City of Saskatoon

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This report does not constitute a rating action.

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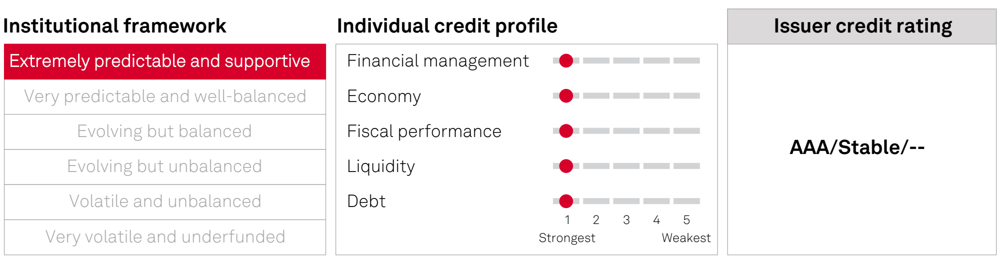
Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
A broad and diverse economy with a growing population will continue to support the city's creditworthiness.	Growth in operating expenditures will be met with higher tax increases to sustain healthy operating balances before returning to historical levels in 2026.
Effective financial management practices consistently support strong operating balances.	Despite significant expected debt issuance, strong budgetary performance and capital grants will keep the debt burden manageable.
An extremely predictable and supportive local and regional government framework bolsters our view of the city's creditworthiness.	The city's exceptional liquidity position will continue to support its creditworthiness.

We expect Saskatoon's strong and stable economy, coupled with a growing population and upcoming tax adjustments, will result in healthy operating balances throughout the outlook horizon. Anticipating matching growth in operating expenses, operating balances are expected to remain above 20%. Simultaneously, significant increases in capital spending, addressing rising demand for utilities, will lead to a modest deficit by 2026. We anticipate a gradual weakening in after-capital results leading up to 2026. Management's commitment to fiscal sustainability is evident in its manageable debt burden, with expected issuances leaving it below 40% of operating revenues supported by strong budgetary performances and government grants. The city’s robust liquidity position is a key credit strength.

Outlook

The stable outlook reflects S&P Global Ratings’ expectation that Saskatoon will continue to benefit from a strong and diverse economy that supports budgetary performance, keeping debt issuance manageable and maintaining an exceptional level of liquidity. In addition, we expect the city's strong financial management, coupled with an extremely predictable and supportive institutional framework, will support the rating.

Downside scenario

Although unlikely in the next two years, we could lower the rating if a larger than expected capital plan, coupled with an inadequate response from management resulted in sustained and significant after-capital deficits, and increased debt issuance caused tax-supported debt to exceed 60% of operating revenues.

Rationale

Strong economic profile, coupled with sound financial management reinforces Saskatoon’s creditworthiness.

Saskatoon is a key economic hub, and the largest Census Metropolitan Area (CMA) in Saskatchewan, driving commerce, trade, and diverse economic activities in the Canadian Prairies. According to the 2021 Canadian census, the CMA population grew 7.6% since 2016; available indicators suggest this trend will continue. The economy is strong and characterized by broad diversification of sectors and industries. Notably, agriculture, natural resources (through potash and uranium mining), and the public sector help shape the local economic landscape. Although macroeconomic headwinds persist, we believe the local economy will remain stable. The city’s diverse economy, population growth, and low unemployment should help sustain GDP growth in line with Canada’s over the forecast horizon. Given Saskatoon’s relatively high median household income, we believe that the city's average GDP per capita is higher than the estimated national average of approximately US$55,000 in 2024.

Saskatoon's strong and prudent financial management is a key credit strength, in our view. The city's management team is experienced and qualified to effectively enact fiscal policies and navigate external risks. Good political consensus is demonstrated by a long track record of passing 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.

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. 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 and, therefore, debt burdens, on average, are low relative to those of global peers and growth over time has been modest.

