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Research Update:

City of Barrie 'AA' Rating Affirmed On Improved Budgetary Performance; Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria And Research

Ratings List

Research Update:

City of Barrie 'AA' Rating Affirmed On Improved Budgetary Performance; Outlook Stable

Overview

- We are affirming our 'AA' long-term issuer credit rating on the City of Barrie.
- The affirmation reflects our view of the city's stable and well-diversified economy, exceptional liquidity position, and strong budgetary flexibility.
- The stable outlook reflects our expectations that, in the next two years, Barrie will demonstrate healthy economic growth, and its liquidity position will remain exceptional.

Rating Action

On Nov. 11, 2015, Standard & Poor's Ratings Services affirmed its 'AA' long-term issuer credit rating on the City of Barrie, in the Province of Ontario. The outlook is stable.

Rationale

The rating on Barrie reflects Standard & Poor's assessment of the city's very strong and well-diversified economy, and strong management practices and budgetary flexibility. The rating also reflects our view of the "very predictable and well-balanced" local government framework, exceptional liquidity position, and low contingent liabilities. After-capital deficits and a slowly rising debt load result in budgetary performance and a debt burden that we view as moderate and which mitigate these strengths somewhat.

In our view, Canadian municipalities benefit from a very predictable and well-balanced local and regional government framework that has demonstrated a high degree of institutional stability. 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 and landfill closure costs) through reserve contributions.

We believe Barrie's economy is very strong and well-diversified, and benefits from a young and growing population. Its economy, in particular the health and social assistance, financial services, and manufacturing sectors, continues to

expand and diversify. This leads us to believe that the city's GDP per capita is largely in line with that of the province, averaging about US\$48,600 in 2012-2014. The labor market continues to show positive results and we expect the economy to remain stable in the medium term.

In our opinion, Barrie demonstrates strong financial management practices, with political and managerial strength demonstrated by generally strong political consensus in passing budgets without major amendments or delays and a good degree of transparency and disclosure in its financial statements. The city has a robust set of financial policies and annual financial statements are audited and unqualified. It also produces a one-year detailed operating budget and a one-year capital budget, both approved annually. For 2015, management prepared a one-year capital plan with a four-year forecast (with the corresponding funding sources) and a further five-year outlook. Senior staff is experienced and we believe that debt and liquidity management is prudent.

Barrie has a history of very high modifiable revenues, accounting for more than 95% of adjusted operating revenues, which underpin what we view as strong budgetary flexibility. Its modifiable (own-source) revenues consist primarily of tax revenues and user fees and charges, and we expect these sources to remain stable in the outlook horizon. We believe the city's ability to cut spending is constrained, because the province mandates the provision of services and much of personnel costs are subject to labor agreements. Barrie's 2015 capital plan is fairly moderate in the medium term, and consists of both asset maintenance and growth-related projects to address its infrastructure renewal needs and its expanding economy. We expect the city's capital spending to average close to 22% of total adjusted spending in 2013-2017.

Barrie's budgetary performance, which we view as moderate, has improved modestly in the last two years as lower-than-usual capital spending resulted in smaller after-capital deficits while operating balances have been fairly stable and are expected to remain near current levels, averaging 7.2% of adjusted operating revenues in 2013-2017. The city's capital plan indicates that spending will ramp up in the next several years, from C\$65 million in 2015 to C\$136 million in 2017, resulting in after-capital deficits averaging about 5% of adjusted total revenues in 2013-2017.

Barrie's debt burden has increased rapidly since 2008 with tax-supported debt totaling C\$304 million at the end of 2014, equal to 97.4% of consolidated operating revenues. Under our base-case scenario, we expect that modest additional net borrowing will result in tax-supported debt remaining below 100% of consolidated operating revenues in the outlook horizon, a level that we view as moderate. Interest costs were 4.2% of adjusted operating revenues in 2014 and we expect them to remain below 5.0% in the outlook horizon.

In our opinion, Barrie's contingent liabilities are low and consist primarily of standard future employee benefits and obligations, as well as landfill post closure and closure costs. Together, these represented about 6% of adjusted operating revenues in 2014. The city owns 100% of Barrie Hydro Holdings Inc.,

which has more than C\$140 million in long-term liabilities. However, we view the city's exposure as limited and the likelihood that it would provide timely and sufficient extraordinary support to the utility in the event of financial distress as low.

