S&P Global Ratings

RatingsDirect®

Summary:

City of Windsor

Primary Credit Analyst:
Hamzah Saeed, Toronto; hamzah.saeed@spglobal.com

Secondary Contact:
Bhavini Patel, CFA, Toronto (1) 416-507-2558; bhavini.patel@spglobal.com

Table Of Contents

Key Rating Factors

Outlook

Rationale

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria

Related Research

Summary:

City of Windsor

Issuer Credit Rating	AA/Stable/--

Key Rating Factors

Credit context and assumption	Base-case expectations
We expect institutions and the economy will remain supportive. • We expect Windsor's operating balance will decline in 2020 due to the impact of the global COVID-19 pandemic on the city's economy. • Strong and prudent financial management will allow the city to continue with its capital expenditure plans while avoiding an undue buildup of debt. • Very predictable and well-balanced local and regional government framework supports the rating.	Sound budgetary performance will continue to assist in maintaining minimal debt. • We expect Windsor will experience budgetary stress in 2020 due to the COVID-19 pandemic but that the city will continue to maintain its large operating surpluses from 2021 onward. • We expect the city's track record of stable fiscal performance will continue, allowing it to proceed with its capital agenda while maintaining robust liquidity and holding its tax-supported debt well below 30% of operating revenues. • A healthy level of liquidity will continue to support creditworthiness.

Outlook

The stable outlook reflects our expectations that, in the next two years, Windsor's prudent and forward-looking financial management practices will support the city's strong budgetary results. We also expect the city will maintain a robust liquidity position as it continues to pay down its tax-supported debt burden.

Downside scenario

Although we view it as unlikely in the next two years, deterioration in budgetary results, such that after-capital deficits average more than 5% of total revenues on a sustained basis, leading to reduced internal resources and increased reliance on debt funding for capital bringing the debt burden closer to 30% of operating revenues, could result in a negative rating action.

Upside scenario

We could raise the rating in the next two years if the management team continues to take the necessary revenue measures to meet the city's funding needs, paired with a reduction in concentration of the economy.

Rationale

We expect Windsor's strong economy and prudent financial management practices will support healthy operating surpluses and robust liquidity, which in turn will allow the city to continue paying down its tax-supported debt during the outlook horizon. As the global spread of COVID-19 continues, we expect the city will experience a deterioration in economic activity and increased budgetary stresses in 2020. While the impact of the pandemic will depend on its rate of spread and duration, S&P Global Ratings' baseline assumption is that the pandemic will peak about midyear globally (see "The Escalating Coronavirus Shock Is Pushing 2020 Global Growth Toward Zero," published March 30, 2020). Therefore, we expect the city's economic activity and financial performance will rebound starting in 2021 and continue to contribute to a solid track record of good fiscal results. In our base-case scenario, we expect tax-supported debt to decline to less than 7% of operating revenues by 2022. At the same time, we believe Windsor will maintain a higher level of exposure to the manufacturing sector, in particular the auto industry, which adds risk to its economic profile, in our view.

Strong management oversight and institutional strength continue to support the city's financial position.

We expect that, in the outlook horizon, Windsor will continue to exhibit strong financial management, with a stable and highly experienced management team. The city has demonstrated a strong ability to find cost efficiencies and alternative delivery methods to adhere to the council's fiscal decisions. The council has taken action to increase the tax levy, which the city has historically been averse to doing. The operating and multiyear capital budgets, which we view as realistic, are timely and reflect the goals in the city's long-term financial plan. Windsor's very prudent and risk-averse debt policy has allowed the city to reduce debt levels for the past several years and to increase both financial sustainability and its focus on detailed cash flow planning to support operations.

Windsor continues to diversify its economy, mainly in education, health and life sciences, tourism, government services, and other manufacturing subsectors. However, we believe a downturn in the auto industry could cause considerable economic distress. Despite Windsor's efforts to focus on population retention and job creation, attracting and retaining a skilled workforce remains a challenge for the city.

Windsor operates in what we deem to be a very predictable and well-balanced local and regional government framework that has 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.

Tax levy increases will support revenue growth, while infrastructure projects continue to push after-capital results into a modest deficit.

