Niagara Region

REPORT TO: **Co-Chairs and Members of the Corporate Services Committee**

SUBJECT: **Standard & Poor's (S&P) Credit Rating Review**

RECOMMENDATION

That this report **BE RECEIVED** for information.

PURPOSE

Business or Financial reporting.

BUSINESS IMPLICATIONS

S&P performs an annual credit rating review of the Niagara Region in order to assess the credit rating. The determination of the credit rating is an important component of Niagara Region's financial management in that it impacts the interest rate that is imposed upon the debt issued by the Niagara Region and local area municipalities.

REPORT

S&P assigns credit ratings to single tier and regional governments based on a qualitative and quantitative analysis of a range of financial, economic, managerial and institutional factors. Over the last number of months S&P was provided with relevant economic and financial data. The attached announcement from S&P (Appendix A) documents the result of their review. On February 2, 2012 S&P reaffirmed Niagara Region's "AA" stable rating. See Niagara Region media release Appendix B.

The rating reflects S&P's opinion that the Niagara Region maintains strong liquidity and "moderate debt burden", however, they cite the Region's economy and use of reserves to fund operations by way of a technical discussion on budgetary performance, as items that are impacting the rating.

In comparing this rating from the previous rating, it was noted the comment on debt burden changed from "low" to moderate due to the fact that the Niagara Region entered into its largest ever debt issue in 2010.

The technical comments by S&P on budgetary performance noted in the past several years operating expense growth has outpaced operating revenue growth. This statement reflects the Niagara Region's former position of increased use of reserve funds to finance operating costs rather than increase property taxes or other user charges. Indirectly a conversation on this issue began during the 2012 budget process, and as a result, a number of sustainability items were addressed by changing the funding to levy dollars versus one time funding through reserves.

S&P noted their expectation of a new Development Charge By-law to support infrastructure funding.

Also influencing the credit rating is debt issued on behalf of the local area municipalities (LAMs). S&P noted the Niagara Region and the (LAMs) debt collectively is considered moderate. S&P also noted there is the potential for LAM borrowing to impact Niagara Region's debt-carrying capacity. This will be a topic of discussion at the upcoming LAM Treasures' meetings.

S&P noted economic sector problems from continued weakness in global demand and currency fluctuations resulting in higher unemployment rates than provincial and national averages, a stagnant job market, lower per household income and a slow growth population. S&P recognized the Niagara Region has "recently revamped its economic development functions and is focusing on attracting investments that can leverage the region's good transportation links."

S&P highlighted Niagara Region's strong liquidity, which is primarily comprised of cash and investments. They also pointed out that the Niagara Region compared favorably against its global peer groups on this indicator. This statement helps to reaffirm the Niagara Region's Investment strategy as S&P states that in their opinion, "the assets' quality is high because all of the securities are quite liquid and of relative strong creditworthiness".

S&P noted that although their outlook for the Niagara Region is considered stable, it could be revised to positive or the rating could even be raised if reserves were to strengthen and the economy and job growth in the region was to improve. Conversely, if the economy worsens, reserves decline, or the debt burden increases, the rating could be downgraded.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Not applicable.

Submitted by:	**Approved by:**
Brian Hutchings, B.Comm, CGA Commissioner of Corporate Services/ Treasurer	Mike Trojan Chief Administrative Officer

This report was prepared by Margaret Murphy, Associate Director, Current & Capital Budgets and reviewed by Bryan Boles, Director, Financial Management & Planning/Deputy Treasurer.
Attachment

Appendix A

STANDARD &POOR'S

Global Credit Portal®
RatingsDirect®

February 2, 2012

Research Update:

Regional Municipality of Niagara 'AA' Ratings Affirmed On Strong Liquidity And Moderate Debt; Outlook Stable

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will not materially exceed current levels within the rating horizon.

