

Research Update:

City of Saskatoon 'AAA' Ratings Affirmed; Outlook Remains Stable

August 26, 2019

Overview

- We expect the City of Saskatoon to maintain a strong budgetary position over the next two years.
- Strong operating surpluses should enable the city to implement its capital plans while maintaining ample cash balances and minimal levels of tax-supported debt.
- As a result, we are affirming our 'AAA' long-term issuer credit and senior unsecured debt ratings on the city and maintaining the stable outlook.

Rating Action

On Aug. 26, 2019, S&P Global Ratings affirmed its 'AAA' long-term issuer credit and senior unsecured debt ratings on the City of Saskatoon, in the Province of Saskatchewan. The outlook is stable.

Outlook

The stable outlook reflects our expectation that Saskatoon will continue to benefit from sound financial management and a very strong and diverse economy in the next two years while maintaining ample liquidity. We further expect the city's financial results to remain strong and the debt burden minimal despite expected issuance in 2019-2021.

Downside scenario

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

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Rationale

Saskatoon's sound financial management and strong and diverse economy should lead to large operating surpluses more than sufficient to fund the city's capital agenda. After-capital deficits are infrequent and are usually the result of large-scale capital projects such as bridges or water and wastewater treatment infrastructure. Capital spending should retreat somewhat from the elevated levels of 2017 and 2018 but still remain relatively sizable by historical norms. Nevertheless, solid after-capital surpluses through 2019-2021 should ensure that Saskatoon's cash balances remain ample and its tax-supported debt minimal. No change is expected in the city's supportive institutional framework.

Saskatoon's strong economic fundamentals continue to support the rating.

We continue to view Saskatoon's economy as strong and diversified, and we believe that the city's average GDP per capita is higher than the national average of US\$45,600, given Saskatoon's fairly high median household income. Saskatoon is Saskatchewan's commercial center and its largest Census metropolitan area: The city's population should reach about 280,000 in 2019, after declining 0.8% in 2018 and increasing 1.7% in 2017. Agriculture, the public sector, and natural resources, most notably potash mining and uranium, are the local economy's largest industries.

We believe that Saskatoon's creditworthiness reflects strong financial management. 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 believe that management accountability is strong and financial policies are prudent. Disclosure and transparency are what we believe to be good, and the city prepares robust annual operating and capital budget documents. It also prepares long-term capital and borrowing plans.

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 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.

Operating balances are healthy, but an expanding capital plan will require debt to fund some projects.

Saskatoon's budgetary performance has historically been strong. Operating balances should average more than 25% and after-capital surpluses about 1% for 2017-2021. The city's pension obligations should also remain manageable.

Saskatoon maintains healthy levels of liquidity. We estimate the city's free cash and liquid assets will total C\$422 million in the next 12 months and cover more than 10x estimated debt service for the period. We expect this ratio to remain well above 100% over the next two years. Saskatoon has satisfactory access to external liquidity, given its proven ability to issue into public debt markets.

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In 2019-2021, Saskatoon plans to issue about C\$142 million of debt to fund some capital projects. Nevertheless, we expect the city's tax-supported debt (including the costs related to two public-private partnership projects) to remain minimal, at about 41% of operating revenues at year-end 2021. At this level, the city's tax-supported debt would remain very small relative to its yearly operating margins (far less than five years' operating surpluses), highlighting the small and manageable level of the burden. We also view Saskatoon's contingent liabilities as modest.

Key Statistics

Table 1

City of Saskatoon--Selected Indicators

(Mil. C\$)	--Year ended Dec. 31--					
	2016	2017	2018	2019bc	2020bc	2021bc
Operating revenues	800	830	891	928	968	1,010
Operating expenditures	582	633	662	682	714	746
Operating balance	218	198	229	247	254	263
Operating balance (% of operating revenues)	27.2	23.8	25.7	26.6	26.2	26.1
Capital revenues	92	127	172	76	93	157
Capital expenditures	275	366	474	260	280	352
Balance after capital accounts	35	(42)	(74)	62	67	68
Balance after capital accounts (% of total revenues)	4.0	(4.3)	(6.9)	6.2	6.3	5.9
Debt repaid	24	27	29	28	30	26
Gross borrowings	80	58	39	75	20	47
Balance after borrowings	91	(11)	(64)	110	57	90
Direct debt (outstanding at year-end)	204	179	154	207	202	229
Direct debt (% of operating revenues)	25.5	21.6	17.3	22.3	20.9	22.7
Tax-supported debt (outstanding at year-end)	319	349	359	407	396	418
Tax-supported debt (% of consolidated operating revenues)	39.8	42.1	40.3	43.8	40.9	41.4
Interest (% of operating revenues)	2.1	1.7	2.7	1.5	1.7	1.6
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	56,169	58,607	59,879	60,943	62,586	64,363

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. dc--Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. uc--Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

City of Saskatoon--Ratings Score Snapshot

Key Rating Factors	Scores
Institutional framework	2
Economy	1
Financial management	2
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, July 11, 2019. 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

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion.

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The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed

Saskatoon (City of)

Issuer Credit Rating AAA/Stable/--

Saskatoon (City of)

Senior Unsecured AAA

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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