

Research Update:

# City of Guelph 'AA+' Ratings Affirmed; Outlook Stable

September 1, 2021

## Overview

- Economic growth will rebound strongly in 2021 as pandemic-related restrictions ease, propelled by the City of Guelph's very diverse economy that is underpinned by a robust manufacturing sector and large public sector.
- Capital spending will increase substantially over the next two years as Guelph pursues its asset management strategies and we expect that the after-capital surpluses that the city has produced historically will give way to persistent after-capital deficits after 2022.
- We are affirming our 'AA+' long-term issuer credit and senior unsecured debt ratings on Guelph.
- The stable outlook reflects our expectation that Guelph will continue to generate robust operating surpluses, helping to keep the expected increase in the tax-supported debt burden below 40% of operating revenues until 2023.

## Rating Action

On Sept. 1, 2021, S&P Global Ratings affirmed its 'AA+' long-term issuer credit and senior unsecured debt ratings on the City of Guelph, in the Province of Ontario. The outlook is stable.

## Outlook

The stable outlook reflects our expectation that, in the next two years, Guelph's liquidity will remain very healthy and although increasing capital expenditures will pressure after-capital balances, the city's robust operating surpluses will help to keep the increase in the tax-supported debt burden below 40% of operating revenues until 2023.

## Downside scenario

Although unlikely, we could lower the ratings or revise the outlook to negative in the next two years

### PRIMARY CREDIT ANALYST

**Stephen Ogilvie**

Toronto

+ 1 (416) 507 2524

stephen.ogilvie  
@spglobal.com

### SECONDARY CONTACT

**Adam J Gillespie**

Toronto

+ 1 (416) 507 2565

adam.gillespie  
@spglobal.com

### ADDITIONAL CONTACT

**Ritesh S Bagmar**

Pune

+ (020)42008581

Ritesh.Bagmar  
@spglobal.com

## Research Update: City of Guelph 'AA+' Ratings Affirmed; Outlook Stable

in scenarios where the city's operating revenue growth was lower than expected, leading to persistently weaker operating balances and large debt-financed after-capital deficits, or where a sustained expansion of capital spending also led to large debt-financed after-capital deficits.

### Upside scenario

We could raise the ratings in the next two years if, all else equal, Guelph's financial management practices strengthened in line with those of higher-rated peers, including the full implementation of multiyear operating budgets and the improved visibility of expected actual capital spending. Alternatively, if the city were to consistently generate larger-than-historical operating surpluses that could accommodate the expected expansion of capital spending, we could raise the ratings.

### Rationale

The economy is expected to rebound in 2021 thanks to Guelph's resilient workforce, diverse employment base, and the attractiveness of the city as a destination for economic development. In addition, we expect that its prudent financial management and cost-containment efforts will help the city to continue generating robust operating surpluses in the next several years. However, as the city pursues its asset management strategies, capital spending will expand, leading to persistent after-capital deficits after 2022 and moderate increases in Guelph's tax-supported debt burden. Liquidity will remain strong in line with levels of recent years, as the city will use debt and not cash to finance any after-capital deficit over the next two years.

### **A solid economic base, grounded by a large public sector, and strong financial management practices bolster the ratings.**

We believe Guelph's economy will recover over the next two years as COVID-19 pandemic-related restrictions ease. We believe the city has a strong local economy, owing in part to a broad manufacturing sector and a large public sector, consisting of a university, schools, hospitals, and municipal administrations. We estimate that Guelph's GDP per capita is approximately in line with that of the national economy at about US\$52,900.

In our view, Guelph's credit profile benefits from generally good political consensus in passing budgets without material delays and demonstrates effective revenue and expenditure planning practices. The city annually approves detailed one-year operating and capital budgets (with a 10-year outlook). However, the city will pass a two-year operating budget next year covering 2022 and 2023 and a four-year operating budget in 2024 covering 2024-2027. Guelph also intends to fully implement its asset management strategies, which will likely lead to an expansion of annual capital spending beginning in 2022. The city issues debt to finance capital expenditures, and we believe it has well-defined financial policies to govern its debt and liquidity management.

We believe Guelph, 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. Operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions.

## Healthy operating balances will continue, despite near-term pressures, mitigating somewhat increased capital spending and borrowing.

