

City of Guelph

August 8, 2023

This report does not constitute a rating action.

Credit Highlights

Overview

| Credit context and assumptions | Base-case expectations |
|--|---|
| Guelph's growing economy, underpinned by its broad manufacturing and public sectors, bolsters the city's creditworthiness. | The city will continue to post healthy operating balances, anchored by stable tax receipts. |
| Prudent financial management and cost-containment efforts will help support strong budgetary performance. | Despite pressures stemming from an increasing capital plan, strong budgetary performance will support a manageable debt burden. |
| The city's relationship with the Province of Ontario will remain extremely predictable and supportive. | The city will maintain healthy reserves, contributing to its exceptional liquidity. |

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S&P Global Ratings' long-term issuer credit rating on the City of Guelph is 'AAA'. The city has strong financial management, which we believe will allow it to maintain healthy debt levels as it proceeds with an increasing capital plan. We expect that Guelph will post modest after-capital deficits, and will finance them with a combination of accumulated reserves and debt. We project that the debt burden will remain low at about 26% of operating margins in 2025. Guelph's strong and diverse economic base, growing population, and proximity to the Greater Toronto Area will continue to support its finances. We view the city's exceptional liquidity position as a key credit strength.

Outlook

The stable outlook reflects our expectation that, in the next two years, Guelph's liquidity will remain very strong 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 30% of operating revenues through 2025.

Downside scenario

We could lower the rating or revise the outlook to negative in the next two years if growth in the city's operating revenue was lower than expected, leading to sustained after-capital deficits, and the debt burden surpassing 30% of revenues.

Rationale

A solid economic base, grounded by a large public sector, and strong financial management practices contribute to Guelph's creditworthiness.

Our very strong economic assessment reflects our belief that Guelph's economy supports GDP per capita in line with the national average at about \$54,700 and growth in line with that of Canada. We believe the city benefits from a strong local economy, in part due to a broad manufacturing sector and a large public sector, including schools, hospitals, the University of Guelph, and municipal administration. We expect that local economic growth will continue in 2023. The local unemployment rate is projected at 4.5%. The population increased 9% in 2021 compared with 2016. However, the availability of land for development is expected to become increasingly constrained over the outlook horizon.

Guelph's credit profile also benefits from strong management, as evidenced by generally good political consensus in passing budgets and effective revenue and expenditure planning practices. The city has begun preparing its multiyear operating budget covering 2024-2027. The city undertook a capital-reprioritization project in 2022 to better inform its capital plans and is developing a 10-year capital budget, which will be presented in November 2023. Guelph plans to increase capital spending this year and we expect lower deferrals in the outlook horizon. An updated asset management plan for 2024 will be presented to the council in May 2024. In addition, we believe it has well-defined financial policies to govern debt and liquidity management. On July 1, 2023, strong mayor powers were expanded to Guelph in an effort to facilitate key priorities shared by the Province of Ontario and the city, such as housing, transit, and infrastructure. The mayor delegated these powers to the chief administrative officer and council.

As do other Canadian municipalities, Guelph benefits from an extremely predictable and supportive local and regional government framework that has demonstrated high institutional stability and evidence of systemic extraordinary support in times of financial distress. Most recently through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. Although provincial governments mandate a significant proportion of municipal spending, they also provide operating fund transfers and impose fiscal restraint through legislative requirements to pass balanced operating budgets. Municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be intensive. Any operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations) through reserve contributions. Municipalities have demonstrated a track record of strong budget results and, therefore, debt burdens, on average, are low relative to those of global peers and growth over time has been modest.

Operating balances will remain healthy, while higher capital spending will pressure after-capital balances.

Despite operating pressures stemming from inflation and economic headwinds, we expect Guelph will maintain strong operating balances during the outlook horizon. Senior government funding and recent tax increases will support robust operating balances, averaging 12.8% of

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operating revenues for 2021-2025. However, as the city strives to reduce its capital backlog, spending will begin to rise this year. Although, on average, we expect that the city will generate a modest after-capital surplus of 1.1% in 2021-2025, we believe that higher capital spending will lead to modest after-capital deficits in the medium term. According to the 2023 capital budget, about 70% of spending will go toward infrastructure renewal, while spending on growth and new city developments is 21% and 9%, respectively.

