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Research Update:

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

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Overview

- We expect the City of Saskatoon's track record of robust fiscal performance to continue, allowing the city to proceed with its capital agenda while maintaining healthy liquidity and minimal debt.
- As a result, we are affirming our 'AAA' long-term issuer credit and senior unsecured debt ratings on the city.
- The stable outlook reflects our expectations that, throughout the next two years, 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.

Rating Action

On Jan. 10, 2019, 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 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.

Although unlikely, we could take a negative rating action in the next two years if Saskatoon's revenue growth persistently lags that of expenditures, resulting in consistent after-capital deficits over 5% of operating revenues, and the city's tax-supported debt exceeds 60% of operating revenue.

Rationale

We have updated our base-case scenario for Saskatoon and extended our forecast horizon through 2021. The city, which is the economic engine of Saskatchewan, has a diverse economy and prudent management. This will assist Saskatoon to maintain robust budgetary performance and healthy liquidity, allowing it to manage its capital plan with limited additional debt issuance. We also believe that Saskatoon will continue to benefit from a supportive institutional

framework.

A diverse economy and prudent financial management support the ratings.

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. Saskatoon's population is forecast to reach about 280,000 in 2019, a 2.6% increase since 2017. The city's largest industries are agriculture, the public sector, and natural resources, most notably potash mining.

We believe that Saskatoon's creditworthiness reflects strong financial management. In our view, the city's management team is experienced and qualified to effectively enact fiscal policies, and effectively respond to external risks. Saskatoon demonstrates what we view as good political and managerial strength with its lengthy track record of passing budgets before the start of fiscal year and meeting goals. We also believe that management accountability is strong and financial policies are prudent. 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. It also prepares long-term capital and borrowing plans.

We believe Canadian municipalities benefit from a very predictable and well-balanced local and regional government framework that has demonstrated a high degree of institutional stability. 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 and landfill closure costs) through reserve contributions.

Operating balances are healthy, but an expanding capital plan will require debt to fund some projects.

We expect modifiable revenues and operating balances will be stable and average about 86% and 23% of operating revenues, respectively, in 2017-2021. We also estimate that Saskatoon will post slight after-capital surpluses, despite fairly high capital expenditures of about C\$311 million, or 31% of total expenditures, on average in 2017-2021.

In 2019-2021, Saskatoon plans to issue about C\$142 million of debt to fund some capital projects. 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 addition, 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.

In our view, the city's liquidity is healthy. 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. We expect this ratio to remain well above 100% during the forecast outlook horizon. In addition, the city benefits from strong internal cash flow generation, which boosts our assessment of its liquidity profile. We believe that Saskatoon has satisfactory access to external liquidity, given its proven ability to issue into public debt markets and the presence of a secondary market for Canadian municipal debt instruments.

Saskatoon's contingent liabilities are what we consider very low, totaling about 6% of 2017 operating revenues. They relate mainly to standard future employee benefits and landfill postclosure.

Key Statistics

Table 1

City of Saskatoon -- Selected Indicators							
	--Year ended Dec. 31--						
(Mil. C\$)	2015	2016	2017	2018bc	2019bc	2020bc	2021bc
Operating revenues	814.75	800.18	830.29	863.99	901.25	940.55	982.02
Operating expenditures	618.36	582.33	632.75	658.68	690.77	724.18	757.19
Operating balance	196.39	217.85	197.54	205.32	210.48	216.37	224.83
Operating balance (% of operating revenues)	24.10	27.22	23.79	23.76	23.35	23.00	22.89
Capital revenues	131.07	92.24	127.16	92.57	75.75	93.17	156.68
Capital expenditures	330.31	274.71	366.27	296.17	260.42	279.77	351.51
Balance after capital accounts	(2.85)	35.37	(41.57)	1.72	25.81	29.77	30.00
Balance after capital accounts (% of total revenues)	(0.30)	3.96	(4.34)	0.18	2.64	2.88	2.63
Debt repaid	25.05	24.00	27.40	28.98	27.57	30.29	25.80
Gross borrowings	15.00	0.00	0.00	0.00	75.26	20.00	47.02
Balance after borrowings	(12.91)	11.37	(68.97)	(27.27)	73.51	19.48	51.23
Modifiable revenues (% of operating revenues)	80.12	84.65	84.97	85.55	86.15	86.73	87.29
Capital expenditures (% of total expenditures)	34.82	32.05	36.66	31.02	27.38	27.87	31.70
Direct debt (outstanding at year-end)	228.05	204.05	179.35	153.92	206.92	202.20	229.36
Direct debt (% of operating revenues)	27.99	25.50	21.60	17.81	22.96	21.50	23.36
Tax-supported debt (outstanding at year-end)	263.05	318.77	349.15	358.98	406.67	396.39	417.61
Tax-supported debt (% of consolidated operating revenues)	32.29	39.84	42.05	41.55	45.12	42.14	42.53
Interest (% of operating revenues)	1.30	2.06	1.70	1.39	1.59	1.74	1.65

Table 1

City of Saskatoon -- Selected Indicators (cont.)							
	--Year ended Dec. 31--						
(Mil. C\$)	2015	2016	2017	2018bc	2019bc	2020bc	2021bc
National GDP per capita (single units)	55,673	56,129	58,440	60,163	61,966	63,704	65,542

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. Base case reflects S&P Global Ratings' expectations of the most likely scenario. Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade.

Ratings Score Snapshot

Table 2

City of Saskatoon -- Ratings Score Snapshot	
Key Rating Factors	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Strong
Budgetary Flexibility	Very strong
Budgetary Performance	Very strong
Liquidity	Exceptional
Debt Burden	Very low
Contingent Liabilities	Very low

Note: S&P Global Ratings bases its ratings on local and regional governments on eight main rating factors listed in the table. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments" summarizes how the eight factors are combined to derive the foreign currency rating on the government.

Key Sovereign Statistics

Sovereign Risk Indicators, Dec. 13, 2018. Interactive version available at <http://www.spratings.com/sri>

Related Criteria

- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Governments - International Public Finance: Methodology And Assumptions: The Impact Of PPP Projects On International Local And

Regional Governments: Refined Accounting Treatment, Dec. 15, 2008

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/--
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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