

Research Update:

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

November 2, 2021

Overview

- Key industries are spurring the economic recovery in 2021 as COVID-19 pandemic-related restrictions ease and vaccination rates increase.
- Capital spending will increase noticeably in the next two years as the City of Barrie pursues its new growth infrastructure and asset management plan, which will give way to persistent after-capital deficits after 2023.
- We are affirming our 'AA' long-term issuer credit rating on Barrie and maintaining our stable outlook.
- The stable outlook reflects our expectation that Barrie will continue to generate strong operating balances, which will help keep the tax-supported debt burden just below 85% of operating revenues until 2023.

Rating Action

On Nov. 2, 2021, 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 the city's robust operating balances and debt burden, while increasing capital expenditures will stress after-capital balances. We also expect the city will preserve its healthy liquidity position over the forecast horizon.

Downside scenario

We could lower our rating in the next two years if weakening financial management practices led

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to 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, or the interest burden to exceed 5% of operating revenue. However, we view this scenario as unlikely.

Upside scenario

We could take a positive rating action in the next two years if the city is able to keep high operating margins relative to its debt profile and near-balanced after-capital levels, on average, on a sustainable basis.

Rationale

Barrie's economy is recovering as pandemic-related restrictions ease and the city's major industries such as manufacturing and construction expand. Effective cost-containment strategies helped the city end 2020 in a relatively strong position, and as the local economy gradually re-opens, we expect Barrie will continue to produce strong operating balances over the next few years. We expect capital expenditures will increase in the next two years, given the city's growth-driven infrastructure requirements, but that strong operating performances will help partially support funding needs, limiting the need for significant debt issuance and preserving strong liquidity.

Effective financial management and a diversifying economy will support Barrie's creditworthiness.

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. A large public sector presence also stabilizes the employment base, and, in our view, helps insulate the city against economic shocks. Although the pandemic had an adverse impact on some of the city's industries such as retail and tourism, we believe that the economy has started to recover in the second half of 2021 as social restrictions ease and domestic consumption picks up. We believe Barrie demonstrates a strong economy, characterized by steady population growth and high median household income, with estimated GDP per capita that is moderately higher than that of Canada, which we estimate to be about US\$52,900.

In our view, Barrie demonstrates strong financial management practices, with generally strong political consensus in passing budgets without major amendments or delays. Barrie's financial policy framework should also continue to foster prudent debt and liquidity management. The city 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 nine-year forecast capital budget. In addition, we believe management has implemented effective measures to offset revenue loss related to the pandemic.

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.

Strong operating margins will support Barrie's rising capital expenditures and keep debt levels manageable.

The city's cost curtailment strategies, reduced transit services, and availability of pandemic-related funding helped Barrie end 2020 in a relatively good position. The city projects ending 2021 in an almost-balanced fiscal position as the local economy gradually re-opens. In our base-case scenario for 2019-2023, we expect operating balances will remain high, at 18% of operating revenues. Although capital investment in 2021 is expected to be low compared with historical levels, we expect it to increase over the forecast horizon as Barrie focuses on its growth-related projects that will begin to expand in 2022. After-capital surpluses will average 1.3% of total revenues in 2019-2023, but we expect they will begin to turn to deficits beginning in 2023.

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 borrowing will total almost C\$59 million in the next two years, bringing the city's tax-supported debt to C\$353 million at year-end 2023, or 83% of adjusted operating revenues. However, because this represents fewer than five years of operating surpluses, based on our forecast, we believe that the city will retain sufficient capacity to manage a higher debt burden, including loan guarantees. Interest payments will remain modest, at less than 3% of operating revenues for 2021-2023. Barrie's exposure to contingent liabilities is modest and does not represent a material credit risk, in our opinion. At the same time, we do not believe that liabilities related to Barrie's government-related entity, Barrie Hydro Holding Inc., represent a contingent liability risk, as we believe the likelihood of the city providing extraordinary support in a stress scenario is low.

In addition to the low debt burden, Barrie has a sizable and stable liquidity position. We estimate free cash balances and investments of about C\$205 million in the next 12 months. This should cover about 528% of next 12 months' debt service. Similar to that of its domestic peers, Barrie's access to external liquidity is satisfactory, in our view.

Key Statistics

Table 1

City of Barrie -- Selected Indicators

(Mil. C\$)	--Year ended Dec. 31--					
	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenues	379	393	393	398	408	424
Operating expenditures	308	315	320	327	335	347
Operating balance	71	79	73	71	73	78
Operating balance (% of operating revenues)	18.7	20.0	18.7	17.8	17.8	18.3
Capital revenues	41	37	43	23	37	46
Capital expenditures	110	138	98	65	104	127
Balance after capital accounts	2	(23)	18	29	6	(4)

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Table 1

City of Barrie -- Selected Indicators (cont.)

(Mil. C\$)	--Year ended Dec. 31--					
	2018	2019	2020	2021bc	2022bc	2023bc
Balance after capital accounts (% of total revenues)	0.4	(5.3)	4.2	7.0	1.3	(0.8)
Debt repaid	18	18	21	22	28	30
Gross borrowings	24	31	10	42	21	38
Balance after borrowings	8	(10)	8	49	(1)	4
Direct debt (outstanding at year-end)	314	326	316	335	329	336
Direct debt (% of operating revenues)	82.9	83.0	80.4	84.2	80.5	79.2
Tax-supported debt (outstanding at year-end)	331	343	333	352	346	353
Tax-supported debt (% of consolidated operating revenues)	87.4	87.3	84.7	88.5	84.7	83.2
Interest (% of operating revenues)	3.2	3.0	3.2	2.9	2.9	2.8
National GDP per capita (single units)	60,196	61,466	58,016	65,248	68,256	69,601

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.

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	1
Liquidity	1
Debt burden	2
Stand-alone credit profile	aa
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 9, 2021. An interactive version is available at <http://www.spratings.com/sri>

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessments For International Local And Regional Governments, Oct. 6, 2021
- Credit Conditions North America Q4 2021: Risks Rise As Recovery Hits A Snag, Sept. 28, 2021
- Economic Outlook Canada Q4 2021: Growth Delayed, Sept. 24, 2021
- Risk Indicators For Canadian Local And Regional Governments, Sept. 1, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

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/--

Barrie (City of)

Senior Unsecured AA

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 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. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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