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Ratings

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City of Laval

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City of Laval

This report supplements our research update "City of Laval Outlook Revised To Positive From Stable On Strengthening Financial Management," published on Dec. 2, 2016. To provide the most current information, we may cite more recent data than that stated in the previous publication. These differences have been determined not to be sufficiently significant to affect the rating and our main conclusions.

Rationale

Issuer Credit Rating
AA/Positive/--

The ratings on the City of Laval, in the Province of Quebec, reflect S&P Global Ratings' opinion that the city's financial management will remain strong and that its new capital planning approach will prove to be efficient to support its rapid economic growth, leading to actual-capital spending that is more in line with budgeted levels and comparable with that of similarly rated peers. The ratings also reflect our view of the very predictable and well-balanced institutional framework for Canadian municipalities, the city's exceptional liquidity, very strong economy, and very strong budgetary performance. We believe that Laval's high debt burden partially mitigates these credit strengths.

We believe Laval's political environment has stabilized in the past two years, strengthening our assessment of the city's financial management. The administration has implemented a number of initiatives quickly, including a new strategic plan and the integration of the new pension plan act. Laval has prudent financial practices that ensure a good degree of transparency and fiscal discipline. Financial statements are independently audited, and the notes provide detailed information. We believe management demonstrates relevant expertise, through prudent debt and liquidity management. The city prepares an operating budget annually and a rolling three-year capital plan, which presents detailed information regarding the funding sources. It has started preparing its capital budget on a project-program basis, with the aim of improving the year-to-year visibility of capital expenditure plans and reducing its deferral spending rate. Laval expects that the new budgeting process will allow the city to improve its ability to deliver a track record of actual cash capital spending more in line with the capital budget.

In our opinion, Laval has a very strong, dynamic, and diversified economy, which limits volatility. The service sector (including retail, health and social assistance, and financial services) dominates employment, representing more than 80% of jobs, followed by manufacturing and public administration. We believe that the city's GDP per capita is close to the 2013-2015 provincial average of US$38,900. In our view, Laval continues to have above-average growth prospects, supported by a significant level of investments in the city (about C$1.1 billion in 2015), 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 2015 (Dec. 31), its operating surplus was 21.4% of operating revenues and its surplus balance after-capital expenditures was 8.0% (all figures S&P Global Ratings-adjusted). We expect Laval's operating balance to remain robust and average about 20% from 2014-2018. Because the city expects to see its cash capital spending ramp up in the next two years, we estimate that its after-capital surpluses could decrease significantly in the next two years, to levels close to balance. We expect, however, that its after-capital surplus will average near 4%.

Laval has strong budgetary flexibility, in our opinion. Its high modifiable revenues are typically over 90% of operating revenues and we expect them to remain near this level in the next two years. Capital expenditures accounted for 16.4% of total expenditures in 2015, which was below the level in the past five years due to deferral capital projects. Under its new capital budgeting approach, the city expects actual capital spending rate to increase significantly in the next years primarily because of a more efficient capital planning. As a result, we expect capital expenditures to average about 20% of total expenditures for 2014-2018. 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, the city's collective agreements with employees, inflation, and political pressures.

We view Laval's debt burden as high. Tax-supported debt was fairly stable in fiscal 2015, at almost C$766 million. It represented 88.8% of 2015 consolidated operating revenues, which was down from 91.1% the previous year. The city expects to see its consolidated debt increasing in the next three years, primarily due to its ambitious capital plan. Total forecast debt also includes a C$46 million borrowing Laval will issue on behalf of not-for-profit organization responsible for the building of a multipurpose sports facility (Place Bell), and which the provincial government will service entirely via subsidies. As a result, the city expects to see its tax-supported debt reaching C$871.2 million in 2018, or 94.1% of its consolidated operating revenues. At the same time, we expect interest burden to remain fairly manageable, averaging 5.8% from 2015-2017.

Laval has an unfunded liability for pensions and OPEBs. At the end of 2015, the unfunded liabilities for pension and OPEBs were C$164 million and C$106 million, respectively. Together, they represented 31% of 2015 operating revenues.

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

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.

Liquidity

Laval has maintained what we view as exceptional liquidity, with cash and temporary investments of about C$681 million in fiscal 2015. It holds cash equivalents and marketable securities in investment-grade government bonds and money market instruments, and manages them internally. We estimate that, on an adjusted basis, Laval's next 12 months' cash and liquid assets total about C$722 million, which are sufficient to cover 3.6x next 12-months debt service charges. Although the city expects to use more previously amassed reserves to finance some capital projects, and interest and principal payment increases, we believe that free cash and liquid assets will remain sufficient to cover all debt service requirements throughout our two-year outlook horizon.

In our view, the city has satisfactory access to external liquidity, given its proven ability to issue into various markets, including that for public debt, and the presence of a secondary market for Canadian municipal debt instruments.

