

City of Saskatoon

January 18, 2022

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions

The city's strong economic characteristics and prudent financial management practices will support its creditworthiness.

--Broad and diverse economy with a growing population will provide stability in Saskatoon's property tax base despite the negative impact of the COVID-19 pandemic.

--Saskatoon's prudent financial management will continue to support strong operating balances.

--We believe the city's relationship with the province will remain well balanced and supportive.

Base-case expectations

Strong budgetary performance will allow the city to keep a manageable debt burden.

--From its stable property tax base, Saskatoon will continue to generate robust operating margins despite the near-term impact of the COVID-19 pandemic.

--Strong operating balances will help the city in implementing its capital plans while maintaining minimal tax-supported debt.

-- The city's exceptional liquidity position will continue to support its creditworthiness.

PRIMARY CONTACT

Sabrina J Rivers
New York
1-212-438-1437
sabrina.rivers
@spglobal.com

SECONDARY CONTACT

Jennifer Love, CFA
Toronto
1-416-507-3285
jennifer.love
@spglobal.com

The long-term issuer credit rating on the City of Saskatoon, in the Province of Saskatchewan, is 'AAA.' The omicron variant of the coronavirus has led to a return of some social distancing measures; however, we believe that the impact will be largely short term. Although not immune to the increased budgetary pressures stemming from the pandemic, Saskatoon has weathered the difficult operating environment. We believe that Saskatoon will maintain robust financial results that will continue to support its capital plans, low debt levels, and exceptional liquidity.

Outlook

The stable outlook reflects our expectation that Saskatoon will continue to benefit from a strong and diverse economy that supports strong budgetary performance, keeping debt issuance manageable and liquidity exceptional. Furthermore, we expect the city's strong financial management and very predictable and well-balanced institutional framework will continue supporting the rating.

Downside scenario

Although we view it as unlikely in the next two years, sustained material erosion in Saskatoon's economy could lead to revenue growth persistently lagging that of expenditures. If this caused the city to experience lower operating balances, run persistent after-capital deficits, and increase its tax-supported debt above 60% of operating revenues, we could lower the rating.

Rationale

Strong economic profile and prudent financial management practices will support Saskatoon's creditworthiness

We continue to view Saskatoon's economy as strong and diversified. Saskatoon is Saskatchewan's commercial center and its largest census metropolitan area (CMA). The local population has increased 2.2% per year, on average, since 2016; management expects that the population will continue climbing. Agriculture, natural resources (most notably potash mining and uranium), and the public sector are the local economy's largest industries. Although we expect the global pandemic will continue to affect economic growth in 2022 as social distancing and other preventative measures slow business activity, we believe this slowdown will be temporary and the city's economic diversity and ongoing population growth should continue to support GDP per capita growth in line with Canada's over the forecast horizon. Given Saskatoon's fairly high median household income, we believe that the city's average GDP per capita is higher than the national average of approximately US\$54,000 in 2022.

We believe that Saskatoon's strong and prudent financial management is a key credit strength. The city's management team is experienced and qualified to effectively enact fiscal policies and respond to external risks. Saskatoon demonstrates good political and managerial strength with its lengthy track record of passing budgets before the start of the fiscal year with minimal variations from budgeted revenues and expenses. We also view management accountability as strong and financial policies as prudent. Management's disclosure and transparency are good, and the city prepares robust annual budget documents. The city prepares multiyear operating and capital budgets for subsequent years, as well as long-term capital and borrowing plans. We believe that this supports fiscal transparency and discipline.

Saskatoon, like other Canadian municipalities, benefits 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. Operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions. We expect Saskatoon's relationship with Saskatchewan will remain supportive.

Strong budgetary performance will assist in keeping the debt burden manageable

Saskatoon's budgetary performance has historically been strong, and we expect this trend will persist through the outlook horizon. The city generated an operating surplus in 2020, supported by the use of Municipal Economic Enhancement Program (MEEP) funds as well as reserves. The city received C\$19 million in Safe Restart funds for use in 2021 to counteract the impacts of the pandemic and management responded with cost-cutting measures and used its fiscal stabilization reserve. The city passes balanced budgets, and pre-finances some capital projects through dedicated tax increases and building out of reserves. This practice has led to high operating balances and after-capital surpluses, on average. We expect operating balances will average almost 22% and after-capital surpluses about 3.9% for 2021-2024. The city's planned capital expenditures are in line with historical levels and include road preservation and land development, as well as the new bus rapid transit system.

