and we do not expect that they will have a significant financial impact on the city.

Expenditures Constrain Budgetary Flexibility

We view the financial flexibility of Canadian municipalities as moderately constrained, due to a high degree of municipal services that the provinces mandate and leave local governments little discretion concerning the costs of delivering these services. Guelph's largest operating expenses relate to protection services (mostly police and fire services), which together with transportation and environmental services consume 55% of all operating expenditures (see charts 1 and 2). Wages and benefits exert a significant pressure on operating budgets and are often subject to collective agreements. Canadian municipalities have more flexibility on the revenue side with property taxes being the largest source of modifiable revenue and accounting for 57% of the city's operating revenue and water and wastewater
rates contributing another 15%.

Guelph has exhibited moderate population growth at a rate in line with the province as a whole. This growth, together with the need to replace aging infrastructure, has required large capital investments which typically account for about 25% of total expenditures. We expect that capital expenditures will continue to account for at least 20% of total expenditures throughout our outlook horizon.

Chart 1

City of Guelph—Adjusted Operating Revenues

- Tax revenue (57%)
- Environmental services (15%)
- Transportation services (4%)
- Social and family services (3%)
- Other user fees and service charges (3%)
- Other nontax revenue (7%)
- Provincial and federal grants (9%)
- Investment and dividend income (2%)

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City Expects To Maintain Good Budgetary Performance

To improve comparability across local and regional governments globally, Standard & Poor's adjusts the published figures of all municipalities to reflect their budgetary balances on a cash basis. This includes adjusting for major accruals, restating capital spending to a cash basis by removing the influence of capital amortization and net income of certain government business enterprises, and adjusting for one-time revenues.

Guelph's budgetary performance has been fairly stable in the past five years although marginally below the median level for 'AA' rated peers. We expect that the city will continue to generate robust operating surpluses but that modest after-capital deficits will persist in the medium term. Guelph benefits from its high reserve levels, which help to balance any shortfall in revenues.

Operating balances averaged about 14% of operating revenues from 2007-2011 but have slipped slightly to 12.3% in 2011 from 16.6% in 2008. Lower revenue growth and increased social assistance costs and inflationary pressures continue to squeeze operating budgets. We believe that the city's relatively stable economy and the continuing provincial upload of social assistance costs will help to balance out the likelihood of lower government grants and keep operating balances above 10% of operating revenues over the outlook horizon.

After accounting for capital revenues and expenditures, the region has been running deficits averaging more than 9% of total revenue the past five years as it works to address Guelph's infrastructure needs. Skewing the average is a
larger-than-normal deficit of almost 21% in 2010 as the city leveraged federal and provincial stimulus funds and accelerated some capital projects. We believe that the recovery in growth-related revenues will be gradual and that after-capital deficits will remain about 5% of total revenue for the next several years. However, Guelph has substantial cash reserves that it could use to finance these deficits internally without requiring additional debt.

Guelph's capital expenditures in the past two fiscal years have been higher than historical norms, at C$120 million and C$96 million in 2010 and 2011, respectively. Capital expenditures generally constitute 25% of the city's total, which is in line with its peers. The 2012 capital budget and long-term capital forecast are more moderate as Guelph has scaled back some projects that it had intended to debt-finance and focuses more on asset maintenance and renewal. The city is also exploring alternative methods of capital financing, such as public-private partnerships. The 2012 capital budget contains C$93.5 million in projects, of which C$57.6 million is from the tax capital budget and the remainder is from the enterprise budget, which water and wastewater rates largely support. Of the tax capital budget, only 27% relates to growth. Guelph intends to finance 42% of the total through its reserves and 27% through debt with the rest coming from the federal gas tax, development charge (DC) revenue, and other sources. The combined 10-year capital plan calls for more than C$880 million to be spent but with a lower proportion of funding from debt. While the majority of the capital plan is for state-of-good-repair work (which is less likely to be deferred), some of the growth-related capital could be delayed if development does not proceed as expected. This would negatively affect the assessment base and DC revenues, but it could also help to mitigate after-capital deficits and provide some measure of budgetary flexibility.

**Liquidity To Remain Strong Despite Near-Term Draws On Reserves**

In our view, Guelph maintains a strong liquidity position, which helps to buttress the city's credit profile. Total adjusted cash and liquid assets at the end of 2011 of C$110 million were equal to more than 650% of the estimated debt service for 2012. This high level is typical of Canadian municipalities and contributes to our generally strong ratings on them. Guelph's reserve and reserve fund balances have been rising in the past 10 years but we expect the city to draw significantly on its discretionary reserve funds during 2012 to fund its capital plan. However, it forecasts that they should rebound to current levels within about five years and we believe that overall liquidity will remain adequate.