Guelph projects an overall revenue loss in 2021 of about C\$5 million largely in transit, parking, culture and recreation, and court services fees; and increased COVID-19-related expenditures for transit, operations, police, and paramedic services. However, the city expects senior-level funding, which includes Safe Restart funding of C\$7.5 million for transit, along with cost-mitigation strategies will offset the pandemic-related pressure. We expect that transit ridership will revert to normal in 2023 and that operating balances will remain healthy overall, averaging almost 16% of operating revenue for 2019-2023. As the city implements its asset management strategies, capital spending will begin to rise in 2022. After-capital surpluses will remain robust, averaging about 3% for 2019-2023. Nevertheless, we expect that after-capital surpluses will begin to turn to deficits beginning in 2023.

Annual operating surpluses and healthy reserve levels help to fund Guelph's capital plan, although the city will issue debt to finance certain projects. We expect that the city will likely issue more than C\$60 million of new debt in 2023 following the issuance of C\$49.1 million in 2021. This will push Guelph's tax-supported debt as a proportion of operating revenues to about 34% in 2023 from 23% at the end of 2020. Guelph could issue new debt again in 2024. Despite the new issuance, direct debt is expected to represent less than five years of operating surpluses, which indicates significant capacity to support higher debt levels and lifts our assessment of the city's debt burden. We believe that interest payments will remain very modest, at less than 1% of operating revenues for 2020-2022.

Guelph's credit profile is bolstered by what we view as an exceptional liquidity position. We estimate that the city will have more than C\$205 million of free cash available in the next 12 months, which will be sufficient to cover more than 13x debt service requirements. Similar to that of its domestic peers, the city's access to external liquidity is satisfactory, in our view.

## Key Statistics

Table 1

### City of Guelph -- Selected Indicators

(Mil. C\$)	--Fiscal year end Dec. 31--					
	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenues	427	454	453	473	482	502
Operating expenditures	369	380	381	399	408	423
Operating balance	58	75	72	74	75	79
Operating balance (% of operating revenues)	13.6	16.4	16.0	15.6	15.5	15.8
Capital revenues	34	40	22	37	45	51
Capital expenditures	91	89	59	95	114	137
Balance after capital accounts	1	25	35	16	5	(7)
Balance after capital accounts (% of total revenues)	0.3	5.2	7.3	3.1	1.0	(1.2)
Debt repaid	15	14	14	13	14	17
Gross borrowings	0	34	0	49	0	61

Table 1

**City of Guelph -- Selected Indicators (cont.)**

(Mil. C\$)	--Fiscal year end Dec. 31--					
	2018	2019	2020	2021bc	2022bc	2023bc
Balance after borrowings	(14)	46	21	52	(9)	37
Direct debt (outstanding at year-end)	96	117	104	141	126	170
Direct debt (% of operating revenues)	22.6	25.7	23.0	29.8	26.2	33.9
Tax-supported debt (outstanding at year-end)	96	117	104	141	126	170
Tax-supported debt (% of consolidated operating revenues)	22.6	25.7	23.0	29.8	26.2	33.9
Interest (% of operating revenues)	0.8	0.7	0.7	0.6	0.8	1.1
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	60,196	61,466	58,016	65,195	67,992	69,683

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

**Ratings Score Snapshot**

Table 2

**City of Guelph -- Ratings Score Snapshot**

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

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

**Key Sovereign Statistics**

- Sovereign Risk Indicators, July 12, 2021. An interactive version is available at <http://www.spratings.com/sri>

## **Related Criteria**

- 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 2021: Growth Setback In The Spring Will Give Way To Summer Boom, June 25, 2021
- Public Finance System Overview: Canadian Municipalities, May 12, 2020
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019
- Guidance: Methodology For Rating Local and Regional Governments Outside of the U.S., July 15, 2019
- S&P Global Ratings Definitions, Jan. 5, 2021
- Guidance: Sovereign Rating Methodology, Jan. 22, 2019

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**

---

#### **Guelph (City of)**

---

Issuer Credit Rating AA+/Stable/--

---

## Research Update: City of Guelph 'AA+' Ratings Affirmed; Outlook Stable

### Ratings Affirmed

---

#### Guelph (City of)

---

Senior Unsecured    AA+

---

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.