Liquidity

Barrie's liquidity balances have improved in recent years and are expected to remain exceptional in the next two years. We estimate the city's adjusted free cash and liquid assets will average about C\$71.4 million in 2015, which is sufficient to cover more than 250% of the debt service payable in 2016. This is somewhat below the level of many of the city's Canadian peers but overall, we expect debt service coverage to continue to exceed 100% of the next 12 months' debt service in the next two years. In our view, Barrie has satisfactory access to external liquidity given its proven ability to issue into public debt markets and the presence of a secondary market for Canadian municipal debt instruments.

Outlook

The stable outlook reflects Standard & Poor's expectations that, in the next two years, Barrie's economy will continue to demonstrate very strong economic performance and its liquidity position will remain exceptional. We could lower the rating or revise the outlook to negative if tax-supported debt increased beyond 120% of projected consolidated operating revenues, weaker-than-expected operating results or higher-than-expected capital expenditures pushed after-capital deficits to more than 10% of total revenues on a sustained basis, and free cash and liquid assets levels fell to less than 100% of the next 12 months' debt service costs. A significant improvement in budgetary performance with sustained after-capital surpluses, a declining trend in the debt burden, and a more substantial liquidity cushion could result in a positive outlook revision or an upgrade. However, we consider this scenario unlikely in the next two years.

Key Statistics

Table 1

Barrie (City of) Economic Statistics					
	--Year ended Dec. 31--				
	2010	2011	2012	2013	2014
Population	134,223	135,710	140,653	142,145	143,634
Population growth (%)	1.1	1.1	3.6	1.1	1.0
Unemployment rate (%)	9.5	9.7	8.3	7.0	6.0

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include national statistical offices.

Table 2

Barrie (City of) Financial Statistics						
	--Fiscal year ended Dec. 31--					
(Mil. C\$)	2012	2013	2014	2015bc	2016bc	2017bc
Operating revenues	268	280	294	309	323	337
Operating expenditures	248	261	273	286	300	315
Operating balance	20	19	22	24	23	23
Operating balance (% of operating revenues)	7.4	6.8	7.4	7.7	7.2	6.7
Capital revenues	32	30	34	31	49	65
Capital expenditures	77	51	59	65	101	136
Balance after capital accounts	(25)	(2)	(4)	(10)	(29)	(48)
Balance after capital accounts (% of total revenues)	(8.4)	(0.5)	(1.1)	(2.9)	(7.9)	(11.9)
Debt repaid	68	30	13	12	15	18
Balance after debt repayment and onlending	(93)	(32)	(16)	(22)	(44)	(65)
Balance after debt repayment and onlending (% of total revenues)	(31.1)	(10.3)	(4.9)	(6.4)	(11.9)	(16.2)
Gross borrowings	90	54	12	34	18	33
Balance after borrowings	(4)	23	(4)	12	(26)	(33)
Operating revenue growth (%)	4.7	4.5	5.2	5.0	4.5	4.3
Operating expenditure growth (%)	4.4	5.1	4.5	4.7	5.1	4.9
Modifiable revenues (% of operating revenues)	97.8	97.8	97.1	97.0	97.1	96.8
Capital expenditures (% of total expenditures)	23.7	16.3	17.8	18.6	25.2	30.1
Direct debt (outstanding at year-end)	263	288	287	309	312	327
Direct debt (% of operating revenues)	98.3	102.7	97.4	99.8	96.5	97.0
Tax-supported debt (% of consolidated operating revenues)	104.6	108.7	103.1	99.8	96.5	97.0
Interest (% of operating revenues)	3.9	4.5	4.2	4.0	4.1	3.9
Debt service (% of operating revenues)	29.3	15.4	8.5	7.8	8.7	9.1

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's 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. Base case reflects Standard & Poor's expectations of the most likely scenario. Downside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with an upgrade.

Ratings Score Snapshot

Table 3

Rating Score Snapshot	
Key Rating Factors	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Strong
Budgetary Flexibility	Strong
Budgetary Performance	Average
Liquidity	Exceptional
Debt Burden	Moderate

Table 3

Rating Score Snapshot (cont.)

Contingent Liabilities	Low
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*Standard & Poor's ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of Standard & Poor's "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the government's foreign currency rating.

Key Sovereign Statistics

Sovereign Risk Indicators, Oct. 12, 2015. Interactive version available at <http://www.spratings.com/sri>

Related Criteria And Research

Related Criteria

- Methodology For Rating International Local And Regional Governments, June 30, 2014

Related Research

- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, Feb. 5, 2015
- 2014 Annual International Public Finance Default Study And Rating Transitions, June 8, 2015

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/--

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