

Research Update:

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

February 4, 2020

Overview

- The City of Saskatoon has a diverse economy and prudent financial management, which will support the city's healthy 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 Saskatoon and maintaining the stable outlook.

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Rating Action

On Feb. 4, 2020, 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 a strong and diverse economy that supports strong budgetary performance, keeping debt issuance low 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, 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

Saskatoon's prudent financial management and strong and diverse economy have supported the city's budgetary balances, leading to large operating surpluses that are more than sufficient to fund its 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 remain consistent with historical levels. We expect average after-capital surpluses through 2019-2022 should minimize the need to issue debt and ensure that the city's cash balances remain ample. 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, 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 270,000 in 2019. Agriculture, the public sector, and natural resources, most notably potash mining and uranium, are the local economy's largest industries. The city's economic diversity and ongoing population growth should support GDP per capita growth in line with Canada's.

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.

Operating balances are healthy, but capital plans could require debt to fund some projects.

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 build 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 26% and after-capital surpluses about 2.7% for 2018-2022. The city's planned capital expenditures are in line with historical levels and include the library extension

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project as well as the new bus rapid transit system.

Saskatoon's debt burden is expected to remain manageable around current low levels of just under 40% of consolidated revenues. The city issues debt to fund some capital projects; however, it also internally finances some capital projects to minimize debt issuance. From 2019-2022, Saskatoon estimates that it could issue up to about C\$76 million of debt to fund capital projects, leading to total debt of about C\$400 million. We expect the city's interest burden will remain low at 1.5% of revenues on average. Saskatoon's debt burden is supported by high operating margins, which over five years exceed total outstanding direct debt, highlighting the small and manageable level of the burden.

The city maintains exceptional levels of liquidity. We estimate its total free cash will average slightly above C\$475 million in the next 12 months and cover more than 12x estimated debt service for the period. We expect this ratio will 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.

Key Statistics

Table 1

City of Saskatoon -- Selected Indicators

(Mil. C\$)	--Fiscal year ended Dec. 31--					
	2017	2018	2019bc	2020bc	2021bc	2022bc
Operating revenues	830	891	932	970	1,013	1,058
Operating expenditures	633	662	681	709	741	774
Operating balance	198	229	251	261	272	284
Operating balance (% of operating revenues)	23.8	25.7	27.0	26.9	26.9	26.8
Capital revenues	127	172	98	91	113	220
Capital expenditures	366	474	260	377	295	424
Balance after capital accounts	(42)	(74)	89	(25)	90	79
Balance after capital accounts (% of total revenues)	(4.3)	(6.9)	8.6	(2.4)	8.0	6.2
Debt repaid	27	29	28	24	23	26
Gross borrowings	58	39	0	0	49	27
Balance after borrowings	(11)	(64)	61	(49)	116	80
Direct debt (outstanding at year-end)	176	149	126	155	164	221
Direct debt (% of operating revenues)	21.2	16.7	13.5	16.0	16.2	20.9
Tax-supported debt (outstanding at year-end)	345	354	326	350	352	403
Tax-supported debt (% of consolidated operating revenues)	41.6	39.8	35.0	36.0	34.7	38.1
Interest (% of operating revenues)	1.7	2.7	1.6	1.4	1.4	1.4
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A

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Table 1

City of Saskatoon -- Selected Indicators (cont.)

(Mil. C\$)	--Fiscal year ended Dec. 31--					
	2017	2018	2019bc	2020bc	2021bc	2022bc
National GDP per capita (single units)	58,607	59,879	61,445	63,142	65,014	67,162

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.

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. 12, 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

Related Research

Credit Conditions North America: Recession Risk Has Eased For Now, Dec. 3, 2019

Guidance: Methodology for Rating Local and Regional Governments Outside of the U.S., July 15,

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2019

Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019

Public Finance System Overview: Canadian Municipalities, July 18, 2018

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. 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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