STANDARD & POOR'S
RATINGS SERVICES
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City of Laval

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City of Laval

Rationale

Issuer Credit Rating
AA/Stable/--

The ratings on the City of Laval, in the Province of Quebec, reflect Standard & Poor's Ratings Services' view of Laval's very strong economy, exceptional liquidity, very strong budgetary performance, and very low contingent liabilities. The ratings also reflect our view of the "very predictable and well-balanced" institutional framework for Canadian municipalities, strong budgetary flexibility, and satisfactory financial management. We believe that Laval's high debt burden partially mitigates these credit strengths.

In our opinion, Laval has a very strong, dynamic, and diversified economy, which limits volatility. The service sector (including retail, health and social assistance, financial services) dominates employment in Laval, representing more than 80% of jobs, followed by manufacturing and public administration. Although municipal nominal GDP per capita data are not available, we believe that the city's GDP per capita is close to the 2012-2014 provincial average of US$42,176. In our view, Laval continues to have above-average growth prospects, supported by a significant level of investments in the city (C$1.2 billion in 2014, up 26% from 2013), a more attractive nonresidential tax base, and available space for development.

Laval's budgetary performance is very strong, in our view. The city added another year of robust operating balances and positive after-capital spending balances. At fiscal year-end 2014 (Dec. 31), its operating surplus was 25.1% of operating revenues and its surplus balance after-capital expenditures was 10.1% (all figures Standard & Poor's-adjusted). We expect Laval's operating balance to average about 22% from 2013-2017. In addition, as the city may carry over some capital projects, we believe it will maintain strong after-capital surpluses in the next two years.

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 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.

Laval has strong budgetary flexibility, in our opinion. Its high modifiable revenues are typically close to 90% of operating revenues and we expect them to remain near this level in the next two years. Capital expenditures-to-total expenditures accounted for 20% in 2014, which is lower than those of the past five years. Typically, the city defers or delays some projects, so we expect that Laval's actual capital investments should be lower than budgeted, which is also the case for many of its peers. As a result, we have estimated a deferral rate of 40% in 2016-2017 and expect capital expenditures to average about 18% of total expenditures for 2013-2017. In our opinion, similar to that of its Canadian peers, Laval has limited ability to materially cut operating expenditures, constraining its budgetary flexibility. This is primarily due to provincially mandated service levels, collective agreements with employees, inflation, and political pressures.

Laval's financial management is what we view as satisfactory and has a neutral impact on creditworthiness. We believe Laval has prudent financial practices that ensure a good degree of transparency and fiscal discipline. Financial statements are independently audited with no qualifications and the notes provide detailed information. The city prepares an operating budget annually and a rolling three-year capital plan. It uses well-documented assumptions, such as property tax assessment growth, and actual variations from budget are moderate. We believe the management demonstrates relevant expertise, through good planning and monitoring, and prudent debt and liquidity management. Since September 2014, Laval has experienced a significant turnover in senior management (14 new members). This follows an unstable political climate, when nearly all council members have been replaced through the election of November 2013, including the mayor. In our view, the new council and senior management team continue to build a track record of effectively implementing public policies.

We view Laval's debt burden as high. Tax-supported debt, excluding sinking funds, increased slightly in 2014 to almost C$766 million from C$758 million at the end of 2013. It represented 89.2% of 2014 consolidated operating revenues, which was up slightly from 87.9% the previous year. The burden of interest expense was 6% in 2014, which we consider moderate. For 2015-2017, annual new issuance will total C$323 million, with C$93 million being issued in 2015. Debt repayment, however, will be close to annual new issuance and accordingly, we expect that debt will rise modestly in the next two years. We expect that the rising revenues should moderate the debt burden, which we expect to remain close to 90% of projected consolidated operating revenues in 2017. We also expect the burden of interest expense to remain close to 6% of projected operating revenues in the next two years. At the end of 2014, the unfunded liabilities for pension and other postemployment benefits (OPEBs) were C$152 million and C$100 million, respectively. Together, they represented 29% of 2014 operating revenues.

The city does not have any significant off-balance-sheet or contingent liabilities.

Liquidity

Laval has maintained what we view as "exceptional" liquidity, with free cash and liquid assets well exceeding debt service requirements. We estimate adjusted free cash and liquid asset balances of C$638 million at year-end 2015 cover about 4.5x the next 12 months' debt service costs. Under our base-case scenario, which includes use of liquidity to internally fund capital expenditures, we believe that free cash and liquid assets will be largely sufficient to cover all debt service requirements throughout our two-year outlook horizon. In our view, the city has satisfactory access to external liquidity.

