



Administrative Report

To: Warden MacDonald and Members of Essex County Council

From: Melissa Ryan, CPA, Director, Financial Services/Treasurer

Date: Wednesday, February 19, 2025

Subject: Annual Credit Rating-Evaluation-Cost Benefit Analysis

Report #: 2025-0219-FIN-R06-MR

Purpose

The purpose of this report is to assess the costs and benefits of the annual credit rating exercise conducted at the County.

Background

For the past 24 years, S&P Global has conducted an annual credit rating evaluation for the County of Essex. Over this time, the cost of the service has steadily increased, reaching approximately \$28,000 for the most recent evaluation in 2024.

In 2024, S&P Global conducted an evaluation of Essex County, which included an in-depth interview with the County's Director of Financial Services/Treasurer. This interview provided firsthand information about the County's political, administrative, and financial stewardship. Wendy Stark, Director of Business Retention & Expansion at Invest WindsorEssex, also participated, offering insights into the region's economic outlook.

At the presentation of the 2024 credit rating on November 20, 2024, County Council raised questions about the rising cost of the service and its benefits. This report has been prepared to address those questions and support Council in making an informed decision moving forward.

Discussion

Cost-Benefit Analysis

To assess the value of continuing the annual credit rating exercise, Administration consulted with key stakeholders, including Infrastructure Ontario (IO), Local Municipal Treasurers, the upper-tier Treasurer group, and S&P, the County's credit rating vendor for the past 24 years.

Feedback from Infrastructure Ontario (IO)

Administration sought to understand how the County's credit rating affects borrowing for Local Municipal Partners by asking IO the following:

- **Does IO consider the County's credit rating when lending to local municipalities?**

IO confirmed that the County's credit rating is not a significant factor. Their internal underwriting process includes a simple internal rating system, but it does not influence loan approvals. A significant downgrade might prompt additional questions but would not restrict borrowing.

- **Do credit ratings impact the interest rates IO offers?**

IO stated that interest rates are consistent across all municipalities, regardless of credit ratings.

- **Would discontinuing the County's annual credit rating affect borrowing rates?**

IO clarified that discontinuing the credit rating would not impact rates or borrowing terms for the County or Local Municipalities.

These responses indicate that maintaining an annual credit rating does not provide a direct financial benefit to Local Municipalities in terms of borrowing costs or access to debt with IO.

Survey of Local Municipal Treasurers

Administration surveyed Local Treasurers to explore their borrowing practices and whether the County's credit rating impacts their decisions. Key findings included:

- All Local Municipalities with debt borrow exclusively from IO due to its consistently favorable rates.

- In the rare instance where a Local Municipality borrowed from an alternative lender, the County’s credit rating was not a consideration in the decision-making process.
- Local Municipal Partners were asked to determine if the County’s credit rating had broader benefits for their financial operations and none were identified.

Jurisdictional Scan

Survey of Upper Tier Treasurers

Among upper-tier municipalities surveyed, only two of six respondents conduct annual credit rating exercises. Both of these municipalities carry significant upper-tier debt. This suggests that annual credit ratings are more relevant for municipalities with substantial debt obligations, which is not the County’s current situation.

Single Tier Regional Municipalities

A review of available information from S&P and Moody’s reports on Canadian government credit ratings indicates that Single-Tier and Regional Municipalities frequently conduct annual credit rating assessments. Notable municipalities following this practice include Toronto, London, Ottawa, Durham, Halton, Peel, Waterloo, Windsor, and York.

Insights from S&P

S&P, the County’s credit rating vendor, provided the following key points:

- **Costs:** The County’s annual surveillance fee of \$28,000 is at the lower end of the range for small/mid-sized local governments (C\$24,000–C\$60,000). However, discontinuing the credit rating and reinstating it later would incur a re-initiation fee of approximately \$40,000, exceeding the current annual cost.
- **Mandatory Annual Surveillance:** Public credit ratings require annual updates to remain valid. Skipping an annual review would result in a stale rating being posted on S&P’s public website, potentially harming the County’s financial reputation.
- **Access to Resources:** S&P highlighted tools like the Ratings360 platform, which provides access to research, peer comparisons, and commentary. These tools are helpful but depend on active use by staff to maximize their value.
- **Recent Commentary and Insights:** S&P shared recent analysis of Canadian Local Government Issuers and comparative

statistics, which could be useful for financial planning. They are included as Appendix A and B to the report for additional information on how they use credit ratings and financial information obtained from the credit rating process to benchmark other municipalities.

Analysis of County Specific Factors

The County's annual credit rating exercise offers some non-financial benefits, such as enhancing transparency through an independent review of its financial position and enabling comparisons with other municipalities. It also helps reassure vendors and partners of the County's financial stability. The County has a practice of not providing vendor references when establishing accounts with vendors. The basis for this practice is the existence of an independent credit rating that vouches for the County's low risk of default. Additionally, maintaining a strong credit rating, such as AAA, serves as a public indicator of the County's sound financial management, reinforcing confidence among residents, businesses, and stakeholders.

The County's debt levels, while currently low, are anticipated to increase in the near future. Growth pressures combined with a lack of provincial grant funding will require a greater reliance on debt to meet capital related expansion needs.

Financial Implications

The 2025 County budget includes funding within the Finance department to cover the cost of the annual credit rating exercise. Should Council decide to discontinue this service beyond 2025, direction should be given to Administration so that notice can be given to S&P and the draft 2026 Budget can be adjusted accordingly.

Consultations

Elisa Lopez Cortes, S&P, Senior Analyst, Sovereign, and International Public Finance

Anthony Ivancich, S&P, Senior Director- Relationship Management

Rabi Chowdhury, Senior Relationship Manager, Infrastructure Ontario

Upper Tier Municipal Treasurers

Local Municipal Partner Treasurers

Strategic Plan Alignment

Working as Team Essex County	Growing as Leaders in Public Service Excellence	Building a Regional Powerhouse
<input type="checkbox"/> Scaling Sustainable Services through Innovation <input checked="" type="checkbox"/> Focusing “Team Essex County” for Results <input type="checkbox"/> Advocating for Essex County’s Fair Share	<input type="checkbox"/> Being an Employer with Impact <input checked="" type="checkbox"/> A Government Working for the People <input type="checkbox"/> Promoting Transparency and Awareness	<input type="checkbox"/> Providing Reliable Infrastructure for Partners <input type="checkbox"/> Supporting Dynamic and Thriving Communities Across the County <input checked="" type="checkbox"/> Harmonizing Action for Growth <input type="checkbox"/> Advancing Truth and Reconciliation

Recommendation

That Essex County Council approve receive report number 2025-0219-06-FIN-MR, Annual Credit Rating Evaluation-Cost Benefit Analysis as information.

Approvals

Respectfully Submitted,

Melissa Ryan

Melissa Ryan, CPA, Director, Financial Services/Treasurer

Concurred With,

Sandra Zwiers

Sandra Zwiers, MAcc, CPA, CA, Chief Administrative Officer

Appendix	Title
Appendix A	S&P Risk Indicators for Canadian Local and Regional Governments

Appendix	Title
Appendix B	Subnational Government Outlook 2025