S&P Global
Ratings

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City of Windsor

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Key Rating Factors

Issuer Credit Rating
AA/Stable/--

Credit context and assumptions	Base-case expectations
Supportive institutions and prudent financial management will support Windsor's creditworthiness. • Despite the impact the COVID-19 pandemic, Windsor's major employers in the manufacturing sector will provide economic stability despite some concentration in the automobile industry. • Strong and prudent financial management will allow the city to continue posting strong budgetary surpluses and low after-capital deficits. • A very predictable and well-balanced local and regional government framework supports the rating.	Sound budgetary performance will continue to assist in maintaining minimal debt. • Although the city will face some budgetary stress in 2021 due to the COVID-19 pandemic, we believe it will continue to generate strong operating surpluses. • We expect the city's track record of stable fiscal performance will continue, allowing it to proceed with its capital agenda while maintaining its tax-supported debt well below 30% of operating revenues. • The city's strong liquidity position will continue to support its creditworthiness.

Outlook

The stable outlook reflects S&P Global Ratings' expectations that, in the next two years, the City of 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 local economy diversifies sufficiently to mitigate the city's concentration in the manufacturing sector.

Rationale

We expect Windsor's strong economy and prudent financial management practices will continue to support its healthy operating surpluses and robust liquidity, which will allow the city to continue paying down its tax-supported debt during the outlook horizon. We believe the city's prudent financial management and cost-containment efforts will continue to help contribute to a solid track record of good fiscal results. In addition, we expect tax-supported debt to decline to less than 6% of operating revenues by 2023. At the same time, we expect that compared to its peers, Windsor will maintain a higher level of exposure to the manufacturing sector, in particular the auto industry, which adds risk to its economic profile.

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

Windsor continues to diversify its economy, mainly in education, health and life sciences, tourism, government services, and technology. While local GDP per capita data are not available at the local level, we estimate that Windsor's remains in line with the national level. The city's manufacturing industry, which accounts for approximately 24% of total employment provided some cushion during the pandemic as activity in the sector increased in 2020. Nevertheless, as observed historically, we believe a downturn in the auto industry, which accounts for the city's largest employers, 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 long-term challenge for the city.

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 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 prudent and risk-averse debt and liquidity policies has allowed the city to reduce debt levels and build reserves for the past several years.

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.

A moderate capital plan will lead to modest after-capital deficits, but sound budgetary performances will mitigate debt issuance.

We expect that overall levy increases will help generate strong operating balances averaging about 10% of operating revenue from 2019-2023. In 2020, management saw impacts from COVID-19 of approximately C$52 million, comprised of both foregone revenues and additional expenses resultant from the pandemic. However, through cost mitigation strategies and provincial and federal SAFE Restart grants, the council was able to wholly offset its anticipated deficit. For 2021, management has budgeted for an operating deficit of about C$38 million, which it anticipates will be mitigated through labor cost-reduction strategies, additional senior government funding, and close monitoring of capital investments. Operating surpluses will partially finance Windsor's capital spending, keeping negative after-capital balances at less than 4% of total revenues, on average, 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. We view the 2021 flat levy more the result of prudent management than a resistance to tax increases. Legislative requirements and Windsor's maintenance-heavy capital plan continue to limit the ability to cut expenditures somewhat; however, this is in line with that of 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 72% of operating revenues at year-end 2019.

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 6% of operating revenues by 2023. The city has no plans to issue significant new tax-supported debt over 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 expect Windsor will maintain its robust liquidity, with average free cash and liquid assets totaling about C$288 million in the next 12 months and representing more than 27x 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.

Key Sovereign Statistics

- Sovereign Risk Indicators, April 8, 2021. An interactive version is available at http://www.spratings.com/sri

Selected Statistics

Table 1

City of Windsor -- Selected Indicators

	--Fiscal year-end Dec. 31--					
(Mil. C$)	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**	**2023bc**
Operating revenues	673	689	704	714	714	729
Operating expenditures	621	610	623	637	652	667
Operating balance	52	79	80	77	63	62
Operating balance (% of operating revenues)	7.7	11.5	11.4	10.8	8.8	8.5

Table 1

City of Windsor -- Selected Indicators (cont.)						
	--Fiscal year-end Dec. 31--					
(Mil. C$)	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**	**2023bc**
Capital revenues	44	34	42	45	42	42
Capital expenditures	129	122	142	153	143	144
Balance after capital accounts	(33)	(8)	(20)	(31)	(38)	(40)
Balance after capital accounts (% of total revenues)	(4.6)	(1.1)	(2.6)	(4.1)	(5.0)	(5.1)
Debt repaid	7	7	8	8	7	6
Gross borrowings	0	0	0	0	0	0
Balance after borrowings	(40)	(16)	(28)	(40)	(45)	(46)
Direct debt (outstanding at year-end)	78	71	63	54	47	41
Direct debt (% of operating revenues)	11.6	10.3	8.9	7.6	6.6	5.6
Tax-supported debt (outstanding at year-end)	78	71	63	54	47	41
Tax-supported debt (% of consolidated operating revenues)	11.6	10.3	8.9	7.6	6.6	5.6
Interest (% of operating revenues)	0.6	0.5	0.5	0.4	0.3	0.3
National GDP per capita (single units)	60,196	61,466	57,994	63,315	65,056	67,332

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 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.

Related Criteria

- 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

- Credit Conditions North America: Q2 2021: As Outlook Brightens, Risk Remain, March 30, 2021
- Prudent Financial Management And A Strong Institutional Framework Are Helping Canadian Municipalities Negotiate The Impact of COVID-19, Nov. 30, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Ratings Detail (As Of June 17, 2021)*	
Windsor (City of)	
Issuer Credit Rating	AA/Stable/--
Senior Unsecured	AA
Issuer Credit Ratings History	
19-Nov-2007	AA/Stable/--
29-Nov-2006	AA-/Positive/--
30-Mar-2001	AA-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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