Outlook

The stable outlook reflects Standard & Poor's expectations that, in the next two years, Laval will maintain exceptional liquidity levels and its budgetary performance will remain very strong. We expect the local economy will continue to deliver robust growth over the outlook horizon and that the debt burden will remain near 90% of adjusted operating revenues. We could revise the outlook to positive or raise the ratings if the city's new council and management demonstrate a track record of effective policy making, or the interest burden declines to levels consistently below 5% of adjusted operating revenues. Conversely, although unlikely in the next two years, we could lower the ratings if local economic growth slows and political and managerial strength weakens.

Canadian Municipalities Benefit From A "Very Predictable and Well-Balanced" Institutional Framework

We view the Canadian provincial-municipal intergovernmental system as being "very predictable and well balanced" because of its maturity and stability, low-to-moderate degree of mismatching of revenues and expenditures, moderate levels of transparency and accountability, and strong likelihood of extraordinary support from provincial governments.

Provincial-municipal relationships have proven to be more dynamic than the federal-provincial one, largely because the municipal governments are established through provincial statute and not the Constitution. Historically, the provinces have taken a more active role in municipal affairs than the federal government in provincial matters. Although there have been long periods of relative stability, provincially imposed large-scale changes to municipal revenue powers and expenditure responsibilities have occurred.

Provinces mandate a significant proportion of municipal spending and, through legislation, require municipalities to pass balanced operating budgets (although they also provide operating fund transfers). Nevertheless, municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be intensive for some. Many have been limited in their ability to renew their infrastructure, roads, water, and wastewater, due to constraints on fee and property tax increases. Property taxes are the primary source of own-source revenues for Canadian municipalities, followed by fees and transfers from both the provincial and federal governments. Chief expenditure categories of Canadian municipalities are transportation services, which include roads and transit; environmental services, which include water distribution and treatment and wastewater collection; protection services such as fire and police; and recreation and cultural services. Small and rural municipalities generally receive higher provincial transfers, for both operating and capital programs, compared with those of their more urban counterparts, but there are no formal equalization schemes.

We believe financial information is quite timely. National accounting standards are strong and improving, in our view, although adoption can vary somewhat. Statutes require audited statements. While there are no national standards that apply to budgeting practices, a five-year capital budgeting process is usually the minimum. In addition, only current-year budgeting is required generally for operations.

The provinces have an established history assisting their distressed municipalities through grants.

Very Strong Economy

The city is north of Montreal and is the third-largest in Quebec, after Montreal and Quebec City. Laval is part of the greater Montreal area (GMA), the province's financial and socioeconomic center. The GMA dominates the Quebec economy, representing close to half of the province's population, employment, and output. The city benefits from a branch of the University of Montreal, as well as the extension of Montreal's subway into Laval. This had a significant impact on the city's economy, contributing to the growth in employment and GDP. Although municipal nominal GDP per capita data are not available, we believe that the city's GDP per capita is close to the 2012-2014 provincial average of US$42,176. Based on 2011 Census, its population was 8.9% higher in 2011 than in 2006 and was significantly above the provincial growth rate of 4.7%. Population (as estimated by Institut de la Statistique du Quebec) was 420,870, up 0.85% in 2014.

In our opinion, Laval has a very strong, dynamic, and diversified economy, which limits volatility. Similar to the GMA, the service sector (including, among others, retail, health and social assistance, financial services) dominates employment in Laval, representing more than 80% of jobs, followed by manufacturing and public administration.

In our view, Laval continues to have above-average growth prospects. Investments in the city remained important and totaled C$1.2 billion in 2014, or 26% higher than in 2013. They were led by the industrial sector, which represented 45% of the year's total investments and grew 62% in 2014. The number of jobs created by this sector alone increased almost 60% in 2014. International investments are a significant component and primarily focus on research and development for the health sciences sector. Institutional investments also experienced a significant growth in 2014, and together with the industrial sector, more than offset moderate declines in commercial and residential investments. We believe that the city's more affordable non-residential taxes and available space for development, will allow the city to continue its expansion and support its projected growing population and economic activities.

Labor force results were somewhat mixed in 2014 and the first three quarters of 2015. Laval's unemployment rate increased to 7.2% in 2014 from 6.6% in 2013, while employment grew 2.7% in 2014. In the first three quarters of 2015, employment fell 5% over a similar three-quarter period last year and the unemployment rate remained fairly stable at 7.5%. This evolution was fairly similar of that of the GMA. GMA's unemployment rate grew to 8.4% from 8.2% in 2014; employment increased 1.3%. Historically, Laval's unemployment rate has been below that of the GMA and the province.

After two years of slowdown in the city's construction activity, reflecting a profound change in the city's administration which had an impact on the process to deliver building permits, indicators have significantly rebounded in 2015. For the nine months ended September 2015, the value of building permits was 66% higher than that of the same period in 2014. The number of permits grew 5%. As for the housing starts, they were significantly higher than the level experienced for the entire 2014 fiscal year. In 2014, the value of building permits and housing starts were 14% and 34% lower, respectively, compared to the previous years' levels. Property assessment value rose 2% in 2014 and the city expects it will experience the same growth level in 2015.

