

Research Update:

County of Simcoe 'AA-' Rating Affirmed On Low Debt Levels And Good Economic Prospects; Outlook Stable

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Research Update:

County of Simcoe 'AA-' Rating Affirmed On Low Debt Levels And Good Economic Prospects; Outlook Stable

Overview

- We are affirming our 'AA-' long-term issuer credit rating on the County of Simcoe.
- The affirmation reflects our view of the county's low levels of debt and good economic prospects.
- The stable outlook reflects our expectation that in 2012, Simcoe's operating performance will remain stable, and debt and liquidity will remain adequate despite increasing capital expenditures.

Rating Action

On Dec. 16, 2011, Standard & Poor's Ratings Services affirmed its 'AA-' long-term issuer credit rating on the County of Simcoe, in the Province of Ontario (AA-/Stable/A-1+). The outlook is stable.

The affirmation reflects our view of the county's low levels of debt and the likelihood of continued good economic prospects.

Rationale

The rating on Simcoe reflects Standard & Poor's assessment of the following credit strengths:

- Good long-term economic prospects. Although the county's economy remains somewhat exposed to the weaker domestic manufacturing sector, it benefits from a strong, stable public sector employment base and its proximity to the much more diverse economy of the Greater Toronto Area (GTA). Tourism is also a significant contributor to the local economy, although a slowing economic recovery has stressed this sector. We believe that as Simcoe continues to grow and integrate with the GTA, the local economy will strengthen and diversify further; and
- Low debt levels. At the end of 2010, tax-supported debt was C\$43 million, representing 16.3% of operating revenues (Standard & Poor's-adjusted). This is low compared with that of other Canadian and international peers. We expect that Simcoe's debt will increase in the near term to fund an expanded capital program. Nevertheless, we believe that tax-supported debt will not exceed 30% of operating revenues within our two-year forecast horizon.

We believe the following factors partially offset these credit strengths:

- Abating budgetary performance. Simcoe's operating surplus was 6% of operating revenues in 2010, up slightly from the previous year but below the five-year average of 10%. The after-capital deficit was almost 6% of operating revenues in 2010, and has been in a deficit position for four of the past five years. These metrics are somewhat weaker than those of its peers and we expect that the county's budgetary performances will remain similar throughout the rating horizon as weaker growth revenues and increasing infrastructure requirements pressure county budgets; and
- Declining liquidity and reserves levels. Simcoe's free cash and liquid assets (Standard & Poor's-adjusted) were about C\$37 million at the end of 2010, down about C\$10 million compared with the previous year due to increased capital spending. We believe that liquidity will decline further in the near term as the county plans to continue drawing on its reserves for major capital projects. Nevertheless, we expect that liquidity will remain adequate.

Outlook

The stable outlook reflects Standard & Poor's expectations that Simcoe's operating performance will not weaken further and that liquidity will remain at adequate levels despite increasing capital expenditures and modestly rising debt levels. In addition, we believe that the county's economy will continue to diversify as it becomes more integrated with the GTA. We could lower the rating or revise the outlook to negative if the county issued significantly more debt than expected, or if its liquidity or economy were to deteriorate considerably over the two-year rating horizon. Conversely, we could revise the outlook to positive or raise the rating if there is meaningful improvement in financial flexibility and budgetary performance, with operating balances recovering to historical norms and robust after-capital surpluses.

Related Criteria And Research

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

Ratings List

Rating Affirmed

County of Simcoe

Issuer credit rating

AA-/Stable/--

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