

RatingsDirect®

Summary:

City of Saskatoon

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Summary:

City of Saskatoon

Issuer Credit Rating	AAA/Stable/--
This report does not constitute a rating action.	

Key Rating Factors

Credit context and assumptions	Base-case expectations
<p>Strong economic profile and prudent financial management practices will support the City of Saskatoon's creditworthiness</p> <ul style="list-style-type: none"> • Diverse economy with a growing population will provide consistency in the city's property tax base despite the negative impact of COVID-19 • The city's prudent financial management will continue to allow it to post strong operating balances • We believe the city's relationship with the province will remain well-balanced and supportive 	<p>Strong budgetary performance will assist in keeping the debt burden manageable</p> <ul style="list-style-type: none"> • Saskatoon will continue to generate robust operating margins despite the near-term impact of the pandemic on the city's fiscal position • Strong operating balances will help the city in implementing its capital plans while maintaining minimal levels of tax-supported debt • The city's exceptional liquidity position will continue to support its creditworthiness

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

As the global spread of COVID-19 continues, we believe Saskatoon will not be immune to the expected deterioration in economic activity and increased budgetary stresses, as seen in 2020. Although the impact of the pandemic depends on the rate of spread and duration, we believe that Saskatoon's prudent financial management and cost-containment efforts will continue to generate robust operating balances and mitigate the direct fiscal impacts stemming from the pandemic. At the same time, we expect the city's diverse economy and prudent financial management will continue to support Saskatoon in generating strong budgetary performances that will help fund its capital agenda and keep its debt level manageable; this, in turn, will help preserve the city's exceptionally strong liquidity.

Strong economic profile and prudent financial management practices will support Saskatoon's creditworthiness. 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, given Saskatoon's fairly high median household income. Saskatoon is Saskatchewan's commercial center and its largest Census metropolitan area. The city expects its population will continue climbing and surpass 285,000 in 2021. Agriculture, the public sector, and natural resources, most notably potash mining and uranium, are the local economy's largest industries. Although we expect the global coronavirus pandemic will continue to affect economic growth in 2021 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.

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 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. In 2019, the city introduced its first multiyear budget. The introduction of multiyear budgeting supports fiscal transparency and discipline, and also demonstrates management's commitment to ongoing improvements in management practices.

The institutional framework under which the city operates, as for other Canadian municipalities, is very predictable and well-balanced. The provincial government imposes fiscal restraint through legislative requirements to pass balanced operating budgets. At the same time, provincial-municipal relationships have been more dynamic than the federal-provincial one, largely because municipal governments are established through provincial statute and not the constitution. In that regard, we expect Saskatoon's relationship with Saskatchewan will remain supportive.

Strong budgetary performance will assist in keeping the debt burden manageable. Although COVID-19 will have a material yet temporary impact on the city's finances in 2020, Saskatoon's budgetary performance has historically been strong and we expect this trend will continue over the next few years. 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 more than 24% and after-capital surpluses about 3.8% for 2019-2023. The city's planned capital expenditures are in line with historical levels and include the library extension project as well as the new bus rapid transit system.

Saskatoon's debt burden is expected to remain manageable, averaging just under 40% of consolidated revenues from 2020-2023. The city issues debt to fund some capital projects; however, it also internally finances some capital projects to minimize debt issuance. From 2020-2023, Saskatoon estimates that it could issue up to about C\$200 million of debt to fund capital projects, leading to total debt of about C\$428 million by 2023. We expect the city's interest burden will remain low at 1.7% of revenues, on average. Saskatoon's debt burden is supported by high operating margins, which over five years exceed total direct debt outstanding, highlighting the small and manageable level of the burden.

The city maintains exceptional levels of liquidity. We estimate free cash balances and investments will be slightly above C\$535 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.

Key Statistics

Table 1

City of Saskatoon -- Selected Indicators						
	--Fiscal year ended Dec. 31--					
(Mil. C\$)	2018	2019	2020bc	2021bc	2022bc	2023bc
Operating revenues	891	907	897	923	952	986
Operating expenditures	662	675	681	701	717	735
Operating balance	229	231	216	222	235	250
Operating balance (% of operating revenues)	25.7	25.5	24.0	24.0	24.7	25.4
Capital revenues	172	45	91	98	180	122
Capital expenditures	474	224	321	256	403	288
Balance after capital accounts	(74)	52	(14)	64	12	84
Balance after capital accounts (% of total revenues)	(6.9)	5.4	(1.4)	6.2	1.1	7.6
Debt repaid	29	28	24	19	26	26
Gross borrowings	39	0	0	69	78	54
Balance after borrowings	(64)	24	(38)	114	64	112
Direct debt (outstanding at year-end)	149	127	106	161	219	252
Direct debt (% of operating revenues)	16.7	14.0	11.8	17.4	22.9	25.6
Tax-supported debt (outstanding at year-end)	354	326	300	349	401	428
Tax-supported debt (% of consolidated operating revenues)	39.8	36.0	33.5	37.8	42.1	43.4
Interest (% of operating revenues)	2.7	3.0	1.5	1.5	1.4	1.4
National GDP per capita (single units)	60,196	61,466	57,854	61,614	64,039	66,183

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 Saskatoon -- Ratings Score Snapshot	
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. 14, 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Credit Outlook 2021, Back on Track?, Dec. 3, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019
- Public Finance System Overview: Canadian Municipalities, May 12, 2020

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