**Vision:** To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.

**Values:** Honesty, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork

<table>
<thead>
<tr>
<th>TO: Mayor and Members Committee of the Whole</th>
<th>WARD(S) AFFECTED: CITY WIDE</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMMITTEE DATE: August 10, 2010</td>
<td></td>
</tr>
<tr>
<td>SUBJECT/REPORT NO: 2009 Standard &amp; Poor's Credit Rating (FCS10061) (City Wide)</td>
<td></td>
</tr>
<tr>
<td>SUBMITTED BY: Roberto Rossini General Manager, Finance &amp; Corporate Services Department</td>
<td>PREPARED BY: Gerald T. Boychuk, 905-546-4321</td>
</tr>
</tbody>
</table>

**Council Direction:**
Not Applicable.

**Information:**

Standard & Poor's Rating Service (S&P) has reviewed the City of Hamilton's credit rating and affirmed the rating at AA (Stable).

Refer to Standard & Poor's Press Release attached as Appendix A to report FCS10061 and Standard & Poor's Credit Rating Report attached as Appendix B to report FCS10061. The release points out three strengths and two challenges as follows:

**Strengths:**

1. **Robust liquidity**
   Hamilton’s reserves and liquidity levels easily surpass its net debt obligations. Reserve and reserve fund balances markedly increased in 2008 to C$580.1 million from C$430.8 million in 2007. Cash and liquid assets represent about 74.3% of operating expenses in 2008. The City has been a strong net creditor in each of the past 10 years. Standard & Poor’s expects that the City will maintain strong liquidity over the next two years.
2. **Adequate operating performance**
   The City had an operating surplus of 13.2% in 2008, which was modestly higher than the three-year average of 12.8%. After-capital spending results were more robust at 9.3% of total revenues, notably higher than the three-year average of 4.0% and the after-capital spending deficits in the years preceding 2006.

3. **Hamilton’s economy**
   Hamilton's economy continues to benefit from its proximity to the Greater Toronto Area (GTA) and access to the U.S., attracting resident commuters to the GTA, as well as, businesses seeking access to Highway 403. As a predominately manufacturing-based economy, the City’s economic performance was hurt in 2008 with the economic slowdown. Hamilton’s unemployment rate decreased 0.2% (year-over-year) while income support caseloads increased 21.8% compared with levels in 2008.

**Challenges:**

1. **Significant capital spending requirements**
   In the next five years, Hamilton faces material infrastructure renewal requirements, mainly for the rehabilitation and expansion of its water and wastewater treatment systems. Hamilton will likely need to issue debt in the long term to fund its capital program. Hamilton uses a number of strategies to fund capital projects, such as cash from reserves, developer contributions, pay-as-you-go, funding from Federal and Provincial governments and infrastructure funding grants which moderate debt issuance.

2. **Increasing debt**
   Direct debt is viewed as moderate at 33.5% of operating revenues at the end of fiscal 2008, which is very close to the five-year average of 32.5%. Debt service was modestly lower than the median for similarly-rated international and domestic peers at 1.5% of operating revenue. Standard & Poor’s expects Hamilton’s current debt, as a share of operating revenue, could increase by approximately three times by 2012. This level would be acceptable, although high, for similarly-rated global peers.

The stable outlook reflects Standard & Poor’s expectation that Hamilton will continue to diversify its economic base and maintain stable financial performance and robust liquidity levels during the forecast period. Maintaining net creditor status by mitigating the rise in its debt burden would positively affect the City’s financial risk profile and possibly, the ratings. Conversely, debt that is significantly higher than forecast or a notable deterioration in financial performance could put downward pressure on the ratings.

The long-term credit history of the City of Hamilton is as follows:
**Vision:** To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.

**Values:** Honesty, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork

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<table>
<thead>
<tr>
<th>Company Name</th>
<th>Rating History (formerly Regional Municipality of Hamilton-Wentworth)</th>
</tr>
</thead>
</table>
| **Standard & Poor’s (formerly CBRS)** | AA: 2008 - 2009  
AA/Positive: 2005 - 2007  
AA: 1999 to 2005  
AA+: 1994 to 1999  
AAA: 1989 to 1994 |
| **Moody’s** | Aa3: since 1995  
Aa2: 1988 to 1995 |
| **Dominion Bond Rating Service** | AA: 2004 to 2009  
AA+: 1994 to 2004 |

Peer comparison using Standard & Poor's rating:

