County of Essex

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
--Prudent financial management underpins sustainable budgetary performance.	--Essex will continue to generate strong operating margins anchored by stable property tax receipts
--Steady income levels with an economy based in manufacturing, mainly the automotive sector, and agriculture will continue to support the economy.	--The county's robust after-capital surpluses and reserves help to mitigate debt issuance
--We believe the region's relationship with the Province of Ontario will remain extremely predictable and supportive	--Robust liquidity position will continue to support the county's creditworthiness

S&P Global Ratings' long-term issuer credit rating on the County of Essex is 'AAA'. The county has strong financial management and planning practices, which we believe enable it to generate very strong operating margins averaging 23% of operating revenues. We expect the county will post after-capital surpluses, on average, of 13% of total revenues as it proceeds with its capital plan despite some escalating costs, like many other municipalities in Canada. These surpluses will allow Essex to continue internally financing its capital plan, keeping the debt burden at 18% of operating revenues, well below 30% in the next few years. The county does not plan to issue new debt in the next two years. In addition, Essex's exceptional liquidity will continue to bolster its credit profile. Essex has a stable economy with exposure mainly in the auto sector, which is high compared with that of most peers and adds risk to the county's economic profile.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, Essex will continue to produce robust budgetary balances and use its pay-as-you-go strategy to finance its capital program. We also expect that its tax-supported debt burden will decline to about 18% of operating revenue by 2025 while it maintains robust liquidity.

Downside scenario

Although we do not believe it is likely in the next two years, we could lower the rating if an external shock harms Essex's economy or a larger-than-expected capital plan leads to weaker budgetary performance or financial flexibility such that after-capital balances slip into a deficit and push the county's tax-supported debt to more than 30% of operating revenues.

Rationale

Essex's economy will remain stable, while robust financial management and a supportive institutional framework will continue to support the county's creditworthiness.

With a less diversified economy than that of some peers, Essex's economy is generally stable and primarily focused on manufacturing (automotive) and agriculture, along with other more minor but notable service-based sectors like health care. In southwestern Ontario, Essex comprises seven lower-tier municipalities with a population of more than 192,700 (Census 2021). Its location is adjacent to the City of Windsor, Ont., across the Detroit River from the City of Detroit. The county supports its local municipal partners in identifying and servicing industrial lands to attract more local businesses. Local employers have expanded modestly, and the county forecasts an unemployment rate of 5.3% through 2023.

The concentration in the automotive manufacturing sector could be affected by positive and negative exogenous factors, including weakening demand for autos and the Canadian response to the Inflation Reduction Act in the U.S. We expect the county will continue to have positive medium-term growth prospects. Essex's nominal GDP per capita will be largely in line with the national level, which we estimate to be about US$54,400 in 2023.

The county has disciplined financial management practices and a robust budgeting process. Essex's management team has demonstrated the ability to manage revenues and expenditures appropriately under consolidated one-year operating budgets, passed annually by council, and actual variations from budget are typically moderate. The council comprises the mayors and deputy mayors of the seven lower-tier municipalities, whose members serve four-year terms. After the elections in October 2022, the council had a high turnover; however, no significant changes in priorities and issues facing the county were noted.

County management is still working on its investment policy. However, its asset management plan has been updated, which we expect will ensure better cost effectiveness and flexibility for its infrastructure and investment. In our opinion, financial information is sufficiently detailed and comprehensive. We also believe that debt and liquidity management is prudent and adequately risk averse.

As do other Canadian municipalities, Essex 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.

Strong budgetary performance and reserves will allow for continued internal funding of the capital plan without debt issuance.

We expect Essex will continue generating robust budgetary performance during our 2021-2025 base-case forecast period, with operating balances averaging 23% of operating revenues and after-capital surpluses averaging 13% of total adjusted revenues amid high inflation and escalating costs, as property taxes remained stable.

We forecast Essex will spend an average of C$38 million annually on its capital plan in the next two years, focusing primarily on infrastructure services such as roads and transportation systems. The most important funding sources are reserves; development charges are still under consideration, and if they are introduced, they would have to be approved by the council.

The county has maintained a very low debt burden by internally funding its capital expenditures for many years, and we do not expect it to issue any debt in the next two years. Accordingly, we forecast tax-supported debt will gradually decline to C$41 million at the end of 2025, or 18% of operating revenues. We believe that the debt burden will continue to decline in the next two years.

Tax-supported debt consists of debt issued on behalf of the county and Windsor incurred by the Essex-Windsor Solid Waste Authority (EWSWA). S&P Global Ratings recognizes a lower credit risk associated with the debt on-lent to the EWSWA, a self-supporting entity. In addition, tax-supported debt is less than five years of operating surpluses, which together with very low interest costs of less than 2% of operating revenues, supports our assessment of the very low debt burden. We believe Essex’s exposure to contingent liabilities is modest and does not represent a material credit risk.

The province has committed to building a new regional hospital complex in Windsor by 2031. The initial estimated cost is C$2 billion, of which the county committed to fund a maximum of C$100 million that will be accumulated in reserves; any funding amount required in excess of the reserves at the time of payment would be funded with debt. Essex contributes capital to the dedicated reserve every year. By the end of 2022, the balance was C$34.8 million.

Essex maintains what we consider an exceptional liquidity position through regular contributions to its reserves. We estimate that it will hold free cash and investments of about C$345 million, or enough to cover about 47x its debt service requirements in the next 12 months. Similar to that of its domestic peers, the county's access to external liquidity is satisfactory, in our view.

County of Essex Selected Indicators

Mil. C$	2020	2021	2022	2023bc	2024bc	2025bc

County of Essex Selected Indicators

Operating revenue	196	209	203	212	220	228
Operating expenditure	145	149	158	165	172	180
Operating balance	50	61	46	47	48	48
Operating balance (% of operating revenue)	25.7	29.0	22.5	22.2	21.8	21.2
Capital revenue	9	12	9	13	14	14
Capital expenditure	32	28	26	36	37	39
Balance after capital accounts	28	45	29	24	24	24
Balance after capital accounts (% of total revenue)	13.6	20.2	13.6	10.8	10.5	9.8
Debt repaid	3	3	3	4	4	4
Gross borrowings	0	0	0	0	0	0
Balance after borrowings	25	42	26	21	20	20
Direct debt (outstanding at year-end)	59	56	52	49	45	41
Direct debt (% of operating revenue)	29.9	26.6	25.8	23.1	20.4	18.1
Tax-supported debt (outstanding at year-end)	59	56	52	49	45	41
Tax-supported debt (% of consolidated operating revenue)	29.9	26.6	25.8	23.1	20.4	18.1
Interest (% of operating revenue)	2.0	1.7	1.7	1.5	1.4	1.2
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	43,349.7	52,358.6	54,917.7	54,414.8	55,764.6	58,226.4

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	2
Financial management	2
Budgetary performance	1
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

Ratings Score Snapshot

Key rating factors	Scores
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, Oct. 10, 2022

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
- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Sept. 21, 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
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022

Ratings Detail (as of November 15, 2023)*

Essex (County of)	
Issuer Credit Rating	AAA/Stable/--
Issuer Credit Ratings History	
01-Jun-2022	AAA/Stable/--
27-Nov-2017	AA+/Stable/--
29-Nov-2013	AA/Stable/--

Ratings Detail (as of November 15, 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.