Saskatoon's strong budgetary performance will ensure a manageable debt burden amid significant capital expenditures.

We believe that Saskatoon's stable tax base will help it maintain strong budgetary performance through the outlook horizon. In light of inflationary pressures and unplanned spending affecting 2022 results, the city raised property taxes above the historical average, reflected in the current budget. This adjustment, coupled with a solid tax base and assessment growth, will result in strong operating margins. Therefore, we forecast operating balances will remain healthy and stable throughout 2023-2026. The city is also embarking on a sizable capital plan, with significant expenditures that are anticipated to result in a modest after-capital deficit by 2026. About 50% of the planned capital spending in the forecast is linked with growth-related projects such as land development, including waterworks and road preservation. The remaining portion primarily consists of other major projects, notably the new bus rapid transit system and the delayed-but-anticipated progression of the new central library. The capital plan excludes any allocation for the Downtown Event & Entertainment District proposal, nor do we expect any inclusion in the forecast horizon. Although we still expect after-capital balances to remain in a surplus position, averaging about 2.6% of total revenues for 2023-2026, we foresee a gradual weakening over time.

We anticipate that Saskatoon's debt burden will remain manageable, constituting 38% of consolidated revenues in 2026. The city leverages debt for certain capital projects but maintains the capacity to fund projects internally through reserves and grants. Over 2023-2026, Saskatoon could issue up to about C$270 million of debt to fund capital projects, projecting total debt of about C$441 million by 2026. This is less than 80% of its debt limit of C$558 million mandated by the province. We expect the city's interest burden will also remain low. Both the median debt burden, and the median interest burden of 'AAA' rated peers in Canada at 35%, and 1.3%, respectively, align closely with Saskatoon's metrics. Saskatoon's debt is supported by high operating margins, surpassing total direct debt outstanding over five years, highlighting the small and manageable debt burden.

The city maintains exceptional liquidity. We estimate free cash balances and investments will be slightly above C$654 million in the next 12 months. This should cover almost 17x the 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$	2021	2022	2023bc	2024bc	2025bc	2026bc
Operating revenue	935	996	1,035	1,095	1,139	1,170
Operating expenditure	747	774	805	852	891	915
Operating balance	188	223	230	243	247	256

City of Saskatoon Selected Indicators

Operating balance (% of operating revenue)	20.1	22.4	22.2	22.2	21.7	21.8
Capital revenue	144	141	109	119	120	137
Capital expenditure	226	246	305	343	363	418
Balance after capital accounts	107	118	34	19	4	(26)
Balance after capital accounts (% of total revenue)	9.9	10.3	3.0	1.5	0.3	(2.0)
Debt repaid	19	20	16	23	22	26
Gross borrowings	0	0	2	131	78	59
Balance after borrowings	87	98	20	127	60	7
Direct debt (outstanding at year-end)	92	79	73	194	256	285
Direct debt (% of operating revenue)	9.8	7.9	7.0	17.7	22.5	24.3
Tax-supported debt (outstanding at year-end)	287	268	255	370	425	441
Tax-supported debt (% of consolidated operating revenue)	30.8	26.9	24.6	33.8	37.3	37.7
Interest (% of operating revenue)	1.2	1.2	1.1	1.5	1.5	1.6
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	52,358.6	54,917.7	53,414.6	54,838.8	58,119.8	59,306.1

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.

Rating Component Scores

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.

Related Criteria

- 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

- Canadian Municipalities Exercise Available Flexibility To Preserve Budgetary Strength Amid Rising Costs, Dec. 6, 2023
- Economic Outlook Canada Q1 2024: Growth Is Set To Continue Slowing, Nov. 27, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- Local And Regional Government Risk Indicators: Canadian LRGs' Buoyant Fiscal Performance Will Persist Despite High Inflation And Near-Term Headwinds, Sept. 20, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2023

Ratings Detail (as of January 15, 2024)*

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.