<table>
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<tr>
<th>Municipality (or Regional Municipality)</th>
<th>Rating (Stable if not stated otherwise)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hamilton</td>
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<tr>
<td>Toronto</td>
<td>AA</td>
</tr>
<tr>
<td>Halton</td>
<td>AAA</td>
</tr>
<tr>
<td>Niagara</td>
<td>AA</td>
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<tr>
<td>Peel</td>
<td>AAA</td>
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<td>York</td>
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<td>London</td>
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<td>Windsor</td>
<td>AA</td>
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<tr>
<td>Ottawa</td>
<td>AA</td>
</tr>
</tbody>
</table>
Research Update:
City of Hamilton 'AA' Ratings Affirmed On Robust Liquidity And Solid Operating Performance; Outlook Stable

Primary Credit Analyst:
Bhavini Patel, CFA, Toronto (1) 416-507-2558; bhavini_patel@standardandpoors.com

Secondary Credit Analyst:
Mario Angastiniotis, Toronto (1) 416-507-2520; mario_angastiniotis@standardandpoors.com

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Overview
Rating Action
Rationale
Outlook
Related Criteria And Research
Ratings List

www.standardandpoors.com/ratingsdirect
Research Update:
City of Hamilton 'AA' Ratings Affirmed On Robust Liquidity And Solid Operating Performance; Outlook Stable

Overview
• We are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on the City of Hamilton.
• In part, the rating reflects our assessment of robust liquidity for the ratings and adequate operating performance compared with that of peers.
• The stable outlook reflects our expectation that Hamilton will continue to diversify its economic base, and maintain its stable financial performance and robust liquidity levels during the forecast period.
• The outlook also reflects our expectation that the city's economy will not deteriorate significantly.

Rating Action

Rationale
The ratings on Hamilton primarily reflect Standard & Poor's view of the following factors:

• Robust liquidity. Hamilton's reserves and liquidity levels easily surpass its net debt obligations. Substantial liquidity levels are the main sources of the city's financial strength. Reserve and reserve fund balances markedly increased in 2008, to C$580.1 million, from C$430.8 million in 2007. Similarly, cash and investment balances have been more than C$500 million since 2005 (free cash and liquid assets represented about 74.3% of operating expenses in 2008). As a result, the city has been a strong net creditor in each of the past 10 years. Standard & Poor's expects that the city will maintain strong liquidity in the next two years;
• Adequate operating performance. In the past several years, the city has consistently produced what we believe are acceptable financial performances for the rating. Hamilton had an operating surplus of 13.2% of operating revenues, which was modestly higher than the three-year average of 12.8%. However, its after-capital spending results were more robust, at 9.3% of total revenues, notably higher than the three-year average of 4.0% and the after-capital spending deficits in the years
Appendix A to Report FCSI0061
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Research Update: City of Hamilton 'AA' Ratings Affirmed On Robust Liquidity And Solid Operating Performance; Outlook Stable

preceding 2006. In the near term, Standard & Poor's expects that the city's operating performance will remain in line with the historical average. We also expect after-capital performance to wane somewhat as it undertakes its capital program; and

- Hamilton's economy. It continues to benefit from its proximity to the Greater Toronto Area (GTA) and access to the U.S., attracting resident commuters to the GTA as well as businesses seeking access to Highway 403, an important transportation corridor in southern Ontario. As a predominately manufacturing-based economy, the city's economic performance was hurt by the recent slowdown in Ontario's manufacturing sector. Hamilton's unemployment rate decreased 0.2% (year-over-year) while income support caseloads increased 21.8% compared with 2008 levels. The city has made significant efforts to lessen its dependence on more cyclical industries; Hamilton is focusing its economic development strategy on diversifying further into knowledge-based sectors such as biotechnology, higher education, and health care.

We believe the following somewhat offset these credit strengths:

- Significant capital spending requirements. In the next five years, Hamilton faces material infrastructure renewal requirements, namely for the rehabilitation and expansion of its water, and wastewater treatment systems. The city expects to fund a sizable portion of this spending through normal capital funding mechanisms, including increases to water and sewer rates and financial support from the federal and provincial governments. Nevertheless, it will likely need to issue debt in the long term to fund much of the program; and

- Increasing debt. We expect debt levels to rise significantly in the next four years as Hamilton undertakes its capital plan. Direct debt was what we view as a moderate 33.5% of operating revenues at the end of fiscal 2008. We expect debt to peak at about 65%-70% of operating revenues by fiscal year-end 2012 (Dec. 31). While these are unprecedented levels for the city, we still expect debt to remain at levels appropriate for the rating, albeit at the higher end.

