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Research Update:

City of Barrie 'AA' Rating Affirmed; Outlook Remains Stable

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Overview

- We expect the City of Barrie's economy to continue growing at a healthy pace and to diversify in the next two years, owing to high demographic growth and robust private investment trends.
- We expect that the city will maintain elevated levels of capital spending and will continue to run modest deficits after capital accounts.
- We also expect the city's experienced management team and sound financial policies will support fiscal performance throughout our two-year outlook period.
- We are affirming our 'AA' long-term issuer credit rating on the City of Barrie, and maintaining our stable outlook.

Rating Action

On Oct. 8, 2019, 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 growing and diversifying economy and strong financial management will continue supporting its fiscal performance and debt burden profile in the face of high population growth and elevated capital spending. Meanwhile, the city's liquidity levels will continue to more than cover debt service obligations.

Downside scenario

We could lower the rating in the next two years if weakening financial management practices led to a material deterioration in the city's deficits after capital accounts, with borrowing levels rising markedly above our forecast. This would cause Barrie's tax-supported debt burden to surpass 120% of consolidated operating revenue, and/or the city's interest burden to exceed 5% of operating revenue. However, we view this scenario as unlikely in the next two years.

Upside scenario

We could take a positive rating action in the next two years if the city generates modest, sustained after-capital surpluses while setting its tax-supported debt burden on a downward trend.

Rationale

The rating on Barrie reflects our expectation that, despite the consistently high levels of capital spending budgeted for the next several years, strong support from senior levels of government and policy continuity will maintain the city's high liquidity levels and keep debt manageable. In our view, Barrie is well positioned among other 'AA' rated municipal entities given its overall credit profile.

Barrie's strong financial management and supportive institutions will continue to foster economic growth and fiscal sustainability in the next two years.

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 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. The emerging local start-up ecosystem is also structuring itself around public and private initiatives. The Lake Simcoe Regional Airport could also help Barrie attract employers in the aeronautical sector. A large public sector presence also stabilizes the employment base, and, in our view, helps insulate the city against economic shocks. We believe Barrie's nominal GDP per capita to be in line with the national average of US\$46,400, given that the city's average income level is below but very close to the national average.

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. The municipal elections that took place on Oct. 22, 2018, saw the mayor being re-elected for a third term, while six new councillors were elected to council. Notwithstanding this 55% turnover, we expect policy stability will continue. Barrie's financial policy framework should also continue to foster prudent debt and liquidity management. Barrie 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 four-year forecast capital budget.

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

Robust operating surpluses will support Barrie's growing capital expenditures and allow more flexibility to issue debt.

In our base-case scenario for 2017-2021, we expect operating balances to remain high, at 16.4% of operating revenues. Our base-case scenario also assumes that high levels of capital spending will continue stressing Barrie's budgetary performance, as the city prepares for very strong demographic growth in the coming decade. We expect capital expenditures to average C\$132 million a year in 2019-2021 for growth-related development--in particular, in annexed lands previously in the Town of Innisfil--as well as asset maintenance and rehabilitation. However, we also expect the city to balance the implementation of growth-related projects with the materialization of external funds, chiefly development charges and developer front ending. As a result, we estimate that Barrie will post after-capital deficits averaging 1% of total revenues in 2017-2021.

We estimate that debt will continue rising in nominal terms, as Barrie proceeds with its capital plan, in line with ongoing infrastructure needs. We expect that new borrowings will total almost C\$126 million in the next three years, bringing the city's tax-supported debt to C\$370 million at year-end 2021, or 89.5% of consolidated operating revenues. Barrie has also provided a loan guarantee for Victoria Village Projects amounting to C\$16.9 million, which we included in the city's tax-supported debt in our analysis. The interest burden will also remain manageable, and will average 3.2% of operating revenues in 2018-2020, by our estimate. Barrie's contingent liabilities include standard future postemployment benefits, landfill closure, as well as post-closure liabilities, and represented 20% of the city's consolidated operating revenues at year-end 2018. We believe these liabilities do not significantly affect Barrie's credit profile. We do not consider the debt of Barrie's government-related entity, Barrie Hydro Holding Inc., as a contingent liability, because we believe the likelihood of the city providing extraordinary support in a stress scenario is low.

Barrie's liquidity levels remain very strong. We estimate total free cash in the next 12 months will be enough to cover more than 3x the estimated debt service for the period. We expect this ratio will remain well above 100% during the outlook horizon. Similar to that of its domestic peers, the city's access to external liquidity is satisfactory.

Key Statistics

Table 1

City of Barrie--Selected Indicators						
	--Fiscal year ended Dec. 31--					
(Mil. C\$)	2016	2017	2018	2019bc	2020bc	2021bc
Operating revenues	341	358	379	388	401	414
Operating expenditures	309	303	308	321	337	351
Operating balance	31	55	71	67	63	62
Operating balance (% of operating revenues)	9.2	15.4	18.7	17.2	15.8	15.1
Capital revenues	36	47	41	63	63	58
Capital expenditures	44	104	110	136	135	124
Balance after capital accounts	24	(2)	2	(6)	(9)	(4)
Balance after capital accounts (% of total revenues)	6.2	(0.5)	0.4	(1.3)	(1.9)	(0.9)
Debt repaid	14	16	18	42	21	24
Gross borrowings	42	13	24	52	41	33
Balance after borrowings	52	(5)	8	5	11	5
Direct debt (outstanding at year-end)	310	308	314	325	344	353
Direct debt (% of operating revenues)	90.9	86.0	82.9	83.7	86.0	85.4
Tax-supported debt (outstanding at year-end)	327	325	331	341	361	370
Tax-supported debt (% of consolidated operating revenues)	95.9	90.7	87.4	88.0	90.2	89.5
Interest (% of operating revenues)	3.7	3.5	3.2	3.1	3.4	3.3
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	56,169	58,607	59,879	61,413	63,082	65,120

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. dc--Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. uc--Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

City of Barrie--Ratings Score Snapshot	
Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	2
Budgetary performance	2
Liquidity	1
Debt burden	3
Stand-alone credit profile	aa

Table 2

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

Key rating factors	Scores
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, July 11, 2019. Interactive version available at <http://www.spratings.com/sri>

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Credit Conditions North America: Rising Recession Risk Adds To Trade, Rate Uncertainty, Sep. 30, 2019
- Guidance: Methodology for Rating Local and Regional Governments Outside of the U.S., July 15, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019
- Public Finance System Overview: Canadian Municipalities, July 18, 2018

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 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.

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