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Research Update:

City of Windsor 'AA' Ratings Affirmed On Low Debt Burden And Exceptional Liquidity; Outlook Stable

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Research Update:

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Overview

- We are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on the City of Windsor.
- The ratings reflect our assessment of the city's low debt burden, exceptional liquidity, strong budgetary performance, and strong financial management.
- The stable outlook reflects our expectations that, in the next two years, Windsor's tax-supported debt burden will continue to decline, liquidity will remain exceptional, and after-capital deficits will remain below 5% of adjusted total revenues, on average.

Rating Action

On Feb. 23, 2017, S&P Global Ratings affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the City of Windsor, in the Province of Ontario. The outlook is stable.

Rationale

The ratings on Windsor reflect S&P Global Ratings' assessment of the city's strong financial management, exceptional liquidity position, and strong budgetary performance. The ratings also reflect our view of the very predictable and well-balanced institutional framework for Canadian municipalities, Windsor's low debt burden, and its low contingent liabilities. We believe that the city's economic profile that, although we consider it strong, has a relatively high industry concentration in the manufacturing sector; and limited budgetary flexibility somewhat mitigate these strengths.

We view Windsor's strong financial management practices as a credit strength. The city has prudent and long-term financial policies in place and a highly experienced management team to execute them. The city benefits from generally broad political consensus with a focus on financial sustainability. For the first time in nine years, Windsor's council passed a modest levy increase in the 2017 budget. We believe that continued commitment to tax increases to maintain and enhance service and infrastructure levels could also lead to improved flexibility. The city's very prudent policies governing debt use have allowed the management team to reduce the debt burden significantly in recent years and promoted efficiency and enhanced cash flow planning.

Windsor's debt burden is low and we expect it to decline further in the next two years. In our base-case forecast, we expect the tax-supported debt burden to represent 11% of consolidated operating revenues in 2019, less than half the burden in 2010. The city does not plan to issue debt in the next two years and will continue to focus on pay-as-you-go financing as a primary funding source for its capital plan. Interest costs are declining with amortizing debt, and we expect them to be below 1% of adjusted operating revenues in the outlook horizon. Windsor's postretirement obligations, which account for 70% of adjusted operating revenues, continue to constrain the city's overall debt profile, although Windsor has addressed these prospectively for all employee groups. Nevertheless, it will take some time for the liability to fall. The city's contingent liabilities are low and do not pose a significant risk to the credit profile, in our view.

We believe that Windsor's strong budgetary results are positive for the ratings as well. In line with our base-case forecast, we expect a slight revenue boost from projected property tax increases as operating pressures persist; and for operating balances to weaken and stabilize in the next two years, averaging about 6% in 2015-2019. We expect the city to maintain capital spending consistent with recent years and after-capital deficits to increase slightly, averaging 4.5% of total adjusted revenues.

We view Windsor's economic profile as strong, although still relatively heavily concentrated in the manufacturing sector. Based on income levels and higher value-added of the local industries, we estimate that the city's nominal GDP per capita would be slightly below that of Ontario but above US$38,000. The labor market is showing encouraging results, as Windsor maintains its focus on job creation and skills matching, as well as ongoing initiatives, such as sports tourism, to diversify the economy.

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 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.

Windsor benefits from stable government funding while maintaining high modifiable revenues, at more than 80% of adjusted operating revenues. However, the city's eight-year levy freeze before growth, which ended in the most recent budget, suggests limited revenue-raising ability and negatively affects its weak budgetary flexibility, in our view. We believe Windsor is also constrained in its ability to cut expenditures, because of legislative requirements as well as its maintenance-heavy capital plan. Capital expenditures relative to total spending continue to decline, averaging about

13% in 2015-2019, which has weakened our assessment of the city's flexibility.

Liquidity

Windsor maintains an exceptional liquidity position, in our opinion. In our base-case scenario, we estimate free cash and liquid assets to average C$291 million in 2017 and cover more than 25x the projected debt service for the year. We expect growing operating pressures and capital funding needs to place some stress on reserve levels in the medium term, but for debt service coverage to remain above well above 100% in the next two years. In line with that of domestic peers, the city has satisfactory access to external liquidity.