Outlook

The stable outlook reflects our expectation that Hamilton will continue to diversify its economic base and maintain its stable financial performance and robust liquidity levels during the forecast period. Maintaining net creditor status by mitigating the rise in its debt burden--either by not fully implementing all of the planned debt issuance or by obtaining additional funding--would positively affect the city's financial risk profile and, possibly, the ratings. Conversely, debt that is significantly higher than forecast or a notable deterioration in financial performance could put downward pressure on the ratings.
Related Criteria And Research

• Rating International Local And Regional Governments, Jan. 5, 2009
• Request for Comment: International Public Finance: Methodology For Rating International Local And Regional Governments, May 11, 2010

Ratings List
Rating Affirmed

Hamilton (City of)
Issuer credit rating AA/Stable/--
Senior unsecured debt AA

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers 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. Use the Ratings search box located in the left column.
Hamilton (City of)

Primary Credit Analyst:
Bhavini Patel, CFA, Toronto (1) 416-507-2558; bhavini_patel@standardandpoors.com

Secondary Credit Analyst:
Mario Angastiniotis, Toronto (1) 416-507-2520; mario_angastiniotis@standardandpoors.com

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Hamilton (City of)

Major Rating Factors

Strengths:
- Robust liquidity
- Adequate operating performance
- Moderately diversified economy

Weaknesses:
- Significant capital spending requirements
- Increasing debt

Rationale

The ratings on the City of Hamilton, in the Province of Ontario (AA/Stable/A-1+), primarily reflect Standard & Poor's Ratings Services' view of the following factors:

- Robust liquidity. Hamilton's reserves and liquidity levels easily surpass its net debt obligations. Substantial liquidity levels are the main sources of the city's financial strength. Reserve and reserve fund balances markedly increased in 2008, to C$580.1 million, from C$430.8 million in 2007. Similarly, cash and investment balances have been more than C$500 million since 2005 (free cash and liquid assets represented about 74.3% of operating expenses in 2008). As a result, the city has been a strong net creditor in each of the past 10 years. Standard & Poor's expects that the city will maintain strong liquidity in the next two years;
- Adequate operating performance. In the past several years, the city has consistently produced what we believe are acceptable financial performances for the rating. Hamilton had an operating surplus of 13.2% of operating revenues, which was modestly higher than the three-year average of 12.8%. However, its after-capital spending results were more robust, at 9.3% of total revenues, notably higher than the three-year average of 4.0% and the after-capital spending deficits in the years preceding 2006. In the near term, Standard & Poor's expects that the city's operating performance will remain in line with the historical average. We also expect after-capital performance to wane somewhat as it undertakes its capital program; and
- Hamilton's economy. It continues to benefit from its proximity to the Greater Toronto Area (GTA) and access to the U.S., attracting resident commuters to the GTA as well as businesses seeking access to Highway 403, an important transportation corridor in southern Ontario. As a predominately manufacturing-based economy, the city's economic performance was hurt by the recent slowdown in Ontario's manufacturing sector. Hamilton's unemployment rate decreased 0.2% (year-over-year) while income support caseloads increased 21.8% compared with 2008 levels. The city has made significant efforts to lessen its dependence on more cyclical industries: Hamilton is focusing its economic development strategy on diversifying further into knowledge-based sectors such as biotechnology, higher education, and health care.

We believe the following somewhat offset these credit strengths:

- Significant capital spending requirements. In the next five years, Hamilton faces material infrastructure renewal requirements, namely for the rehabilitation and expansion of its water, and wastewater treatment systems. The
city expects to fund a sizable portion of this spending through normal capital funding mechanisms, including increases to water and sewer rates and financial support from the federal and provincial governments. Nevertheless, it will likely need to issue debt in the long term to fund much of the program; and

- Increasing debt. We expect debt levels to rise significantly in the next four years as Hamilton undertakes its capital plan. Direct debt was what we view as a moderate 33.5% of operating revenues at the end of fiscal 2008. We expect debt to peak at about 65%-70% of operating revenues by fiscal year-end 2012 (Dec. 31). While these are unprecedented levels for the city, we still expect debt to remain at levels appropriate for the rating, albeit at the higher end.

**Capital expenditure program, liquidity, and debt**

As expected, Hamilton's capital spending has focused primarily on water and wastewater systems, roads, and waste management. In 2008, capital expenditure was about C$225.8 million, moderately lower year-over-year. In our opinion, the city continues to face relatively high infrastructure renewal requirements. With an estimated C$1.7 billion 10-year capital program, we expect that expenditures will increase notably in the next three-to-five years, namely toward Hamilton's rate-supported water and wastewater infrastructure. Standard & Poor's expects that funding much of the capital program through internal sources to mitigate debt issuance will limit the city's financial flexibility. Nevertheless, it uses a number of strategies to mitigate this to fund its capital projects prudently, including cash from reserves and developer contributions, pay-as-you-go, debt issuance, funding from the federal and provincial gas taxes and, more recently, infrastructure funding grants from higher levels of government.

