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## Research Update:

# City of Barrie 'AA' Rating Affirmed On Very Strong Economy; Outlook Stable

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## Research Update:

# City of Barrie 'AA' Rating Affirmed On Very Strong Economy; 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 very strong 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 Oct. 20, 2016, S&P Global Ratings 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 S&P Global Ratings' 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 institutional framework, exceptional liquidity position, and low contingent liabilities. After-capital deficits that result in an average budgetary performance and what we view as moderate and increasing debt levels 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 continues to expand and diversify, in particular the health and social assistance, financial services, and manufacturing sectors. The city benefits from a young and growing population and from its proximity to the Greater Toronto Area. This leads us

to believe that the city's GDP per capita is largely in line with that of the province, averaging about US\$45,500 in 2013-2015. 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 2016, 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 2016 capital plan 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 about 24% of total adjusted spending in 2014-2018.

Barrie's operating balances have been stable and are expected to remain near current levels, averaging 8% of adjusted operating revenues in 2014-2018. Capital spending increased almost 73% in 2015 compared with the previous year, resulting in a greater after-capital deficit. The city's capital plan indicates that annual spending will remain near current levels at C\$109 million on average in the next three years, resulting in after-capital deficits averaging about 6% of adjusted total revenues in 2014-2018.

Barrie's debt burden has been relatively stable for the past three years, with tax-supported debt totaling C\$298 million at the end of 2015, equal to 96% of consolidated operating revenues. Under our base-case scenario, we expect that modest additional net borrowing will result in tax-supported debt remaining around 100% of consolidated operating revenues at year-end 2018. Interest costs were 4% of adjusted operating revenues in 2015 and we expect them to remain below 5% in the outlook horizon.

In our opinion, Barrie's contingent liabilities are low. They include debt at self-supporting city-owned Barrie Hydro Holdings Inc. (equal to 45% of operating revenues in 2015), standard future employee benefits, and landfill closure and post-closure liabilities (which totaled about 6% of operating revenues in 2015). We believe these liabilities do not have a significant impact on the city's credit profile.

## Liquidity

The city has maintained what we view as an exceptional liquidity position. We estimate that monthly adjusted free cash and liquid assets will average C\$93 million in 2017, which would be enough to cover 3x the forecast debt service payable in that year. This is somewhat below the level of many of the city's Canadian peers but, overall, we expect coverage to continue exceeding 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 our expectation that, in the next two years, Barrie's economy will remain very strong, its liquidity position will remain exceptional and debt burden will remain moderate at less than 120% of operating revenues. We could take a positive rating action in the next two years if, all else equal, budgetary performance improved as shown by consistent after-capital surpluses leading to declining debt levels or increasing debt service coverage ratios. We could lower the rating in the next two years if weakening financial management practices or a significant slowdown in the economy led to material deterioration in the city's overall credit profile. However, we consider this scenario unlikely in the next two years.

## Key Statistics

Table 1

City of Barrie -- Economic Statistics					
	--Year ended Dec. 31--				
	2011	2012	2013	2014	2015
Population	135,710	140,653	142,145	143,634	145,189
Population growth (%)	1.1	3.6	1.1	1.0	1.1
Unemployment rate (%)	9.7	8.3	7.0	6.0	6.9

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. Sources typically include national statistical offices.

Table 2

City of Barrie -- Financial Statistics						
	--Year ended Dec. 31--					
(Mil. C\$)	2013	2014	2015	2016bc	2017bc	2018bc
Operating revenues	280	294	309	319	332	346
Operating expenditures	261	273	280	293	307	320

**Table 2**

City of Barrie -- Financial Statistics (cont.)						
	--Year ended Dec. 31--					
(Mil. C\$)	2013	2014	2015	2016bc	2017bc	2018bc
Operating balance	19	22	29	26	26	26
Operating balance (% of operating revenues)	6.8	7.4	9.3	8.2	7.7	7.5
Capital revenues	30	34	51	39	49	78
Capital expenditures	51	59	102	76	97	154
Balance after capital accounts	(2)	(4)	(22)	(11)	(22)	(50)
Balance after capital accounts (% of total revenues)	(0.5)	(1.1)	(6.2)	(3.1)	(5.8)	(11.8)
Debt repaid	30	13	12	13	17	20
Balance after debt repayment and onlending	(32)	(16)	(34)	(24)	(39)	(70)
Balance after debt repayment and onlending (% of total revenues)	(10.3)	(4.9)	(9.4)	(6.8)	(10.2)	(16.4)
Gross borrowings	54	12	7	50	32	18
Balance after borrowings	23	(4)	(28)	26	(7)	(51)
Operating revenue growth (%)	4.5	5.2	5.1	3.2	4.1	4.2
Operating expenditure growth (%)	5.1	4.5	2.9	4.4	4.7	4.5
Modifiable revenues (% of operating revenues)	97.8	97.1	97.0	96.8	96.7	96.6
Capital expenditures (% of total expenditures)	16.3	17.8	26.7	20.6	24.0	32.5
Direct debt (outstanding at year-end)	288	287	281	318	334	332
Direct debt (% of operating revenues)	102.7	97.4	91.0	99.7	100.4	96.0
Tax-supported debt (% of consolidated operating revenues)	108.7	103.1	96.4	105.0	105.5	100.9
Interest (% of operating revenues)	4.5	4.2	4.0	3.9	3.9	3.8
Debt service (% of operating revenues)	15.4	8.5	7.8	8.0	9.1	9.4

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. Base case reflects S&P Global Ratings' expectations of the most likely scenario. Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade.

## Ratings Score Snapshot

**Table 3**

City of Barrie -- 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**

**City of Barrie -- Rating Score Snapshot (cont.)**

<b>Key Rating Factors</b>	<b>Assessment</b>
Contingent Liabilities	Low

\*S&P Global Ratings' ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "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. 13, 2016. Interactive version available at [www.spratings.com/SRI](http://www.spratings.com/SRI).

## Related Criteria And Research

### Related Criteria

- Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- Slower Growth And Volatile Markets Loom Over North America's Stable Credit Conditions, July 11, 2016
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, April 21, 2016
- Public Finance System Overview: Canadian Municipalities, Dec. 10, 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/--

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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