Annual operating surpluses and healthy reserves will help to fund Guelph's capital plan, and the city will continue to issue debt to finance certain projects when needed. Although Guelph has not issued debt since 2021, we expect growth and infrastructure renewal projects will lead to further issuances in 2025. Tax-supported debt as a proportion of operating revenues was 24.5% in 2022, and we expect it will increase to 25.8% in 2025. We believe that interest payments will remain very modest, at less than 1% of operating revenues for 2023–2025.

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\$301 million of free cash available in the next 12 months, which will be sufficient to cover more than 100% of estimated debt service payments. Similar to that of its domestic peers, the city's access to external liquidity is satisfactory, in our view.

City of Guelph Selected Indicators

| Mil. C\$ | 2020 | 2021 | 2022 | 2023bc | 2024bc | 2025bc |
|--|----------|----------|----------|----------|----------|----------|
| Operating revenue | 453 | 479 | 515 | 519 | 540 | 561 |
| Operating expenditure | 381 | 406 | 450 | 464 | 475 | 486 |
| Operating balance | 72 | 73 | 65 | 55 | 65 | 75 |
| Operating balance (% of operating revenue) | 16.0 | 15.2 | 12.6 | 10.7 | 12.1 | 13.4 |
| Capital revenue | 22 | 28 | 28 | 43 | 43 | 43 |
| Capital expenditure | 59 | 61 | 83 | 100 | 110 | 140 |
| Balance after capital accounts | 35 | 41 | 10 | (2) | (2) | (22) |
| Balance after capital accounts (% of total revenue) | 7.4 | 8.0 | 1.8 | (0.3) | (0.3) | (3.7) |
| Debt repaid | 14 | 13 | 14 | 12 | 10 | 10 |
| Gross borrowings | 0 | 49 | 0 | 0 | 0 | 50 |
| Balance after borrowings | 21 | 77 | (5) | (14) | (11) | 18 |
| Direct debt (outstanding at year-end) | 104 | 140 | 126 | 114 | 104 | 145 |
| Direct debt (% of operating revenue) | 23.0 | 29.3 | 24.5 | 22.0 | 19.3 | 25.8 |
| Tax-supported debt (outstanding at year-end) | 104 | 140 | 126 | 114 | 104 | 145 |
| Tax-supported debt (% of consolidated operating revenue) | 23.0 | 29.3 | 24.5 | 22.0 | 19.3 | 25.8 |
| Interest (% of operating revenue) | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 |
| Local GDP per capita (\$) | -- | -- | -- | -- | -- | -- |
| National GDP per capita (\$) | 43,349.7 | 52,358.6 | 54,917.7 | 54,720.3 | 56,364.9 | 59,092.1 |

City of Guelph Selected Indicators

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. C\$--Canadian dollar. \$--U.S. dollar.

Ratings Score Snapshot

| Key rating factors | Scores |
|----------------------------|--------|
| Institutional framework | 1 |
| Economy | 1 |
| Financial management | 2 |
| Budgetary performance | 2 |
| Liquidity | 1 |
| Debt burden | 1 |
| Stand-alone credit profile | aaa |
| Issuer credit rating | AAA |

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

Key Sovereign Statistics

Sovereign Risk Indicators, July 10, 2023

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

City of Guelph

- Economic Outlook Canada Q3 2023: A First-Half Resurgence Will Give Way To An Inevitable Slowdown, June 26, 2023
- Sector and Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, March 24, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- S&P Global Ratings Definitions, June 9, 2023

Ratings Detail (as of August 08, 2023)*

Guelph (City of)

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

Issuer Credit Ratings History

| | |
|-------------|----------------|
| 01-Jun-2022 | AAA/Stable/-- |
| 29-Aug-2013 | AA+/Stable/-- |
| 24-Aug-2012 | AA/Positive/-- |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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