In our opinion, Hamilton's very strong liquidity position bolsters its financial risk profile. Free cash and liquid assets amounted to 74.3% of operating expenditure in 2008 (C775.0 million). In addition, net debt (defined as free cash and liquid assets minus direct debt) totaled 30.90% of operating revenue. Increases in cash balances resulted in improvement in both metrics compared with the previous year. We expect that liquidity will increase moderately in the next three years and should remain strong. Nevertheless, we also expect that the city will lose its net creditor position as debt issuance increases in the next three-to-four years.

We believe that Hamilton's debt burden is moderate and has remained relatively stable. The city's C$403.2 million of direct debt outstanding at the end of 2008 amounted to 33.5% of operating revenue, which is very close to the five-year average of 32.5%. Debt service was modestly lower than the median for similarly-rated international and domestic peers, at 1.5% of operating revenue. We expect Hamilton to increase its debt burden quickly, to help fund the capital priorities outlined above. The city's current debt as a share of operating revenue could increase 3x by 2012 (by Standard & Poor's own conservative forecast). Nevertheless, this level would remain acceptable, although high, for similarly rated global peers.

**Outlook**

The positive outlook reflects our expectation that Hamilton will continue to diversify its economic base and maintain its stable financial performance and robust liquidity levels during the forecast period. Maintaining net creditor status by mitigating the rise in its debt burden—either by not fully implementing all of the planned debt issuance or by obtaining additional funding—would positively affect the city's financial risk profile and, possibly, the ratings. Conversely, debt that is significantly higher than forecast or a notable deterioration in financial performance could put downward pressure on the ratings.
Table 1

City of Hamilton -- Economic Statistics

<table>
<thead>
<tr>
<th>Population summary</th>
<th>Total population</th>
<th>% aged 14 years or younger</th>
<th>% aged 65 years or older</th>
<th>Median age</th>
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<td></td>
<td>504,449</td>
<td>18</td>
<td>14.9</td>
<td>40.0</td>
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<tr>
<td>Population§</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
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<tr>
<td>Unemployment rate (%)</td>
<td>8.5</td>
<td>6.2</td>
<td>6.0</td>
<td>5.9</td>
<td>5.5</td>
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<tr>
<td>Assessment base§</td>
<td>N.A.</td>
<td>1.3</td>
<td>1.4</td>
<td>16.4</td>
<td>1.8</td>
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*Annualized census results. Includes both unit growth and market value changes. N.A.--Not available.

Table 2

City of Hamilton -- Financial Statistics

<table>
<thead>
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<tbody>
<tr>
<td>Operating balance/operating revenue</td>
<td>13.2</td>
<td>12.7</td>
<td>12.6</td>
<td>15.4</td>
<td>12.5</td>
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<tr>
<td>After-capital expenditure balance/total revenue</td>
<td>9.3</td>
<td>2.5</td>
<td>0.1</td>
<td>(1.7)</td>
<td>(6.7)</td>
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<tr>
<td>Capital expenditure/total expenditure</td>
<td>17.8</td>
<td>19.4</td>
<td>22.6</td>
<td>25.7</td>
<td>18.8</td>
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<tr>
<td>Direct debt/operating revenue</td>
<td>33.5</td>
<td>33.2</td>
<td>34.0</td>
<td>32.9</td>
<td>28.7</td>
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<tr>
<td>Debt service/operating revenue</td>
<td>3.7</td>
<td>3.5</td>
<td>3.9</td>
<td>3.6</td>
<td>4.8</td>
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<tr>
<td>Net debt*/operating revenue</td>
<td>(30.9)</td>
<td>(22.0)</td>
<td>(21.3)</td>
<td>(19.5)</td>
<td>(15.9)</td>
</tr>
<tr>
<td>(Free cash and liquid assets)/operating expenditure</td>
<td>74.3</td>
<td>63.3</td>
<td>63.3</td>
<td>61.9</td>
<td>51.0</td>
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*Direct debt minus cash and equivalents.

Ratings Detail (As of June 11, 2010)*

Hamilton (City of)

Issuer Credit Rating | AA/Stable/--
Senior Unsecured (5 Issues) | AA

Issuer Credit Ratings History

12-Nov-2008 | AA/Stable/--
05-Oct-2006 | AA/Positive/--
28-Feb-2001 | AA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.