

Regional Municipality of Niagara

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This report does not constitute a rating action.

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Credit Highlights

Overview

Credit context and assumptions

Although recovering since the reopening from pandemic-related restrictions, the regional economy will continue to face headwinds from persistent inflation and rising interest rates.

Prudent financial management practices will support the Regional Municipality of Niagara's creditworthiness.

An extremely supportive and predictable institutional framework underpins the ratings.

Base-case expectations

We expect elevated capital spending to drive after-capital deficits in the next several years, given large capital projects.

Gross debt will increase but revenue growth will keep the debt burden relatively stable by 2025.

We expect liquidity will remain a key credit strength.

S&P Global Ratings' long-term issuer credit rating on the Regional Municipality of Niagara is 'AA+'. We expect Niagara's economy will continue to recover, although key challenges, including inflation and rising rates, will slow growth. We expect tax revenues will increase but that the region will post after-capital deficits as a result of its capital plan. However, we believe prudent management and very healthy liquidity will support the region's credit profile in the next several years.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, Niagara's after-capital deficits will persist but be modest at 1.72% of total revenues on average. The additional capital spending will require more external financing, but we expect it will remain below 75% of operating revenues by 2025. In addition, we estimate that the region will maintain ample liquidity well in excess of debt servicing requirements.

Downside scenario

We could take a negative rating action if, in the next two years, after-capital deficits were larger than expected, at more than 5% of total revenues on a sustained basis, requiring additional borrowing such that tax-supported debt, excluding on-lending, increased to more than 60% of operating revenues.

Upside scenario

While unlikely in the next two years, we could take a positive rating action if the region demonstrated significant and sustained economic and demographic improvement, more in line with that of Canada, and its after-capital deficits improved to a balanced position.

Rationale

Regional economy is facing headwinds, but prudent management and supportive governance framework bolster the rating.

Niagara, in southern Ontario, is home to one of the most active Canada-U.S. border crossings and enjoys a favorable climate that makes it an agricultural center and popular tourist destination. The economic recovery and employment growth were robust in 2022 because of the easing of pandemic-related restrictions. The region's key industries by employment are trade, health care, and manufacturing. The regional council is looking for opportunities in emerging sectors such as electric vehicles and the marine industry by the way of investing in canal capacities, to diversify the economy further. However, inflationary pressures and rising interest rates continue to impede economic growth, especially dampening the already weakened tourism and hospitality sectors. International travel remains low, although management expects it will rebound in upcoming years. While GDP per capita is not available at the local level, we believe Niagara's GDP per capita would be slightly lower than the national average of about US\$54,700 in 2023, based on the region's lower income levels. In our view, the region's demographic profile is constrained due to an aging population and slow growth. This could negatively affect the labor pool and hinder investments in the region. However, the regional council's focus on expanding regional transit in the medium term could attract working-age residents to Niagara and support population growth.

We view Niagara's financial management practices as strong and largely in line with those of similarly rated peers. Niagara's regional council consists of a regional chair, the 12 elected mayors, and 19 additional elected representatives from local area municipalities. The region approves operating and capital budgets annually and presents a three-year operating outlook and a nine-year capital forecast with the corresponding funding sources. Long-term plans contain a good level of detail and are based on well-documented and realistic assumptions, in our opinion. We view the region's disclosure and transparency of financial reports as good. We believe that debt and liquidity management practices are prudent. Effective Jan. 1, 2023, the region successfully amalgamated three local area transit companies for the cities of Niagara Falls, St. Catharines, and Welland to form Niagara Transit Commission (NTC). The region assumed operating responsibility through NTC and consolidated all assets and liabilities for,

and control of, all transit operations in the region. A special levy of C\$55.1 million has been included in the 2023 operating budget, with an approximately C\$300 million capital requirement forecast in the next 10 years.

As do other Canadian municipalities, Niagara 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 COVID-19 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; debt burdens, on average, are low compared with those of global peers and their growth over time has been modest.