Satisfactory Financial Management

In our opinion, Laval displays "satisfactory" financial management. The city has prudent financial practices that ensure a good degree of transparency and fiscal discipline. Financial statements are independently audited with no qualifications and the notes provide detailed information. The city prepares an operating budget annually and a rolling three-year capital plan, which presents detailed information regarding the funding sources. It uses well-documented assumptions, such as property tax assessment growth, and actual variations from budget are moderate. Like other Canadian municipalities, the city issues debt only to finance its capital expenditures. We believe the management demonstrates relevant expertise, through good planning and monitoring, and prudent debt and liquidity management.

The municipal council consists of 22 members: the mayor and 21 councilors. Since September 2014, Laval has experienced a significant turnover in senior management (with 14 new members). This follows an unstable political climate, when nearly all council members have been replaced through the election of November 2013, including the mayor. In our view, the new council and senior management team continue to build a track record of effectively implementing public policies. The next municipal election is scheduled for November 2017.

Strong Budgetary Flexibility

In our opinion, Laval's budgetary flexibility is strong, like that of most Canadian municipalities. The city's high modifiable revenues typically account for about 90% of operating revenues and we expect them to remain close to this level in the next two years. Modifiable revenues are those over which the municipality has direct control and Canadian municipalities derive the vast majority of operating revenues from modifiable sources, including property taxes (75% of Laval's adjusted operating revenue in 2014), other non-tax revenues (8%), and user rate fees (5%). In general, we view the financial flexibility of Canadian municipalities as constrained on the operating expenditure side due to a high degree of municipal services that the provinces mandate and provide municipal governments little discretion over the costs of delivering these services. The city's largest operating expenses relate to transportation services, public order, and environment, which together accounted for about 86% of all adjusted operating expenditures in 2014. Wages and benefits make up a significant portion of operating expenditures and can exert significant pressure on operating budgets. These expenses are often subject to collective agreements, which can further limit budgetary flexibility. Consolidated capital expenditures totaled C$165 million in 2014, or 20.4% of total expenditures, and we expect them to average more than 15% of total expenditures for 2013-2017.

Investments-related infrastructure (real estate development and roads account for the largest share, between 40%-50% of total projected capital expenditures in 2015-2017). Typically, some projects are delayed or deferred, so we expect that Laval's actual capital investments should be lower than budgeted, which is also the case for many of its peers. As a result, we have estimated a deferral rate of 40% in 2016-2017. More than 60% of Laval's 2015-2017 budgeted capital plan (excluding the Société de Transport de Laval) is growth-related, with the remaining dedicated to maintenance. Primary funding sources for the capital plan include taxes and cash payments, transfers, government and third-party subventions, and debt.

Very Strong Budgetary Performance

To improve comparability across local and regional governments globally, Standard & Poor's adjusts the published figures of all cities to reflect their budgetary balances on a cash basis. This includes adjusting for certain major accruals and the increase in equity of government business enterprises, and removing one-time revenue influences. The reporting entity includes a number of municipal organizations, the most important of which is the Société de Transport de Laval, the city's transit company.

Laval's budgetary performance is very strong in our view. The city's operating balance in 2014 was 25.1% of operating revenues, up from the 17.4% recorded in the previous year. Lower-than-budgeted capital revenues (primarily capital transfers) and expenditures resulted in an after-capital surplus of 10.1% of total adjusted revenues in 2014. This was an improvement from the previous year's 4.4% surplus. We expect Laval's operating balance to average about 22% from 2013-2017. In addition, as the city may carry over some capital projects, we believe it will maintain strong after-capital surpluses in the next two years.

Exceptional Liquidity Levels

In our opinion, Laval's liquidity is "exceptional," as our criteria define the term. The city had cash and temporary investments of almost C$556 million, which was up significantly from about C$518 million at the end of 2013. In our view, Laval also has satisfactory access to Canada's well-developed capital markets, in our view, which it maintained throughout the recession.

By our calculation, those cash and investment holdings, which exclude sinking funds, translated into estimated net free cash and liquid assets of about C$514 million or over 3x the next 12 months' debt service. We expect the city's free cash and liquid assets to total about C$638 million at fiscal year-end 2015, or 4.5x its next 12 months' debt service. As well, we believe that, over our outlook horizon, Laval will maintain free cash and liquid assets above 100% of prospective debt service.

The city's maturity schedule remains weighted to the long end. About 40% of Laval's debt outstanding will mature in the next five years. The city has no foreign exchange and floating-rate exposure.

