City of Saskatoon

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PRIMARY CONTACTS

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

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

RESEARCH CONTRIBUTOR

Ekta Bhayani
CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Mumbai

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Broad and diverse economy with a growing population will continue to support the city's creditworthiness	Saskatoon will continue to generate robust operating margins sufficient to keep its debt burden manageable
Saskatoon's prudent financial management will continue to support strong operating balances.	Strong operating balances will help support the implementation of the city's capital plans.
We believe the city's relationship with the province will remain extremely predictable and supportive.	The city's exceptional liquidity position will continue to support its creditworthiness.

S&P Global Ratings' long-term issuer credit rating on the City of Saskatoon, in the Province of Saskatchewan, is 'AAA'. Despite risks around macroeconomic headwinds, we expect the city's main industries--natural resources and the public sector--will help to support continued economic growth. We believe that Saskatoon will maintain robust financial results that will support its capital plans, low debt, and exceptional liquidity.

Outlook

The stable outlook reflects our expectation that Saskatoon will continue to benefit from a strong and diverse economy that supports budgetary performance, keeping debt issuance manageable and liquidity exceptional. Furthermore, we expect the city's strong financial management and extremely predictable and supportive institutional framework will support 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, combined with a sluggish or inadequate response from management, caused the city to run persistent and large after-capital deficits and increase its tax-supported debt above 60% of operating revenues, we could lower the rating.

Rationale

A strong economic profile and prudent financial management practices support Saskatoon's creditworthiness.

Saskatoon is Saskatchewan's commercial center and its largest census metropolitan area (CMA). The economy is strong and diversified. According to the most recent census data, the CMA's population has increased by 7.6% since 2016; management expects this trend will continue. Agriculture, natural resources (most notably potash mining and uranium), and the public sector are the local economy's largest industries. Although there remain some macroeconomic headwinds, we believe that the city's economic diversity and population growth should continue to support GDP 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$50,000 in 2023.

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 a long 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 also 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.

As do other Canadian municipalities, Saskatoon benefits from an extremely predictable and supportive local and regional government framework that has demonstrated high institutional stability and evidence of extraordinary support in times of financial distress. Most recently through the COVID-19 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. Any operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations) through reserve contributions. Municipalities have demonstrated a track record of strong budget results; debt burdens, on average, are low compared with those of global peers and growth over time has been modest.

The city's strong budgetary performance will assist in maintaining its manageable debt burden.

Despite the current macroeconomic headwinds, we believe that Saskatoon's stable tax base will help it to maintain strong budgetary performance through the outlook horizon. Therefore, we expect operating balances will average above 21% of operating revenues in 2021-2025. Due to its large capital plan, the city's planned capital expenditures will generate after-capital deficits in the outer years of our forecast, with major projects aimed at road preservation and land development, as well as the new bus rapid transit system and the library expansion. However, we expect after-capital balances will remain in a surplus position, averaging about 1.3% of total revenues for 2021-2025.

We expect Saskatoon's debt burden will remain manageable, at 42% of consolidated revenues in 2025. The city issues debt to fund some capital projects; however, it also has the ability to fund projects using its reserves and grants. Over 2022-2025, Saskatoon estimates that it could issue up to about C$249 million of debt to fund capital projects, leading to total debt of about C$451 million by 2025. We expect the city's interest burden will remain low at 1.3% of operating revenues, on average. Saskatoon's debt is supported by high operating margins, which over five years exceed total direct debt outstanding, highlighting the small and manageable debt burden.

The city maintains exceptional liquidity. We estimate free cash balances and investments will be slightly above C$716 million in the next 12 months. This should cover about 25x 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$	2020	2021	2022bc	2023bc	2024bc	2025bc
Operating revenue	885	935	964	999	1,027	1,069
Operating expenditure	707	747	759	779	805	829
Operating balance	178	188	205	220	222	239
Operating balance (% of operating revenue)	20.1	20.1	21.3	22.0	21.6	22.4
Capital revenue	138	144	112	148	56	63
Capital expenditure	266	226	286	339	352	325
Balance after capital accounts	50	107	30	29	(74)	(23)
Balance after capital accounts (% of total revenue)	4.9	9.9	2.8	2.5	(6.9)	(2.0)
Debt repaid	24	19	20	16	19	17
Gross borrowings	0	0	2	141	54	52
Balance after borrowings	26	87	12	153	(39)	12
Direct debt (outstanding at year-end)	106	92	79	201	242	283
Direct debt (% of operating revenue)	12.0	9.8	8.2	20.1	23.6	26.5
Tax-supported debt (outstanding at year-end)	308	287	268	383	417	451
Tax-supported debt (% of consolidated operating revenue)	34.8	30.8	27.9	38.3	40.6	42.2
Interest (% of operating revenue)	1.5	1.2	1.3	1.1	1.6	1.7
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	43,292.5	52,014.6	53,086.4	50,353.6	52,552.0	57,057.3

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

Key rating factors	Scores
Institutional framework	1

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, 2022, Interactive version available at http://www.spratings.com/sri

Related Criteria

- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Sept. 28, 2022
- 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

- Economic Research: Economic Outlook Canada Q1 2023: Economic Chills This Winter, Nov. 28, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Ratings Detail (as of January 19, 2023)*

Saskatoon (City of)		
Issuer Credit Rating		AAA/Stable/--
Senior Unsecured		AAA
Issuer Credit Ratings History		
29-Jul-2002	*Foreign Currency*	AAA/Stable/--
12-Jul-2001		AA+/Stable/--
12-Jul-2001	*Local Currency*	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.