Spending on large capital projects in the next several years will keep after-capital results in a modest deficit; healthy revenue growth supports the stable debt burden.

We expect the operating balance will increase in 2023 on a higher tax levy and introduction of the special levy for NTC. Thereafter, we expect it will return to historical average in light of higher personnel expenses and remain healthy at 13.4% for 2021-2025, as per our base-case scenario. We expect increased capital expenditures in the next several years due to elevated spending on water and wastewater infrastructure, long-term care homes, and the transportation network. We expect this will result in after-capital deficits of approximately 1.7% on average in 2021-2025.

In 2023-2025, the region intends to issue about C\$387 million in debt for capital projects, including on behalf of its lower-tier municipalities. Niagara anticipates large borrowings in 2024, in part related to long-term care homes. Nevertheless, we expect the total debt burden (which includes both the region's debt as well as the on-lent debt to the lower-tier municipalities) will remain relatively stable at 72% of operating revenues by 2025 because of healthy revenue growth. This compares favorably with the median debt burden of 83% for Canadian local and regional governments in the 'AA' rating category. Excluding on-lending, we expect the region's debt burden will increase to about 42% of operating revenues in 2025 from 39% in 2022. We believe that Niagara's lower-tier municipalities are able to support their obligations and will reimburse the region for all principal and interest payments as they come due. We recognize that there is a lower credit risk associated with this debt, which, in our opinion, mitigates the region's overall debt burden. We expect that interest costs will be very manageable at less than 3% of operating revenues on average during our two-year outlook horizon.

Niagara has what we view as exceptional liquidity, which we consider a key credit strength. We estimate total free cash will be enough to cover more than 5x the total estimated debt service payable in the next 12 months, including for on-lent debt. Similar to that of its domestic peers, the region's access to external liquidity is satisfactory.

Regional Municipality of Niagara Selected Indicators

Mil. C\$	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	918	972	1,032	1,153	1,207	1,264
Operating expenditure	785	843	905	981	1,042	1,099
Operating balance	133	129	126	171	165	165
Operating balance (% of operating revenue)	14.4	13.3	12.3	14.9	13.7	13.0
Capital revenue	55	69	54	83	61	85
Capital expenditure	172	186	218	292	224	298
Balance after capital accounts	15	12	(37)	(37)	3	(48)
Balance after capital accounts (% of total revenue)	1.6	1.2	(3.4)	(3.0)	0.2	(3.6)
Debt repaid	62	62	68	69	74	71
Gross borrowings	109	86	46	47	244	97
Balance after borrowings	62	37	(59)	(60)	173	(23)
Direct debt (outstanding at year-end)	744	767	743	715	886	912
Direct debt (% of operating revenue)	81.1	78.9	72.0	62.0	73.4	72.1
Tax-supported debt (outstanding at year-end)	744	767	743	715	886	912
Tax-supported debt (% of consolidated operating revenue)	81.1	78.9	72.0	62.0	73.4	72.1
Interest (% of operating revenue)	2.6	2.5	2.4	2.2	2.8	2.9
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	43,349.7	52,358.6	54,917.7	54,942.3	56,366.4	58,918.9

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	3
Financial management	2
Budgetary performance	2
Liquidity	1
Debt burden	2
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 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

- Economic Outlook Canada Q4 2023: Sluggish Growth Ahead, Sept. 25, 2023
- Local And Regional Government Risk Indicators: Canadian LRGs' Buoyant Fiscal Performance Will Persist Despite High Inflation And Near-Term Headwinds, Sept. 20, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Sept. 21, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022

Ratings Detail (as of October 19, 2023)*

Niagara (Regional Municipality of)

Issuer Credit Rating	AA+/Stable/--
Senior Unsecured	AA+

Issuer Credit Ratings History

01-Jun-2022	AA+/Stable/--
05-Apr-2001	AA/Stable/--

Ratings Detail (as of October 19, 2023)*

*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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