**Less Reliance On Debt Financing Should Gradually Lower Debt Burden**

We view Guelph's debt load as moderate and in line with similarly-rated domestic peers. Guelph's tax-supported debt at year-end 2011 was C$121.4 or 39.8% of operating revenues during the year. Under our conservative base case scenario, we expect that this ratio will gradually decline through our outlook horizon but will remain greater than 30%. We believe that debt service requirements will also remain modest, at about 5% of total revenues.

Guelph issued a C$46.75 million 10-year debenture in 2011, with proceeds financing new capital and refinancing old debt. We expect that by the end of 2012, the city will have issued an additional C$19 million of new debt and C$51 million by the end of 2016. However, large principal repayments and debt retirements are expected to result in a net decline in the debt load of about C$20 million by the end of 2016.

Included in debt is a C$10 million revolving line of credit that was fully drawn as of Dec. 31, 2011. Guelph put this
facility in place to help develop a business park, and expects to repay it within the next few years. Previously, we had included social housing debt of more than C$40 million in our calculation of tax-supported debt but upon further review of the debt's structure, we have determined that it does not meet our criteria for inclusion, which is in line with the city's deconsolidation of the issuing entity beginning with the fiscal 2008 financial statements.

No significant contingent liabilities
Guelph has standard future employee benefits and liabilities, as well as landfill postclosure costs that totaled about 9% of 2011 operating revenue. We do not consider this to be significant, and the city has reserves in place to cover more than half of these liabilities. Guelph is involved in several legal cases, including a C$20 million lawsuit from a construction contractor involved with the recent building of a new city hall. The city has launched a C$5 million countersuit against the contractor but the matter is scheduled to go to mediation in the fall of 2012. At this point, the potential impact on Guelph is unknown but we don't expect it to materially affect the city, given its strong liquidity position.

Table 1
City of Guelph--Economic Statistics

<table>
<thead>
<tr>
<th>Population summary</th>
<th>Total population†</th>
<th>% aged 14 years or younger†</th>
<th>% aged 65 years or older†</th>
<th>Median age†</th>
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<tbody>
<tr>
<td></td>
<td>121,688</td>
<td>17.7</td>
<td>13.0</td>
<td>37.7</td>
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Economic statistics (% change)

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<tbody>
<tr>
<td>Population*</td>
<td>1.15</td>
<td>1.15</td>
<td>1.15</td>
<td>1.15</td>
<td>1.15</td>
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<tr>
<td>Unemployment rate (%)</td>
<td>5.6</td>
<td>7.9</td>
<td>8.3</td>
<td>5.6</td>
<td>5.7</td>
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<tr>
<td>Assessment base growth§</td>
<td>6.2</td>
<td>6.8</td>
<td>8.6</td>
<td>2.6</td>
<td>3.2</td>
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</table>

*Annualized Census results. §Includes both unit growth and market value changes. †Based on 2011 Census data from Statistics Canada.

Table 2
City of Guelph--Financial Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Capital expenditure/total expenditure</td>
<td>26.4</td>
<td>32.1</td>
<td>21.8</td>
<td>24.5</td>
<td>24.4</td>
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<tr>
<td>Modifiable revenue/operating revenue</td>
<td>88.5</td>
<td>88.1</td>
<td>88.5</td>
<td>83.9</td>
<td>86.4</td>
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<tr>
<td>Operating balance/operating revenue</td>
<td>12.3</td>
<td>14.0</td>
<td>13.0</td>
<td>16.6</td>
<td>15.2</td>
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<tr>
<td>After-capital balance/total revenue</td>
<td>(2.0)</td>
<td>(5.8)</td>
<td>(1.9)</td>
<td>(2.1)</td>
<td>(2.7)</td>
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<tr>
<td>Free cash and liquid assets/debt service</td>
<td>804.2</td>
<td>657.4</td>
<td>619.7</td>
<td>506.7</td>
<td>558.5</td>
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<tr>
<td>Tax-supported debt/consolidated operating revenue</td>
<td>39.8</td>
<td>33.0</td>
<td>36.8</td>
<td>31.3</td>
<td>50.1</td>
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<tr>
<td>Interest/operating revenue</td>
<td>1.5</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>2.5</td>
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Related Criteria And Research
Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

Ratings Detail (As Of September 12, 2012)
Guelph (City of)
Issuer Credit Rating: AA/Positive/—
Ratings Detail (As Of September 12, 2012) (cont.)

<table>
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**Issuer Credit Ratings History**

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<th>Rating</th>
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<td>24-Aug-2012</td>
<td>AA/Positive/--</td>
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<tr>
<td>09-Apr-2001</td>
<td>AA/Stable/--</td>
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*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.*
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