City of Windsor

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This report does not constitute a rating action.

Primary contact

Elisa Lopez cortes
Toronto
1-416-507-2574
elisa.lopez.cortes
@spglobal.com

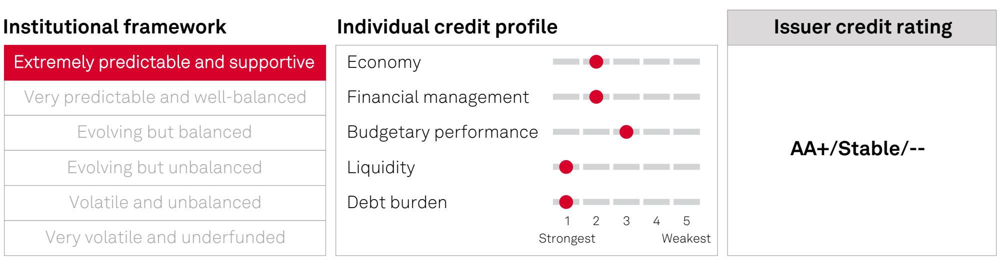
Secondary contact

Hector Cedano, CFA
Toronto
1-416-507-2536
hector.cedano
@spglobal.com

Research contributor

Ritesh S Bagmar
CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Pune

Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Supportive institutions and long-term financial management practices will continue to allow the City of Windsor to preserve its strong budgetary performance and modest debt burden.	We expect that Windsor will continue to generate strong operating surpluses, although after-capital deficits will be pressured by the city's investment plan during the next two years.
The manufacturing sector will continue to provide economic stability, despite some concentration in the auto industry.	The city will implement its capital programs funded mainly by reserves; issuance of new debt will maintain a moderate tax-supported debt burden.
We believe the city's relationship with the Province of Ontario will remain extremely supportive and stable.	The city's strong liquidity position will continue to support its creditworthiness.

S&P Global Ratings expects the City of Windsor's strong financial management will allow the city to generate strong operating surpluses while posting after-capital deficits of less than 5% of total adjusted revenues in the forecast horizon as it keeps increasing its investment plan. The city's new debt is being issued to support repairs and renewals of social housing, and we expect the debt burden will remain well below 30% by 2026. We view the city's exceptional liquidity position as a key credit strength. Windsor has a stable economy; however, the economy has some concentration in manufacturing, largely in the auto industry, which is high compared with that of most peers and adds risk to its economic profile.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, Windsor's prudent and forward-looking financial management practices will continue supporting the city's typically strong budgetary results. We also expect that after some debt issuance, the debt burden will remain well below 30% of operating revenues and the city will maintain robust liquidity.

Downside scenario

We could lower the rating if budgetary results deteriorate, leading to after-capital deficits averaging more than 5% of total revenues on a sustained basis, internal liquidity declining, and reliance on debt for capital funding increasing with the debt burden approaching 30% of operating revenues.

Upside scenario

Although unlikely, 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

The local economy is bolstered by the manufacturing sector, with concentration in the auto industry; strong management will continue to support Windsor’s creditworthiness.

Windsor benefits from its strategic location on the Canada-U.S. border and proximity to central markets in the Greater Toronto Area and in Detroit, as well as from Canadian government investments like the Gordie Howe Bridge, which should stimulate the local economy. We expect Windsor's manufacturing sector will attract additional businesses and stimulate the economy. However, the concentration in the automotive industry makes Windsor's economy less diversified than that of some peers. The demand for electric vehicles, for example, could significantly affect this industry, especially as the city aims to develop an industrial park for electric vehicle-related plants.

Although municipal GDP data are unavailable, we believe GDP per capita would be largely in line with the national level, which we estimate to be about US$54,000 in 2024. Windsor benefits from Ontario’s ambitious plan to develop the area through electric vehicle investments that incentivize the city to develop a business park located on the land near Windsor International Airport. We estimate that the manufacturing sector represents about 25% of local GDP and 20% of the region’s employment. However, key labor force metrics indicate the city still has higher-than-average unemployment. According to Statistics Canada, the unemployment rate for the Windsor census metropolitan area rose to 7.5% in March 2024 from 5.8% in the same period in 2023.

We expect that Windsor will continue to exhibit strong financial management in the next two years, with a stable and highly experienced management team. The operating and multiyear capital budgets, which we view as realistic, are timely and reflect the goals of the city's long-term financial plan. Prudent and risk-averse debt and liquidity policies have allowed the city to reduce debt and build reserves for several years. City council is dedicated to maintaining services amid increasing demands, particularly in areas like social housing as the city's population increases.

