S&P Global Ratings

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County of Essex

November 5, 2024

This report does not constitute a rating action.

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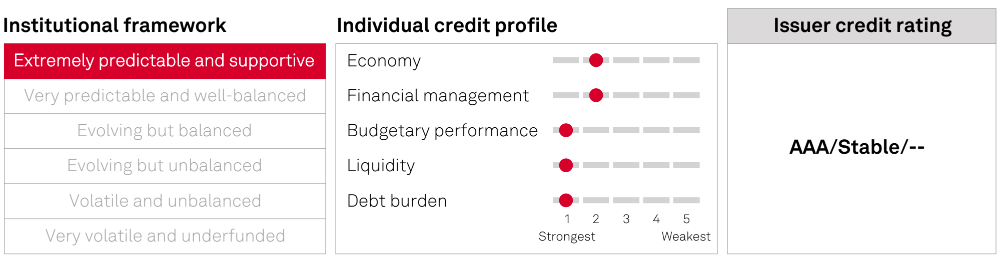
Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
--Supportive institutions and prudent financial management practices strengthen the credit profile.	--The County of Essex will maintain consistently high operating margins bolstered by solid tax revenue.
--Income levels will remain steady in an economy concentrated in manufacturing, particularly in the auto sector.	--Its strong surplus after-capital accounts, supported by solid reserves, help mitigate debt issuance.
--Like other Canadian municipalities, Essex's relationship with the Province of Ontario will remain extremely predictable and supportive.	--A robust liquidity position will continue to support the county's creditworthiness

The county demonstrates strong financial management, which we believe enables it to generate robust operating margins averaging 25% of operating revenue from 2022-2026. We expect after-capital surpluses will remain solid, averaging 9% of total revenue in the same period. This, along with a strategy that has allowed the county to accumulate significant reserves, will keep the debt burden well below 30% in the next two years. Furthermore, Essex's exceptional liquidity will continue to enhance its credit profile. The local economy is stable but concentrated in the auto manufacturing sector, which can be volatile and could pose a 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 along with its accumulated reserves to finance its capital program. We also expect that its tax-supported debt burden will remain well below 30% of operating revenue by 2026 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 revenue.

Rationale

Although concentrated in the automotive manufacturing sector, Essex's economy will remain stable; robust financial management will continue to support the county's creditworthiness.

Essex benefits from a prime location in southwestern Ontario, neighboring the City of Windsor and across the Detroit River from the City of Detroit, Mich. Its economy is stable and primarily focused on agriculture and manufacturing, particularly the automotive sector, making it less diversified than that of some peers. We estimate that the manufacturing sector represents about 23% of local GDP. The focus on the automotive manufacturing sector could affect the economy, as fluctuations in demand for electric vehicles could have significant effects. Nevertheless, we do not believe this will materially hamper the country's economic growth, as we expect Essex will continue attracting new businesses. Although municipal GDP data are unavailable, we believe GDP per capita would be mainly in line with the national level, which we estimate to be about US$53,400 in 2024.

We expect Essex will continue to exhibit strong financial management in the next two years, as it has disciplined financial practices and a robust budgeting process. The management team has demonstrated the ability to manage revenue and expenditures appropriately under consolidated one-year operating and capital budgets passed annually by the council, in contrast with some peers with longer-term capital budgets. The council comprises the mayors and deputy mayors of the seven local municipal partners, whose members serve four-year terms. Prudent and risk-averse debt and liquidity policies have allowed the county to manage debt and build reserves for several years. Essex recently updated its asset management plan and reserve management policy, 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.

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 revenue, except for capital spending, which can be intensive. Operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations) through reserve contributions. Municipalities have demonstrated a track record of strong budgetary 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 accumulated reserves will keep the debt burden low despite the large capital plan.

We expect Essex will maintain robust budgetary performance throughout our 2022-2026 base-case scenario, with operating balances averaging 25% of operating revenue. Although the county will face operating pressures due to increased costs for shared programs such as social services and emergency medical services, we believe Essex's council will continue to approve and implement tax rate increases, as demonstrated by the 4.8% hike in the 2024 budget.

The county is planning significant capital projects, including carryforward projects, road expansions and maintenance, and affordable housing infrastructure. In addition, there is a provincial commitment for the construction of the regional Windsor-Essex Hospital at an initial cost of C$2 billion, with the county committing to fund up to C$100 million. Therefore, Essex has accumulated reserves estimated to reach C$36.7 million by the end of 2023.

We forecast that Essex will spend an average of C$53 million annually on its capital plan in the next two years. The primary funding source will be reserves; however, the county continues to advocate for additional provincial grants to support the capital program. The Windsor-Essex Hospital project remains open to issuing debt if any additional funding is required before reaching the maximum C$100 million contribution. However, we do not expect debt issuance in the next two years. As a result, we anticipate tax-supported debt will gradually decrease to C$38 million, or 16% of operating revenue, by the end of 2026.

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 revenue, supports our assessment of the debt burden as very low. We believe Essex's exposure to contingent liabilities is modest and does not represent a material credit risk.

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$338 million, or enough to cover about 52x its debt service requirements, in the next 12 months. Similar to that of domestic peers, the county's access to external liquidity is satisfactory, in our view.

County of Essex Selected Indicators

Mil. C$	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenue	209	218	227	231	239	247
Operating expenditure	149	159	167	174	182	190
Operating balance	61	59	60	57	57	57

County of Essex Selected Indicators

Operating balance (% of operating revenue)	29.0	27.1	26.5	24.6	23.8	23.0
Capital revenue	12	9	8	12	13	14
Capital expenditure	28	26	50	51	53	55
Balance after capital accounts	45	42	18	17	17	16
Balance after capital accounts (% of total revenue)	20.2	18.5	7.5	7.2	6.7	6.1
Debt repaid	3	3	4	4	4	4
Gross borrowings	0	0	0	0	0	0
Balance after borrowings	42	39	14	14	13	12
Direct debt (outstanding at year-end)	56	52	50	46	42	38
Direct debt (% of operating revenue)	26.6	24.1	21.9	19.8	17.6	15.6
Tax-supported debt (outstanding at year-end)	56	52	50	46	42	38
Tax-supported debt (% of consolidated operating revenue)	26.6	24.1	21.9	19.8	17.6	15.6
Interest (% of operating revenue)	1.7	1.6	1.4	1.3	1.2	1.0
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	52,496.8	55,509.4	53,431.2	53,401.8	56,837.7	60,185.5

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.

Rating Component Scores

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 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. 7, 2024. Interactive version available at http://www.spratings.com/sri

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

- S&P Global Ratings Definitions, Oct. 15, 2024, Oct. 15, 2024
- Economic Outlook Canada Q4 2024: Further Rate Cuts Will Accelerate Growth, Sept. 24, 2024
- Risk Indicators For Canadian Local And Regional Governments: Strong Fiscal Management Is Key To Withstand Population Pressures, Sept. 19, 2024
- Canadian Municipalities Employ Flexibilities Within Fiscal Framework To Temper Cost Pressures, April 2, 2024
- Sector And Industry Variables: Sovereign Rating Methodology, March 26, 2024

Ratings Detail (as of November 05, 2024)*	
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/--

*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.