Outlook

The stable outlook reflects our expectations that, in the next two years, Windsor's tax-supported debt burden will continue to decline and that liquidity will remain exceptional. The outlook also reflects our expectation of strong budgetary performance, with after-capital deficits of less than 5% of adjusted total revenues.

We could take a positive rating action if budgetary flexibility were to strengthen materially through revenue enhancements, such as an increase in inflows of property tax revenues, fees, and other sources of revenue; and city administration continued its commitment to existing service levels and addresses its growing infrastructure needs, while maintaining focus on Windsor's long-term financial sustainability.

We could take a negative rating action if weaker economic performance and operating pressures resulted in sustained after-capital deficits of more than 5% of adjusted total revenues, on average; and operating and capital needs affected reserve levels and medium-term funding availability, negatively affecting the city's liquidity profile. However, we view this scenario as unlikely during the outlook horizon.

Key Statistics

Table 1

City of Windsor -- Economic Statistics

	--Fiscal year ended Dec. 31--				
	2012	**2013**	**2014**	**2015**	**2016**
Population	212,135	213,387	214,646	215,912	217,188
Population growth (%)	0.6	0.6	0.6	0.6	0.6
Real GDP growth (%)	N/A	0.7	2.6	2.4	5.5

Table 1

City of Windsor -- Economic Statistics (cont.)					
	--Fiscal year ended Dec. 31--				
	2012	**2013**	**2014**	**2015**	**2016**
Unemployment rate (%)	9.7	8.9	9.0	9.8	6.0

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. Sources typically include Statistics Canada. N/A--Not applicable.

Table 2

City of Windsor -- Financial Statistics						
	--Fiscal year ended Dec. 31--					
(Mil. C$)	**2014**	**2015**	**2016bc**	**2017bc**	**2018bc**	**2019bc**
Operating revenues	591	602	608	622	635	651
Operating expenditures	527	549	577	589	601	613
Operating balance	64	53	32	32	34	39
Operating balance (% of operating revenues)	10.8	8.8	5.2	5.2	5.4	5.9
Capital revenues	20	21	22	25	21	20
Capital expenditures	81	83	90	103	85	83
Balance after capital accounts	3	(9)	(36)	(46)	(30)	(24)
Balance after capital accounts (% of total revenues)	0.4	(1.5)	(5.8)	(7.1)	(4.5)	(3.6)
Debt repaid	6	6	6	7	7	8
Balance after debt repayment and onlending	(3)	(15)	(43)	(53)	(37)	(32)
Balance after debt repayment and onlending (% of total revenues)	(0.5)	(2.4)	(6.8)	(8.1)	(5.6)	(4.7)
Gross borrowings	0	0	0	0	0	0
Balance after borrowings	(3)	(15)	(43)	(53)	(37)	(32)
Operating revenue growth (%)	2.4	1.9	1.0	2.2	2.2	2.6
Operating expenditure growth (%)	0.3	4.3	5.0	2.2	1.9	2.0
Modifiable revenues (% of operating revenues)	84.4	83.3	83.9	84.2	84.5	84.9
Capital expenditures (% of total expenditures)	13.3	13.1	13.5	14.9	12.3	11.9
Direct debt (outstanding at year-end)	104	98	92	85	78	71
Direct debt (% of operating revenues)	17.6	16.3	15.1	13.7	12.3	10.8
Tax-supported debt (% of consolidated operating revenues)	17.6	16.3	15.1	13.7	12.3	10.8
Interest (% of operating revenues)	0.9	0.9	0.8	0.7	0.7	0.6
Debt service (% of operating revenues)	1.9	1.8	1.8	1.8	1.8	1.8

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 3

City of Windsor -- Ratings Score Snapshot	
Key rating factors	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Strong
Financial Management	Strong
Budgetary Flexibility	Weak
Budgetary Performance	Strong
Liquidity	Exceptional
Debt Burden	Low
Contingent Liabilities	Low

Note: 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 foreign currency rating on the government.

Key Sovereign Statistics

Sovereign Risk Indicators, Dec. 14, 2016. 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

- 2014 Annual International Public Finance Default Study And Rating Transitions, June 8, 2015
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, Feb. 5, 2015

Ratings List

Ratings Affirmed

Windsor (City of)	
Issuer credit rating	AA/Stable/--
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. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at 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. Use the Ratings search box located in the left column.