We expect that sustained levy increases will help generate strong operating balances averaging about 8% of operating revenue from 2018-2022. Management estimates COVID-19 could have a financial impact of more than $20 million in 2020. This impact comes from a decline in transit revenue, fees, and penalties, as well as increased costs due to procurement of pandemic-related supplies, and increased sanitization, among others. In response to the pandemic, management has identified actions to partially offset the financial impact such as reducing labor costs and delaying some capital projects for the year. As a result, we estimate the operating balance could decrease in 2020 but that it would start recovering in 2021. Operating surpluses will partially finance Windsor's capital spending, keeping modest negative after-capital balances at less than 5% of total revenues during the same period. The majority of the city's capital plan is related to road construction, and sewer and transportation infrastructure.

Windsor's ability to employ increases in property taxes, utility rates, and user fees is less vulnerable to political and economic constraints than in previous years, in our view, given the recent levy increases approved by council. Legislative requirements and Windsor's maintenance-heavy capital plan continue to limit the ability to cut expenditures somewhat; however, this is in line with many Canadian municipalities and the management team has been able to take the necessary measures to maintain strong operating results. Windsor's postemployment obligations continue to constrain the overall budgetary performance, although the city has addressed them prospectively for all employee groups. Total postemployment obligations represented about 74% of operating revenues at year-end 2018.

We expect Windsor will maintain its robust liquidity, with average free cash and liquid assets totaling about C$332 million in the next 12 months and representing more than 29x estimated debt service. We expect coverage to improve with a declining debt burden. Similar to that of its domestic peers, Windsor's access to external liquidity is satisfactory, in our view.

Annual surpluses and healthy reserve levels help fund Windsor's capital plan and we expect the city to continue repaying its debt, with forecast tax-supported debt declining to less than 7% of operating revenues by 2022. The city has no plans to issue significant new debt in the outlook horizon and we expect interest costs will remain minimal at less than 1% of operating revenues. In addition, while the city has some exposure to the obligations of its major government-related entities, Windsor Canada Utilities Ltd. and Windsor Utilities Commission, and is liable for 50% of Essex-Windsor Solid Waste Authority's debt, we do not believe that these are material enough to affect our view of the city's debt burden. We believe Windsor's exposure and likelihood that it would provide timely and sufficient extraordinary support to the entities in the event of financial distress are limited, reflecting the entities' ability to raise rates and fees to recover losses.

Key Statistics

Table 1

City of Windsor -- Selected Indicators

	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2018**	**2019bc**	**2020bc**	**2021bc**	**2022bc**
Operating revenues	673	693	683	720	736
Operating expenditures	621	637	652	650	666
Operating balance	52	57	30	70	70
Operating balance (% of operating revenues)	7.7	8.2	4.5	9.8	9.5
Capital revenues	44	31	35	38	37
Capital expenditures	129	108	121	133	129

Table 1

City of Windsor -- Selected Indicators (cont.)					
	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2018**	**2019bc**	**2020bc**	**2021bc**	**2022bc**
Balance after capital accounts	(33)	(20)	(56)	(24)	(22)
Balance after capital accounts (% of total revenues)	(4.6)	(2.8)	(7.8)	(3.2)	(2.9)
Debt repaid	7	7	8	8	7
Gross borrowings	0	0	0	0	0
Balance after borrowings	(40)	(28)	(64)	(33)	(29)
Direct debt (outstanding at year-end)	78	71	63	54	47
Direct debt (% of operating revenues)	11.6	10.2	9.2	7.5	6.4
Tax-supported debt (outstanding at year-end)	78	71	63	54	47
Tax-supported debt (% of consolidated operating revenues)	11.6	10.2	9.2	7.5	6.4
Interest (% of operating revenues)	0.6	0.5	0.5	0.5	0.4
National GDP per capita (single units)	60,011	61,290	58,634	62,727	64,658

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

City of Windsor -- Ratings Score Snapshot	
Key rating factors	**Scores**
Institutional framework	2
Economy	2
Financial management	2
Budgetary performance	3
Liquidity	1
Debt burden	1
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, April 24, 2020. 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

- Public Finance System Overview: Canadian Municipalities, May 12, 2020
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019