To: Chair and Members
Corporate Administration Committee

From: Joseph L. Rinaldo
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Date: November 8, 2005

Re: Standard and Poor's Rating Service's 2005 Credit Rating (FCS05123) (City Wide)

Council Direction:

Not applicable

Information:
Standard and Poor's Rating Service has confirmed the City of Hamilton's credit rating at AA on strong liquidity.

The rating agency’s press release is attached as Schedule A to report FCS05123. The release points out three positive factors and two offsetting factors which are as follows:

Positive:

1) Annual operating surpluses between 7% and 13% of operating revenues in the past five years. However, the operating balances were slightly below the median for peers in the ratings category.

2) A strong liquidity position which contributes to Hamilton’s net creditor position (Assets greater than liabilities).

3) A debt burden which is comparable to domestic peers but low relative to international peers. The net tax supported debt is at 35% of operating revenues and expected to remain stable in the medium term.
Offsetting:

1) Large infrastructure requirements in the medium term limiting the City’s financial flexibility.

2) The potential that Hamilton’s net creditor position might deteriorate in the absence of additional funding from Federal and/or Provincial sources.

Hamilton showed an operating surplus of 12.5% in 2004. However, the City’s surplus was somewhat below the median for similarly rated domestic peers. Standard and Poor’s noted that the net creditor status has narrowed over the past 3 years due, for the most part, to rate supported debt for water and wastewater projects. On a tax-supported basis, the City’s cash and investment balances exceed its liabilities by a much wider margin.

Standard and Poor’s is supportive of the projected debt levels. The agency believes that the City’s management has been effective in cost containment and appropriate in using financing. They also assume that going forward, gas tax revenues will be used to offset some of the pressures stemming from Hamilton’s current capital plan, rather than increasing the scope of the capital plan.

The long-term credit history of the City of Hamilton is as follows:

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Rating History (formerly Region of Hamilton-Wentworth)</th>
</tr>
</thead>
</table>
| Standard and Poor’s (formerly CBRS) | AA: since 1999  
AA +: 1994 to 1999  
AAA: 1989 to 1994 |
| Moody’s | Aa3: since 1995  
Aa2: 1988 to 1995 |
| Dominion Bond Rating Service | AA: since 2004  
AA+: 1994 to 1999 |
Long-term rating Peer comparison (using Dominion Bond Rating Services equivalent scale):

<table>
<thead>
<tr>
<th>Municipality (or Regional Municipality)</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hamilton</td>
<td>AA</td>
</tr>
<tr>
<td>Toronto</td>
<td>AA</td>
</tr>
<tr>
<td>Halton</td>
<td>AAA</td>
</tr>
<tr>
<td>Niagara</td>
<td>AA</td>
</tr>
<tr>
<td>Peel</td>
<td>AAA</td>
</tr>
</tbody>
</table>

Joseph L. Rinaldo  
General Manager  
Finance and Corporate Services
Research Update: City of Hamilton Ratings Affirmed At 'AA' On Strong Liquidity

Rationale
On Nov. 8, 2005, Standard & Poor's Ratings Services affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the City of Hamilton, located in the Province of Ontario. The outlook is stable. The ratings on Hamilton reflect:

- Respectable budgetary performances in each of the past five years. Hamilton has consistently recorded annual operating surpluses between 7% and 13% of operating revenues in the past five years; however, Hamilton's operating balances were slightly below the median for peers in the ratings category;
- A strong liquidity position that contributes to Hamilton maintaining its net creditor position, and;
- A debt burden that is comparable with similarly rated domestic peers, but low in comparison with international peers. Hamilton's total debt burden, which stood at 35% of operating revenues in 2004, is expected to remain stable in the medium term.

The positive factors are offset somewhat by:

- The city's relatively large infrastructure requirements in the medium term that will limit the city's financial flexibility and put upward pressure on its debt-service levels and debt burden and;
- The potential that Hamilton's net creditor position might deteriorate in the absence of additional funding from federal or provincial sources.

Hamilton's operating surplus improved to 12.5% of operating revenues in 2004, as revenues improved markedly while operating expenditure growth was contained. Despite the improvement, however, the city's surplus was somewhat below the median for similarly rated domestic peers. Hamilton, as with other municipalities, continued to face operating challenges in 2004, as well as ongoing relatively large capital spending requirements to revitalize the city's aging infrastructure—although this was typical of most Canadian municipalities. As such, this will keep upward pressure on the city's debt service levels and debt burden in the medium term. Hamilton's ample liquidity levels are available for the city to fund a portion of its capital needs and to mitigate some of its potential debt issuance. Hamilton's total debt burden was 35% of operating revenues in 2004, but after allowing for its ample liquidity the city maintained its net creditor status in 2004. The city's net creditor status has narrowed significantly in the past three years; however, Standard & Poor's expects that it will be maintained in the medium term. It should be noted that much of the deterioration occurred as a result of the need to fund rate-
supported debt for water and wastewater projects. On a tax-supported basis, the city’s cash and investment balances exceeded its liabilities by a much wider margin. Standard & Poor’s expects that despite some near term challenges, the city will maintain its net creditor status over the medium term.

Outlook
The stable outlook reflects the expectation that the city will maintain its net creditor position (for tax-supported debt) in the next three years and that the city will continue to take steps to keep its debt burden stable in the medium term. Standard & Poor’s anticipates that the additional funding expected under the federal gas tax will be used primarily to offset some of the pressures stemming from Hamilton’s current capital plan, rather than increase the scope of the city’s capital program.

Ratings List
Ratings Affirmed
Hamilton (City of)
Issuer credit rating AA/Stable/--
Senior unsecured AA

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor’s Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor’s public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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