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## Research Update:

# City of Barrie 'AA' Rating Affirmed; Outlook Is Stable

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## Research Update:

# City of Barrie 'AA' Rating Affirmed; Outlook Is Stable

## Overview

- We are affirming our 'AA' long-term issuer credit rating on the City of Barrie.
- The stable outlook reflects our expectations that, in the next two years, the city's economy will expand healthily while its liquidity levels will be more than sufficient to cover financial commitments.
- We expect that Barrie will continue to run deficits after capital expenditures that will fluctuate as its capital plan progresses.
- At the same time, we expect the city's stable economic growth and experienced financial management to support fiscal performance throughout our two-year outlook period.

## Rating Action

On Oct. 26, 2017, 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.

## Outlook

The stable outlook reflects our expectation that, in the next two years, Barrie's economy and financial management will continue supporting its fiscal performance and debt burden profile, while its liquidity levels will continue to more than cover financial obligations.

## Downside scenario

We could lower the rating in during the two-year outlook period if weakening financial management practices led to material deterioration in the city's after-capital deficits beyond our forecasts and debt levels surpass 120% of consolidated operating revenues. However, we consider this scenario unlikely in that time.

## Upside scenario

We could take a positive rating action in the next two years if better financial management practices result in improved budgetary performance, as shown by small after-capital deficits, leading to declining debt levels or increasing debt service coverage ratios.

## Rationale

The ratings on Barrie reflect our expectation that, despite the high level of capital spending budgeted for the next several years, strong support from senior levels of government and stable economic growth will continue to support its liquidity levels and keep debt sustainable. We believe the city is comparable with other 'AA' rated entities in Canada given its overall credit profile.

### **Institutions remain broadly supportive for economic growth and a strong financial management.**

Barrie, in central Ontario, is a regional urban growth center and benefits from high average household income in line with that of the province and a growing and diversifying economy. We estimate the city's GDP per capita to be in line with that of the province, at about US\$44,000 for 2014-2016. The city's population has increased healthily, and greater employment opportunities brighten growth prospects. To accommodate growth, Barrie is focusing on intensification as it continues work on the development plan for annexed lands. The city's economy continues to diversify into different sectors, in particular health care and financial services. In addition to a number of data and regional banking centers, Barrie has attracted new manufacturers (several in the auto parts sector) and health care service providers, and continues to work with the Georgian College and Lakehead University to increase postsecondary education options. The large public sector presence helps stabilize the employment base and, in our view, helps insulate the city against economic shocks.

We believe that Barrie's creditworthiness benefits from the quality of its financial management, with generally strong political consensus in passing budgets without major amendments or delays and prudent financial policies and practices that demonstrate good transparency and disclosure. Financial statements are produced annually and on time, and are independently audited with no qualifications. Barrie also produces a one-year detailed and a two-year forecast operating budget; and a one-year detailed and four-year forecasts capital budget, both approved annually. We believe that debt and liquidity management are prudent and that the budget identifies major risks.

We believe 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. Operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions.

### **Spending requirements will continue to drive after-capital deficits and borrowing needs.**

We expect Barrie's operating surplus to average close to 6% of operating revenue from 2017-2019. At the same time, our base-case scenario assumes capital spending will continue pressuring the city's budgetary performance. We expect Barrie's capital spending in 2017-2019 to average 24% of total expenditures, with continued growth-related development (in particular in annexed lands previously in the Town of Innisfil), and asset maintenance and rehabilitation. As a result, the after-capital deficit will fluctuate in line with the city's capital plan. We expect it to remain at 5%-10% of adjusted total revenue over the next two-to-three years as Barrie enters a period of elevated capital spending that will materially affect its budgetary performance results within our rating horizon.

In line with ongoing infrastructure needs, the city's tax-supported debt will, we expect, remain at moderate levels, albeit lower than historically. Under our base-case scenario, we expect tax-supported debt to remain manageable, at about 90% of consolidated operating revenues over the next three years. Interest costs should be stable, at 3.5% of adjusted operating revenues in the outlook horizon.

We expect Barrie's liquidity balances to cover 3x its debt service in 2018. We estimate that monthly adjusted free cash and liquid assets will average C\$96 million in 2017. In our view, the city 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.

Compared with peers, Barrie has very high modifiable revenues, which we expect to represent about 96% of adjusted operating revenues in the 2017-2019 period. We believe Barrie has some flexibility to increase tax rates and user charges to somewhat mitigate rising operating costs. Nevertheless, much like with other Canadian municipalities, limited leeway to cut spending constrains Barrie's budgetary flexibility because the province mandates provision of many services. Furthermore, personnel costs account for about half of adjusted operating spending, and have increased 5%, on average, in the past five years. Much of the salaries and wages are subject to collective agreements, which further limits the city's ability to cut spending.

Barrie's contingent liabilities include debt at self-supporting city-owned Barrie Hydro Holdings Inc. (equal to 46% of operating revenues in 2016), standard future employee benefits, and landfill closure and postclosure liabilities (which totaled about 7% of operating revenues in 2016). We believe these liabilities do not significantly affect the city's credit profile.

## **Key Statistics**

**Table 1**

<b>City of Barrie -- Selected Indicators</b>						
	<b>--Fiscal year ended Dec. 31--</b>					
<b>(Mil. C\$)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017bc</b>	<b>2018bc</b>	<b>2019bc</b>
Operating revenues	294	309	325	345	362	382
Operating expenditures	273	281	309	327	341	356
Operating balance	22	29	16	17	21	25
Operating balance (% of operating revenues)	7.4	9.2	4.9	5.0	5.7	6.6
Capital revenues	34	51	51	43	63	64
Capital expenditures	59	102	44	84	124	126
Balance after capital accounts	(4)	(23)	24	(24)	(41)	(37)
Balance after capital accounts (% of total revenues)	(1.1)	(6.3)	6.2	(6.2)	(9.5)	(8.2)
Debt repaid	13	12	14	15	17	20
Gross borrowings	12	7	42	8	16	50
Balance after borrowings	(4)	(28)	52	(31)	(42)	(7)
Modifiable revenues (% of operating revenues)	97.1	97.0	96.7	96.5	96.3	96.1
Capital expenditures (% of total expenditures)	17.8	26.6	12.4	20.5	26.7	26.1
Direct debt (outstanding at year-end)	287	281	310	303	301	331
Direct debt (% of operating revenues)	97.4	91.0	95.2	87.9	83.3	86.6
Tax-supported debt (outstanding at year-end)	304	298	327	320	318	348
Tax-supported debt (% of consolidated operating revenues)	103.1	96.4	100.4	92.8	87.9	91.1
Interest (% of operating revenues)	4.2	4.0	3.9	3.6	3.4	3.4
National GDP per capita (C\$)	55,807	55,430	55,910	58,448	60,211	61,903

Note: 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. bc--Base case.

## Ratings Score Snapshot

**Table 2**

<b>City of Barrie -- Ratings Score Snapshot</b>	
<b>Key rating factor</b>	<b>Assessment</b>
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 2**

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

<b>Key rating factor</b>	<b>Assessment</b>
Contingent Liabilities	Low

Note: S&P Global Ratings' credit 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 rating.

## Key Sovereign Statistics

Sovereign Risk Indicators, Oct. 13, 2017. Interactive version available at <http://www.spratings.com/sri>

## Related Criteria

- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: 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
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Public Finance System Overview: Canadian Municipalities, Dec. 1, 2016

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**

Rating 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.capitaliq.com](http://www.capitaliq.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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