S&P Global Ratings

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Research Update:

City of Barrie Ratings Affirmed At 'AA+'; Outlook Is Stable

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Overview

- The City of Barrie remains one of Canada's fastest growing municipalities.
- Capital spending will increase noticeably in the next two years. As the city pursues its growth infrastructure and asset management plan, its large capital program will be partially funded by strong operating balances and manageable debt issuance.
- As a result, we affirmed our 'AA+' long-term issuer credit and senior unsecured debt ratings on Barrie.
- The stable outlook reflects our expectation that Barrie will continue to generate modest surpluses on an after-capital basis, which will help mitigate debt issuance and keep its tax-supported debt burden stable at about 85% of operating revenues in 2024.

Rating Action

On Oct. 13, 2022, S&P Global Ratings affirmed its 'AA+' long-term issuer credit and senior unsecured debt ratings on the City of Barrie, in the Province of Ontario. The outlook is stable.

Outlook

The stable outlook reflects our expectation that, in the next two years, healthy operating balances will continue to support Barrie's long-term capital plan and financial management will remain strong. While increased capital expenditures will put some pressure on after-capital balances, we expect the city will maintain a surplus on an after-capital basis and its tax-supported debt will remain at about 85% of adjusted total revenues. We also expect Barrie will preserve its robust liquidity position over the forecast horizon.

Downside scenario

Although unlikely, in the next two years, we could lower the ratings if the city's financial management practices weaken such that a deviation in the capital plan leads to sustained after-capital deficits of more than 5% of total revenues and the tax-supported debt burden increases to greater than of 120% operating revenues.

Upside scenario

We could take a positive rating action in the next two years if sustainable levels of after-capital surpluses offset new debt issuance and continued amortization of existing debt leads to a decrease in the city's debt burden to a level that is more in line with that of 'AAA' peers.

Rationale

As a high-growth city, Barrie continues to attract new residents and private investment. While the economy is diverse, we believe it also benefits from a large and stable public sector. Prudent financial management will help to maintain robust financial results, and we expect the city will continue to generate strong operating balances and modest after-capital surpluses as it executes its growth-driven infrastructure requirements in the next two years. Although new debt issuance related to the capital plan will increase Barrie's debt burden, we expect it will remain manageable. The city's creditworthiness will continue to benefit from its robust liquidity.

A robust institutional framework and sound financial management bolster the city's creditworthiness

Barrie, in central Ontario, benefits from its position along the main provincial north-south highway and its proximity to the Greater Toronto Area. In addition to hosting data and regional banking centers, Barrie has attracted new manufacturers in recent years, particularly in the auto parts and pharmaceutical sectors, which is fostering economic diversification and a growing workforce. A large public sector presence also stabilizes the employment base, and, in our view, helps insulate the city against economic shocks. Despite the adverse impact that the COVID-19 pandemic has had on some sectors such as retail and tourism, the economy has recovered and employment metrics improved in 2022. We believe Barrie has a strong economy, characterized by steady population growth and high median household income, with estimated GDP per capita that is moderately higher than that of Canada, which we estimate to be about US$54,000.

In our view, Barrie has strong financial management practices, with generally steady political consensus in passing budgets without major amendments or delays. It provides an operating budget that includes details for one year and forecasts for the three subsequent years, as well as a one-year detailed and nine-year forecast capital budget. Similar to Canadian peers, Barrie can issue debt only to finance capital expenditures, and we believe it has prudent and conservative policies as well as a stable and well-qualified management team to govern its debt and liquidity management.

As do other Canadian municipalities, Barrie 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; debt burdens, on average, are low compared with those of global peers and growth over time has been modest.

Strong operating margins will support Barrie's rising capital expenditures, mitigating debt issuance

Despite the current macroeconomic headwinds, we believe the city's stable tax base will help Barrie to maintain healthy budgetary performance. High operating balances, averaging about 17% of operating revenues in our base-case scenario for 2020-2024, will facilitate Barrie's ability to internally finance most of the capital plan and use moderate debt issuance to fund the remainder. In addition, despite the large capital plan (of about C$415 million through 2024), we expect that the city will continue posting modest after-capital surpluses of about 3.5% of total revenues, on average, in 2020-2024.

Nevertheless, we estimate that debt will continue rising in nominal terms, in line with Barrie's growth-driven infrastructure needs. We expect the city to issue about C$125 million in 2022-2024, increasing total tax-supported debt to C$377 million, or about 85% of operating revenues at year-end 2024. We expect that, at less than 3% of operating revenues, interest costs will remain manageable. Barrie's exposure to contingent liabilities is modest and does not represent a material credit risk, in our opinion. At the same time, we do not believe that liabilities related to Barrie's government-related entity, Barrie Hydro Holding Inc., represent a contingent liability risk, as we believe the likelihood of the city providing extraordinary support in a stress scenario is low.

In addition to the low debt burden, Barrie has a sizable and stable liquidity position. We estimate free cash balances and investments of about C$262 million in the next 12 months, which will be sufficient to cover more than 6x its debt service requirements. Similar to that of domestic peers, Barrie's access to external liquidity is satisfactory, in our view.

Key Statistics

Table 1

City of Barrie -- Selected Indicators

	--Year ended Dec. 31--					
(Mil. C$)	**2019**	**2020**	**2021**	**2022bc**	**2023bc**	**2024bc**
Operating revenues	393	393	407	417	430	444
Operating expenditures	315	320	341	350	361	372
Operating balance	79	73	65	66	69	73
Operating balance (% of operating revenues)	20.0	18.7	16.1	15.9	16.0	16.3
Capital revenues	37	43	49	95	71	87
Capital expenditures	138	98	94	132	137	146
Balance after capital accounts	(23)	18	20	30	3	13
Balance after capital accounts (% of total revenues)	(5.3)	4.2	4.4	5.8	0.7	2.5

Table 1

City of Barrie -- Selected Indicators (cont.)

	--Year ended Dec. 31--					
(Mil. C$)	**2019**	**2020**	**2021**	**2022bc**	**2023bc**	**2024bc**
Debt repaid	18	21	22	27	31	35
Gross borrowings	31	10	42	23	47	56
Balance after borrowings	(10)	8	40	26	20	34
Direct debt (outstanding at year-end)	326	316	335	331	347	368
Direct debt (% of operating revenues)	83.0	80.4	82.5	79.4	80.7	82.8
Tax-supported debt (outstanding at year-end)	343	333	344	340	356	377
Tax-supported debt (% of consolidated operating revenues)	87.3	84.7	84.6	81.5	82.8	84.8
Interest (% of operating revenues)	3.0	3.2	3.0	2.8	2.9	3.1
National GDP per capita (single units)	61,469	58,016	65,186	69,471	70,786	71,954

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.

Ratings Score Snapshot

Table 2

City of Barrie -- Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	1
Financial management	2
Budgetary perfomance	1
Liquidity	1
Debt burden	3
Stand-alone credit profile	aa+
Issuer credit rating	AA+

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. 10, 2022. An interactive version is 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

- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Sept. 28, 2022
- Economic Outlook Canada Q4 2022: Canadian Growth To Slow On Higher Interest Rates And U.S. Weakness, Sept. 26, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Barrie (City of)	
Issuer Credit Rating	AA+/Stable/--
Barrie (City of)	
Senior Unsecured	AA+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.