

S&P Global Ratings 2023 – City of Saskatoon

ISSUE

This report is to inform the Standing Policy Committee on Finance and the general public of the 2023 long-term issuer credit rating report recently released by S&P Global Ratings (S&P), reaffirming the City of Saskatoon's (City) "AAA"/Stable outlook credit rating.

BACKGROUND

An annual process to review the City's financial and economic performance and outlook, as well as the institutional framework in which the City operates is undertaken by S&P to determine the City's credit rating. The factors that contribute to this rating are summarized in this report. Credit ratings are one of several tools investors and lenders use when making decisions regarding an organization's future financial strengths and weaknesses. For the City, this rating serves as an indication of the credit risk and the ability of the City to meet its financial obligations in full and on time. This also identifies the credit quality of the City's debt and can translate into lower interest rates for favourable credit ratings since there is minimal or low risk associated with the debt.

CURRENT STATUS

The City received a "AAA"/Stable credit rating from S&P based on the City's 2023 financial statements, as well as current market conditions, financial forecasts and the economic outlook for Saskatoon and area.

DISCUSSION/ANALYSIS

Appendix 1 includes the S&P Global Ratings summary report for the City. The institutional framework used by S&P is assessed on a six-point scale: 1 is the strongest and 6 is the weakest score. S&P's 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. Below is an overview of the key factors considered by S&P as well as their comments.

Key Factors and Rating

- Institutional Framework – (1) EXTREMELY PREDICTABLE AND WELL-BALANCED

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 systemic extraordinary support in times of financial distress. Most recently through the pandemic, senior levels of government provided operating and transit related grants to municipalities, in addition to direct support to individuals and businesses.

- Economy – (1) STRONGEST RATING

As the largest Census Metropolitan Area (CMA) in Saskatchewan, while small, Saskatoon is a key economic hub in the province and on the Canadian Prairies. According to the 2021 Canadian census, the CMA population grew 7.6% over the previous five years; available indicators suggest that a similar trend will continue in the near term. Despite its size compared with larger cities in North America, the local economy is diverse, with a significant presence in the agriculture and natural resources (potash and uranium mining) sectors, and a robust local public sector. Despite potential headwinds and knock-on effects that could affect exporting sectors, we expect the local economy will remain resilient.

- Financial Management – (1) STRONGEST RATING

Saskatoon's strong and prudent financial management is a key credit strength, in our view. Although the recent municipal elections resulted in a historic turnover among council, the city's administration remains largely stable, with significant experience and a record of effectively enacting fiscal policies. S&P Global Ratings does not assume a significant shift in strategic priorities as a result of the council's turnover. Saskatoon typically passes budgets before the start of the fiscal year with minimal variations from projected revenues and expenses. We view both management accountability and transparency to be strong, as reflected in ongoing disclosures and grounded assumptions, as well as prudent financial policies. The city consistently produces robust annual budget documents. It also prepares multiyear operating and capital budgets for upcoming years, alongside comprehensive long-term capital and borrowing plans. This underpins fiscal transparency and discipline, in our assessment.

- Budgetary Performance – (1) STRONGEST RATING

Saskatoon is embarking on a large capital plan for both asset maintenance and growth projects. These include the city's Bus Rapid Transit, the new central library project, infrastructure maintenance, and firehalls. The projects will be partially funded out of the city's robust reserves; therefore, we expect Saskatoon will generate after-capital surpluses averaging 2.8% of revenues during the base-case period. At the same time, we expect Saskatoon will continue to generate healthy operating surpluses over the next several years, averaging 20.7% over 2023-2027, supported by growth in the local assessment base and population, and by healthy property tax increases.

- Liquidity – (1) STRONGEST RATING

Saskatoon's liquidity is a key credit strength. We estimate free cash and investments will be close to C\$853 million in the next 12 months; we expect this will cover more than 32x the next 12 months' debt service. We expect that this ratio will remain well above 100% over the forecast horizon. As with other domestic peers, we view the city's access to external liquidity as satisfactory.

- Debt Burden – (1) STRONGEST RATING

We expect the city will maintain a manageable debt burden over the forecast period. After issuing C\$50 million in 2024, Saskatoon intends to issue an additional C\$234 million in 2025-2027, which will support its capital projects; we expect the debt burden will remain below 40% of consolidated revenues through 2027. The city's exceptionally high operating balances also support its low debt burden, mitigating some of its growth. Similarly, we expect the interest burden will remain low, averaging 1.1% of adjusted operating revenues between 2024 and 2026.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Saskatoon will continue to benefit from a resilient economy that supports budgetary performance, maintain exceptional liquidity, and keep its debt burden manageable at under 40%. In addition, we expect the City's strong financial management, coupled with an extremely predictable and supportive institutional framework, will support the rating.

Communication Plan

A News Release advising citizens and the media of the City's "AAA"/Stable credit rating was issued on January 15, 2025, and S&P's Global Ratings Summary was available on the City's website.

FINANCIAL IMPLICATIONS

The impact of having a "AAA"/Stable Outlook credit rating, which is the highest possible rating, allows the City to borrow at lowest possible interest rates as the City is seen as an organization that has an extremely strong capacity to meet financial commitments.

As noted in the Budgetary Performance section above, S&P does note the significance of the City's upcoming capital plan that could impact the City's after-capital balances. The after-capital balances are one of many metrics used by S&P to evaluate a municipalities credit score in the budgetary performance and debt categories.

While this insight is valuable to be made aware of and monitor moving forward, it is also important to note that the City's credit rating score is only one tool available to use to provide guidance on the City's future investment decisions. Potential impacts on the City's credit rating must be weighed against other priorities such as operational requirements and public need when investment decisions are made.

OTHER IMPLICATIONS

There are no privacy, legal, social, or environmental implications identified.

NEXT STEPS

No further action or follow up is required.

APPENDICES

1. S&P Global Ratings – Summary: City of Saskatoon – January 15, 2025

REPORT APPROVAL

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