High Debt Burden

We view Laval's debt burden as high. Tax-supported debt, excluding sinking funds, increased slightly in 2014 to almost C$766 million from C$758 million at the end of 2013. Tax-supported debt has been increasing moderately in the past five years: from 2009 to 2014, tax-supported debt has increased 10% or a little more than 2% annually.

For 2014, Laval's tax-supported debt represented 89.2% of consolidated operating revenues, which was up slightly from 87.9% the year previous. The burden of interest expense was 6% in 2014, which we consider moderate.

The city has an unfunded liability for pensions and OPEBs. At the end of 2014, the unfunded liabilities for pension and OPEBS were C$152 million and C$100 million, respectively. Together, they represented 29% of 2014 operating revenues.

For 2015 through 2017, annual new issuance will total C$323 million, with C$93 million being issued in 2015. Debt repayment, however, will be close to annual new issuance and accordingly, we expect that debt will rise modestly in the next two years. We believe that the rising revenues should moderate the debt burden, which we expect to remain fairly stable over our outlook horizon. In our base-case forecast, tax-supported debt will remain close to 89% of projected consolidated operating revenues in 2017. We also expect the burden of interest expense to remain close to 6% of projected operating revenues in the next two years.

Very Low Contingent Liabilities

The city does not have any significant off-balance-sheet or contingent liabilities.

Key Statistics

Table 1

City of Laval -- Economic Statistics					
	--Fiscal year ended Dec. 31--				
(%)	**2010**	**2011**	**2012**	**2013**	**2014**
Population (total)	394,756	401,550	409,718	417,304	420,870
Population growth	1.7	1.7	2.0	1.9	0.9
Unemployment rate	8.4	7.9	7.4	6.6	7.2

Note: The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include Statistics Canada.

Table 2

City of Laval -- Financial Statistics					
	--Fiscal year ended Dec. 31--				
(Mil. C$)	**2013**	**2014**	**2015bc**	**2016bc**	**2017bc**
Operating revenues	863	859	875	898	919
Operating expenditures	712	643	666	687	709
Operating balance	151	216	209	211	211
Operating balance (% of operating revenues)	17.4	25.1	23.9	23.5	22.9
Capital revenues	56	40	44	62	66
Capital expenditures	166	165	111	154	164
Balance after capital accounts	41	90	143	119	112
Balance after capital accounts (% of total revenues)	4.4	10.1	15.5	12.4	11.4
Debt repaid	109	112	87	86	90
Balance after debt repayment and onlending	(68)	(22)	55	33	22
Balance after debt repayment and onlending (% of total revenues)	(7.4)	(2.4)	6.0	3.4	2.2
Gross borrowings	167	149	93	106	124
Balance after borrowings	98	127	149	139	146
Operating revenue growth (%)	(0.7)	(0.5)	1.9	2.6	2.4
Operating expenditure growth (%)	15.2	(9.7)	3.5	3.2	3.2
Modifiable revenues (% of operating revenues)	89.6	91.0	93.2	93.5	94.1
Capital expenditures (% of total expenditures)	18.9	20.4	14.3	18.3	18.8
Direct debt (outstanding at year-end)	758	766	768	788	822
Direct debt (% of operating revenues)	87.9	89.2	87.8	87.8	89.4
Tax-supported debt (% of consolidated operating revenues)	87.9	89.2	87.8	87.8	89.4
Interest (% of operating revenues)	7.1	6.0	5.4	5.6	5.7
Debt service (% of operating revenues)	19.8	19.1	15.4	15.2	15.5

Table 2

City of Laval -- Financial Statistics (cont.)
Note: The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's 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. Base case reflects Standard & Poor's expectations of the most likely scenario. Downside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with an upgrade. bc--Base case.

Ratings Score Snapshot

Table 3

City of Laval -- Ratings Score Snapshot

Key rating factors	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Satisfactory
Budgetary Flexibility	Strong
Budgetary Performance	Very strong
Liquidity	Exceptional
Debt Burden	High
Contingent Liabilities	Very low

Note: Standard & Poor's ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of Standard & Poor's "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the foreign currency rating on the government.

Key Sovereign Statistics

- Sovereign Risk Indicators, Oct. 12, 2015. Interactive version available at http://www/spratings.com/sri

Related Criteria And Research

Related Criteria

- Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014

Related Research

- 2014 Annual International Public Finance Default Study And Rating Transitions, June 8, 2015
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, Feb. 5, 2015

Ratings Detail (As Of December 18, 2015)	
Laval (City of)	
Issuer Credit Rating	AA/Stable/--
Senior Unsecured	AA
Issuer Credit Ratings History	
09-Dec-2014	AA/Stable/--
26-Nov-2013	AA-/Positive/--
15-Nov-2012	AA-/Stable/--

Ratings Detail (As Of December 18, 2015) (cont.)	
29-Nov-2011	AA-/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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.

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