

# County of Essex

November 15, 2023

This report does not constitute a rating action.

## Primary contacts

**Elisa Lopez cortes**  
Toronto  
1-416-507-2574  
elisa.lopez.cortes  
@spglobal.com

**Jennifer Love, CFA**  
Toronto  
1-416-507-3285  
jennifer.love  
@spglobal.com

## Research contributor

**Ritesh S Bagmar**  
CRISIL Global Analytical Center,  
an S&P Global Ratings affiliate  
Pune

## 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.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.