
S&P Global's Canadian Ratings – City of Saskatoon

Recommendation

That the report of the Chief Financial Officer, dated February 12, 2019, be received as information.

Topic and Purpose

The purpose of this report is to inform the Standing Policy Committee on Finance and the general public of the 2017 long-term issuer credit rating report recently released by S&P Global (S&P) reaffirming the City of Saskatoon's (City) "AAA"/Stable outlook credit rating.

Report Highlights

1. S&P has reaffirmed the City's "AAA"/Stable outlook credit rating based on the 2017 Consolidated Financial Statements and current economic outlook.
2. The City compares favourably to the key factors used by S&P to evaluate the City's credit rating. These include:
 - strong relationships with other levels of government;
 - a diverse economy;
 - strong and prudent financial policies and management;
 - favourable budget flexibility;
 - very strong budgetary performance;
 - exceptional liquidity;
 - the ability to service debt, maintain a manageable debt level and healthy reserves; and
 - no significant future financial risks.

Strategic Goal

Strong financial performance is the foundation of the Strategic Goal of Asset and Financial Sustainability and leads to the City's "AAA" 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 that 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 issue and can translate into lower interest rates for favourable credit ratings since there is minimal or low risk associated with the debt.

Report

“AAA”/Stable Outlook Credit Rating

The City received an “AAA”/Stable credit rating from S&P based on the City’s 2017 financial statements, as well as current market conditions, financial forecasts and the economic outlook for Saskatoon and area. Attachment 1 is S&P’s Research Update Report summarizing the key points that supports the City’s “AAA” credit rating.

The rating factors and the City’s performance in relation to these factors are presented as follows:

Key Factors and Rating

- Institutional Framework – VERY PREDICTABLE AND WELL-BALANCED
Strong relationships with other levels of government provides stability for municipal finances.

S&P views the City as benefiting from an intergovernmental system that is “very predictable and well-balanced.” “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.”

- Economy – VERY STRONG
A robust economy and prudent financial management continue to underpin the ratings.

S&P indicated that Saskatoon's economic fundamentals are very strong. “In our opinion, Saskatoon benefits from a strong and diversified economy, given its status as Saskatchewan's largest Census metropolitan area. We estimate that the city's GDP per capita would be in line with the provincial average in 2016-2018 (forecast) of about US\$52,141, given Saskatoon's fairly high median household income.”

- Financial Management – STRONG
The City of Saskatoon demonstrates strong financial management.

S&P references the City’s strong management team. “In our view, the City’s management team is experienced and qualified to effectively enact fiscal policies, and effectively respond to external risks.” S&P also references that the City’s management accountability is strong and financial policies prudent but also noted that disclosure and transparency are “what we believe to be good, annual financial statements are audited and unqualified and the City prepares robust annual operating and capital budget documents and long-term capital and borrowing plans.”

- Budgetary Flexibility – VERY STRONG

The City of Saskatoon's high degree of budgetary flexibility supports the City's financial performance.

Budgetary flexibility is the measurement of an organization's ability to adjust for changes in volume, activity or demand. This measurement is important as it indicates an organization's ability to properly manage and adjust resource allocations in uncertain or changing economic environments.

"High modifiable revenues, primarily from taxes, fees and user charges, typically account for more than 85% of operating revenues." S&P views this high level of operating funding as favorable and expect this to remain at similar levels.

- Budgetary Performance – VERY STRONG

Strong operating balances boost budgetary performance.

Budgetary performance is the comparison between an organization's planned budget and actual performance. This is an important measure as it illustrates the ability of an organization to execute business plans within the constraints of its approved budget.

S&P states that "We expect modifiable revenues and operating balances will be stable and average about 86% and 23% of operating revenues, respectively, in 2017-2021."

- Liquidity – EXCEPTIONAL

The City of Saskatoon's liquidity is healthy.

Liquidity is the term used to describe how easily assets can be converted into cash. Liquid assets include cash holdings, short-term investments and short-term receivables. This measure is important as it is used to understand a corporation's "ability to pay" and helps identify potential cash flow issues in the future.

S&P considers Saskatoon's strongest performance in the area of liquidity. "We estimate 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." S&P's liquidity rating was also based on the City's strong internal cash flow generation.

- Debt Burden – VERY LOW

Debt Burden will remain much less than 60% of operating revenues.

Debt burden is the overall cost of an organization to service debt; this is commonly calculated as the annual cost of principle and interest payments divided by annual revenue. This is an important measure as it illustrates how reliant an organization is on debt and its potential to take on additional debt in the future.

The City's tax-supported debt compared to consolidated operating revenues is an indicator of debt burden. A score under 30% is considered strong and under 60% would be considered reasonable. "We expect tax-supported debt (including the costs related to the two public-private partnership projects) to remain minimal, at about 43% of operating revenues at year-end 2021." In regard to the ratio of interest costs to adjusted operating revenues, Saskatoon has a ratio of which is considered low. "Tax-supported debt is less than three years' operating surpluses, which, together with very low interest costs, supports our assessment of the minimal debt burden."

- Contingent Liabilities – VERY LOW
The City has minimal contingent liabilities.

Contingent liabilities are a potential liability that may occur, depending on the outcome of an uncertain future event. These are important to identify and consider as they can have significant impacts on future finances, operations and budgets.

S&P noted that the City has minimal contingent liabilities, which were approximately 6% of consolidated operating revenues in 2017. These stem from standard future employee benefits and landfill post-closure liabilities.

Outlook

The STABLE outlook rating by S&P is based on the City's two-year forecasts. "The stable outlook reflects our expectation that Saskatoon will continue to benefit from a diverse economy, maintain healthy liquidity, hold its tax-supported debt below 60% of operating revenues, and post robust budgetary results in the next two years."

Communication Plan

A News Release advising citizens and the media of the City's "AAA"/Stable credit rating was issued on January 10, 2019, and S&P Global's Ratings Direct – Research Update: City of Saskatoon – January 10, 2019 was made available on the City's website (saskatoon.ca under Budget & Finances).

Due Date for Follow-up and/or Project Completion

There is no due date for follow-up and/or project completion.

Public Notice

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachment

1. S&P Global – Ratings Direct – Research Update: City of Saskatoon Ratings Affirmed At 'AAA'; Outlook Remains Stable – January 10, 2019

Report Approval

Written and

Approved by: Kerry Tarasoff, Chief Financial Officer

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