The primary economic sectors in Niagara remain tourism, agriculture, and particularly manufacturing, which continues to face problems from continuing weaknesses in global demand and currency fluctuations. The unemployment rate within the region is typically higher than provincial and national averages and the stagnant job market has resulted in lower per household income and slow population growth. However, seven of the top 10 employers are stable public-sector entities in government, education, and health care; and the region benefited from increased capital works in 2009 and 2010, partially funded by stimulus measures from upper levels of government. Niagara has recently revamped its economic development functions and is focusing on attracting investments that can leverage the region's good transportation links with the U.S., Hamilton, and the Greater Toronto Area.

Niagara's budgetary performance has weakened steadily in the past several years as operating expense growth outpaced operating revenue growth from 2006-2010 (compound annual growth rates of 5% and 3%, respectively). The result is that operating balances declined to 9.8% of operating revenues in 2010 from 17.4% in 2006. Higher unemployment has resulted in rising social support costs, although the continuing provincial upload of this responsibility should alleviate this pressure somewhat. In addition, the slow rate of investment in the region in the past several years has hurt growth revenue, while a high fixed-cost base has continued to stress operating budgets. High levels of capital spending in 2009 and 2010 also resulted in modest after-capital deficits of around 3%. There were some signs of improvement in the value of building permits issued and housing starts in 2010, and we expect that the region will have a new development charge (DC) by-law in place by the end of 2012 which is likely to result in higher DC revenues. While we believe that Niagara's budgetary performance will remain weaker than historical norms throughout the rating horizon, we expect that it will remain adequate for the rating and generally in line with its peers.

Outlook

The stable outlook reflects Standard & Poor's expectations that Niagara's liquidity will not decline materially and that debt issuance will not significantly exceed our expectations within the two-year rating horizon. We could revise the outlook to positive or raise the rating if budgetary performance were to strengthen materially and the regional economy were to experience a demonstrable increase in quality investment and job growth. Conversely, a slowdown in the economy coupled with continuing slides in budgetary performance, or a large increase in debt burden within the rating horizon could lead to a downward revision of the rating or outlook.

Related Criteria And Research

Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

Ratings List

Ratings Affirmed

Niagara (Regional Municipality of)	
Issuer credit rating	AA/Stable/--
Senior unsecured debt	AA

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Appendix B

Niagara Region

MEDIA RELEASE

Niagara Region Maintains "AA" Stable Credit Rating

NIAGARA REGION, Feb. 3, 2012 –Niagara Region has maintained its "AA" stable credit rating, with a stable outlook, as a result of "Niagara's strong liquidity and moderate debt burden" according to a report released yesterday by the bond rating agency, Standard and Poor's.

Standard and Poor's notes that Niagara Region had $295 million of net debt outstanding at the end of 2010 and its debt ratio remains conservative compared with global peers, but slightly higher than similarly rated domestic peers. Standard and Poor's commentary reflects that reserves have been used in recent years to support continuing operations and that their stable outlook reflects an expectation that Niagara Region's liquidity will not materially decline and that future debt issuances will not significantly exceed current projections.

"The affirmation of our "AA" credit rating is welcome news for the Niagara Region, especially given today's challenging economic climate," said Regional Chair Gary Burroughs. "This sends a positive message to investors and Niagara residents that the efforts and accomplishments of Regional council and our management team demonstrate that Niagara continues a strong record of fiscal management ensuring a strong financial foundation."

Standard and Poor's points to economic sector problems from continued weakness in global demand and currency fluctuations resulting in higher unemployment rates than provincial and national averages, a stagnant job market, lower per household income and a slow growth population. Standard and Poor's recognized Niagara Region has "recently revamped its economic development functions and is focusing on attracting investments that can leverage the region's good transportation links."

"This rating reaffirms why Regional council and staff must continue working together to meet the established budget targets as part of our overall taxpayer affordability strategy for Niagara residents, while ensuring our reserves remain fiscally sustainable for future generations," said Brian Hutchings, Commissioner of Corporate Services and Treasurer for Niagara Region.

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For more information, please contact:

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