Saskatoon's debt burden is expected to remain manageable, at 43% of consolidated revenues in 2024. The city issues debt to fund some capital projects; however, it also internally finances some capital projects to minimize debt issuance. Over 2021-2024, Saskatoon estimates that it could issue up to about C\$241 million of debt to fund capital projects, leading to total debt of about C\$435 million by 2024. We expect the city's interest burden will remain low at 1.5% of revenues, on average. Saskatoon's debt burden

City of Saskatoon

is supported by high operating margins, which over five years exceed total direct debt outstanding, highlighting the small and manageable burden.

The city maintains exceptional levels of liquidity. We estimate free cash balances and investments will be slightly above C\$646 million in the next 12 months. This should cover about 16x next 12 months' debt service. We expect this ratio will remain well above 100% over the next two years. Similar to that of its domestic peers, Saskatoon's access to external liquidity is satisfactory, in our view.

City of Saskatoon Selected Indicators

Mil. C\$	2019	2020	2021bc	2022bc	2023bc	2024bc
Operating revenue	906.6	884.6	913.2	930.9	968.7	1,015.8
Operating expenditure	675.4	706.7	714.9	733.1	752.0	771.3
Operating balance	231.2	177.9	198.3	197.8	216.7	244.5
Operating balance (% of operating revenue)	25.5	20.1	21.7	21.3	22.4	24.1
Capital revenue	44.6	138.2	100.2	41.7	79.6	115.8
Capital expenditure	224.1	265.8	241.9	243.5	255.7	299.5
Balance after capital accounts	51.7	50.3	56.5	(4.0)	40.6	60.8
Balance after capital accounts (% of total revenue)	5.4	4.9	5.6	(0.4)	3.9	5.4
Debt repaid	27.6	24.4	19.1	27.0	27.5	29.7
Gross borrowings	0.0	0.0	79.7	75.0	63.9	23.1
Balance after borrowings	24.1	25.9	117.1	44.0	77.0	54.3
Direct debt (outstanding at year-end)	126.5	106.0	171.6	225.0	266.9	266.3
Direct debt (% of operating revenue)	14.0	12.0	18.8	24.2	27.6	26.2
Tax-supported debt (outstanding at year-end)	326.3	300.2	359.9	407.0	442.5	435.0
Tax-supported debt (% of consolidated operating revenue)	36.0	33.9	39.4	43.7	45.7	42.8
Interest (% of operating revenue)	1.2	1.5	1.4	1.5	1.5	1.6
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	46,328.7	43,258.3	51,962.0	53,932.6	55,678.9	58,871.8

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.

Ratings Score Snapshot

City of Saskatoon

Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	1
Budgetary performance	1
Liquidity	1
Debt burden	1
Stand-alone credit profile	aaa
Issuer credit rating	AAA

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, Dec. 13, 2021. Interactive version available at <http://www.spratings.com/sri>

Related Criteria

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

Related Research

- Economic Outlook Canada Q1 2022: Economy Set To Expand Strongly, Nov. 29, 2021
- As Canadian Municipalities Negotiate A New Landscape, Nov. 8, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Dec. 15, 2021
- Comparative Statistics: Risk Indicators For Canadian Local And Regional Governments, Sept. 1, 2021
- S&P Global Ratings Definitions, Nov. 10, 2021
- Public Finance System: Canadian Municipalities, May 12, 2020

- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Ratings Detail (as of January 18, 2022)*

Saskatoon (City of)

Issuer Credit Rating		AAA/Stable/--
Senior Unsecured		AAA

Issuer Credit Ratings History

29-Jul-2002	<i>Foreign Currency</i>	AAA/Stable/--
12-Jul-2001		AA+/Stable/--
12-Jul-2001	<i>Local Currency</i>	AAA/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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