As do other Canadian municipalities, Windsor benefits from an extremely predictable and supportive local and regional government framework that has demonstrated high institutional stability and evidence of systemic extraordinary support in times of financial distress. Most recently through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. 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) through reserve contributions. Municipalities have demonstrated a track record of strong budgetary results and, therefore, debt burdens, on average, are low relative to those of global peers and growth over time has been modest.

Strong budgetary performance will keep debt levels low despite a large capital plan.

We believe Windsor will continue to generate strong operating surpluses through 2026, as it has in previous years. In the 2024 budget, council approved property tax increases of 3.9% and is committed to keeping increases in property taxes below inflation. As a result, we expect an average operating surplus of about 13.0% of operating revenues from 2022-2026.

Windsor has budgeted about C$1.9 billion for capital projects over the next 10 years. Consequently, we expect capital expenditures for 2024-2026 will remain relatively elevated, averaging about C$190 million annually. The majority of the investment plan focuses on roads and sewer infrastructure, with shares of 30% and 25%, respectively, of the total plan. We expect after-capital deficits of 3.7% of total revenues, on average, for 2022-2026.

Obligations for future benefits continue to constrain overall budgetary performance and stand out compared with peers, although the city has addressed them prospectively for all employee groups. Total postemployment obligations represented about 88% of S&P Global Ratings-adjusted operating revenues at year-end 2022.

Windsor has been increasing its capital reserves as part of its financial strategy, especially related to funding its asset management plan (AMP). These reserves, estimated at C$294.3 million as of 2023, have accumulated enough to fund most of its capital projects. The use of reserves for AMP spending limited new debt issuance, keeping the debt burden modest.

The city’s last issuance was in 2023, mostly to fund the development of industrial land designated for the NextStar battery plant. We expect total debt issuance during 2024-2026 will be C$26.5 million, mainly to fund the repair and renewal of public housing and related infrastructure. Tax-supported debt should be about C$115 million by the end of 2026 and represent 13% of operating revenues, which is low compared with that of peers. We expect interest costs will remain minimal at less than 1% of operating revenues on average from 2023-2026. In addition, although Windsor 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, these are not material enough to affect our view of the debt burden.

We expect Windsor will maintain robust liquidity levels, with average free cash and liquid assets totaling about C$515 million in the next 12 months and representing more than 45x estimated debt service. Similar to that of domestic peers, Windsor's access to external liquidity is satisfactory, in our view.

City of Windsor Selected Indicators

Mil. C$	2021	2022	2023bc	2024bc	2025bc	2026bc
Operating revenue	747	792	813	835	857	878
Operating expenditure	640	686	715	726	744	759

City of Windsor Selected Indicators

Operating balance	107	106	98	109	112	119
Operating balance (% of operating revenue)	14.3	13.4	12.1	13.1	13.1	13.6
Capital revenue	50	53	47	80	48	47
Capital expenditure	156	186	142	251	202	207
Balance after capital accounts	0	(27)	3	(61)	(42)	(41)
Balance after capital accounts (% of total revenue)	0.0	(3.2)	0.4	(6.7)	(4.6)	(4.4)
Debt repaid	8	4	12	7	6	6
Gross borrowings	0	4	65	3	14	10
Balance after borrowings	(8)	(26)	57	(65)	(35)	(37)
Direct debt (outstanding at year-end)	54	55	108	104	111	115
Direct debt (% of operating revenue)	7.3	6.9	13.3	12.5	13.0	13.1
Tax-supported debt (outstanding at year-end)	54	55	108	104	111	115
Tax-supported debt (% of consolidated operating revenue)	7.3	6.9	13.3	12.5	13.0	13.1
Interest (% of operating revenue)	0.4	0.3	0.6	0.5	0.5	0.4
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	52,515.2	55,549.1	53,394.3	53,847.0	N/A	N/A

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. C$--Canadian dollar. $--U.S. dollar.

Rating Component Scores

Key rating factors	Scores
Institutional framework	1
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 8, 2024. Interactive version 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessment: Canadian Municipalities Employ Flexibilities Within Fiscal Framework To Temper Cost Pressures, April 2, 2024
- Economic Outlook Canada Q2 2024: Staying Subdued, March 26, 2024
- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, March 26, 2024
- S&P Global Ratings Definitions, June 9, 2023

Ratings Detail (as of June 19, 2024)*

Windsor (City of)	
Issuer Credit Rating	AA+/Stable/--
Senior Unsecured	AA+
Issuer Credit Ratings History	
01-Jun-2022	AA+/Stable/--
19-Nov-2007	AA/Stable/--
29-Nov-2006	AA-/Positive/--

*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.