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Research Update:

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

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Research Update:

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Overview

- The ratings on the City of Barrie reflect our view of a growing and diversifying economy that necessitate increasing investment in infrastructure to accommodate a growing population.
- We are affirming our 'AA' long-term issuer credit rating on Barrie.
- The stable outlook reflects our expectations that, in the next two years, the city's economy will continue to expand healthily while at the same time it will maintain its high levels of capital expenditures.
- We expect Barrie will continue to run deficits after capital expenditures that will fluctuate as its capital plan progresses, while its cash levels will comfortably meet its debt service.

Rating Action

On Oct. 11, 2018, 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 our rating 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.

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 view of a growing and diversifying economy that is slowly progressing from a satellite community to one in which its labor force both lives and works there. As a result of its growing population and consequent demand for more infrastructure, the city has entered a period of increased capital spending. We believe these higher spending needs in the short-to-medium term are well-managed by experienced and prudent policymakers. In our view, Barrie compares in line with other 'AA' rated entities in Canada given the quality of its financial management, its growing economy, and sound fiscal and cash results.

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 2015-2017. The city's population has increased healthily, and increasing employment opportunities continue to support the transition from a satellite community to one where the labor force both lives and works. Given its growing economy and employment base, Barrie has entered a period of public works development that we expect to extend for at least three years. The city's economy continues to diversify, in particular into health care and financial services. In addition to data and regional banking centers, Barrie has attracted new manufacturers (several in the auto parts sector) and health care service providers and is working with 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. We expect policy stability to continue following the upcoming city elections. The city produces financial statements annually and on time, and that 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 as illustrated by the recently updated Capital Financing and Debt Management Policy that gives management more flexibility and investment options.

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.

Stronger operating surpluses will support growing capital expenditures and allow more flexibility to issue debt.

We expect Barrie's capital plan to continue pressuring its budgetary performance in the next three years. While operating surpluses are expected to average close to 12% of operating revenue from 2018-2020, after-capital expenditure deficits will range from 4% of adjusted total revenue in 2018 to 5.3% in 2020. We believe that as capital spending progresses, averaging 29% of total expenditures in 2018-2020, and the city endeavors to realize its full capital plan, Barrie's five-year average deficit after capital expenditures could be higher than 5% of total adjusted revenue. Our assessment of the city's budgetary performance is therefore weaker than its operating and after-capital expenditures balances five-year average would indicate.

In line with ongoing infrastructure needs, the city's tax-supported debt will, we expect, remain at moderate levels, albeit lower than historical levels. Under our base-case scenario, we expect tax-supported debt to be 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\$111 million in 2018. 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 those of peers, Barrie has very high modifiable revenues, which we expect to represent about 96% of adjusted operating revenues from 2018-2020. 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., standard future postemployment benefits, and landfill closure and postclosure liabilities (which totaled about 6% of operating revenues in 2017). We believe these liabilities do not significantly affect the city's credit profile.

Key Statistics

Table 1

City of Barrie -- Selected Indicators						
	--Fiscal year ended Dec. 31--					
(Mil. C\$)	2015	2016	2017	2018bc	2019bc	2020bc
Operating revenues	309	325	341	357	375	393
Operating expenditures	281	309	303	314	328	343
Operating balance	29	16	39	43	47	49
Operating balance (% of operating revenues)	9.2	4.9	11.3	11.9	12.6	12.6
Capital revenues	54	54	66	63	64	77
Capital expenditures	102	44	104	124	126	151
Balance after capital accounts	(20)	27	0	(19)	(15)	(25)
Balance after capital accounts (% of total revenues)	(5.4)	7.0	0.1	(4.4)	(3.4)	(5.3)
Debt repaid	12	14	16	17	20	22
Gross borrowings	7	42	13	0	50	71
Balance after borrowings	(25)	55	(3)	(36)	15	24
Modifiable revenues (% of operating revenues)	97.0	96.7	96.9	96.8	96.6	96.5
Capital expenditures (% of total expenditures)	26.6	12.4	25.6	28.3	27.8	30.5
Direct debt (outstanding at year-end)	281	310	308	291	321	369
Direct debt (% of operating revenues)	91.0	95.2	90.2	81.5	85.5	94.0
Tax-supported debt (outstanding at year-end)	298	327	325	308	338	369
Tax-supported debt (% of consolidated operating revenues)	96.4	100.4	95.1	86.3	90.0	94.0
Interest (% of operating revenues)	4.0	3.9	3.7	3.4	3.3	3.6
Local GDP per capita (C\$)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (C\$)	55,673	56,129	58,440	60,109	61,755	63,347

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. bc--Base case. N/A--Not applicable.

Ratings Score Snapshot

Table 2

City of Barrie -- Ratings Score Snapshot	
Key rating factor	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Strong
Budgetary Flexibility	Strong
Budgetary Performance	Average

Table 2

City of Barrie -- Ratings Score Snapshot (cont.)	
Key rating factor	Assessment
Liquidity	Exceptional
Debt Burden	Moderate
Contingent Liabilities	Low

Note: S&P Global Ratings bases its ratings on local and regional governments on the 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 foreign currency rating on the government.

Key Sovereign Statistics

Sovereign Risk Indicators, Oct. 11, 2018. 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, 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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