Outlook

The positive outlook reflects that, all else equal, there is at least a one-in-three chance we could upgrade Laval one notch in the next two years if the city continues to demonstrate improved financial management practices; political stability; and ability to deliver on its long-term capital planning, especially in the context of the 2017 municipal elections. The outlook also reflects our expectation that Laval will preserve exceptional liquidity balances, and that budgetary performance and economy will remain very strong. We could revise the outlook to stable should the city's political stability or managerial accountability weaken in the next two years.

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

Laval is north of Montreal and is the third-largest in Quebec, after Montreal and Quebec City. It 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. Based on the median income (which we use as a proxy for GDP), we estimate the city's GDP per capita to be largely in line with the 2013-2015 provincial average of US$38,900. Based on 2011 Census, the population was 8.9% higher in 2011 than in 2006 and significantly above the provincial growth rate of 4.7%. Population (as estimated by Institut de la Statistique du Quebec) was 429,400 in 2015, up 1.4% from the previous year.

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. After a slowdown in 2015 labor force results (Laval's unemployment rate increased to 8.1% in 2015 from 7.2% in 2014, while employment declined 8%), the city saw a slight recovery in the first three quarters of 2016. Its unemployment rate improved to 6.8% from 7.7% over a similar three-quarter period a year earlier, while employment decreased moderately, by 1.8%.

We believe Laval continues to have above-average growth prospects. Investments in the city remained important and totaled C$1.1 billion in 2015. At this level, they were 13.8% below 2014 level, primarily because of a decrease in industrial and institutional investments, which have returned to historical levels after several years of robust growth; and were partially offset by an increase in residential and commercial investments. International investments continue to be a significant component and focus primarily on research and development for the health sciences sector. We believe that Laval'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.

After several years of slowdown in construction activity, reflecting a profound change in Laval's administration (which had an impact on the process to deliver building permits), indicators have significantly rebounded in 2015. The value of building permits was 43% higher than that of 2014. Housing starts almost doubled in 2015. Property assessment value rose 2% in 2015 and the city expects it will experience the same growth level in 2016.

Strong Financial Management

We believe Laval's political environment has stabilized in the past the two years, and the administration has quickly made inroads into a number of initiatives, including the implementation of a strategic plan, and the integration of the municipal pension plan reform act. The city has prudent financial practices that ensure a good degree of transparency and fiscal discipline. Financial statements are independently audited, and the notes provide detailed information. We believe management demonstrates relevant expertise, through prudent debt and liquidity management.

Laval prepares an operating budget annually and a rolling three-year capital plan, which presents detailed information regarding the funding sources. It has started preparing its capital budget on a project-program basis with the aim of improving the year-to-year visibility of capital expenditure plans and reducing its deferral spending rate. Laval expects that the new budgeting process will allow it to improve its ability to deliver a track record of actual cash capital spending more in line with the capital budget, similar to its peers. 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 to finance its capital expenditures.

The municipal council consists of 22 members: the mayor and 21 councilors. 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 accounted for 91.6% of 2015 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. Canadian municipalities derive the vast majority of operating revenues from modifiable sources, including property taxes (78% of Laval's adjusted operating revenue in 2015), other non-tax revenues (7%), and user rate fees (7%). 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 delivery. The city's largest operating expenses relate to transportation services, public order, and environment, which together accounted for about 84% of all adjusted operating expenditures in 2015. Wages and benefits make up a significant portion (about 63%) of adjusted operating expenditures, excluding amortization, 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$133 million in 2015, or 16.4% of total expenditures, and we expect them to remain, on average, above 15% of total expenditures for 2014-2018.

Very Strong Budgetary Performance

To improve comparability across local and regional governments globally, S&P Global Ratings 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 Societe 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 2015 was 21.4% of operating revenues, slightly below the 23.6% recorded in the previous year. Lower-than-budgeted capital revenues (primarily capital transfers) and capital expenditures resulted in an after-capital surplus of 8% of total adjusted revenues in 2015. This was close to the previous year's 9.8% surplus. We expect Laval's operating balance to average about 20% from 2014-2018. Because the city expects to see its actual capital spending rise to levels significantly close to the capital plan thanks to Laval's new capital budgeting approach, we believe that its after-capital surpluses could decrease significantly in the next two years, to levels close to balance. However, we expect the city's after-capital surplus will be, on average, close to 4% from 2014-2018.

Laval expects to increase its cash capital spending starting with 2016, at levels close to the capital budget, as result of its new, project-based, capital budget approach. This represents a notable increase compared with the previous five years' actual spending, which averaged a relatively low level of 40% per year. However, because some projects are typically delayed or deferred, we believe that Laval's actual capital investments would be lower than budgeted, which is also the case for many of the city's peers. As a result, we have estimated an average annual realization rate of about 60% in 2016-2018.

About than 60% of Laval's 2016-2018 budgeted capital plan (excluding the Societe de Transport de Laval) is growth-related, oriented mainly toward infrastructure renewal, with the remaining dedicated to maintenance. Primary funding sources for the capital plan include taxes and increased cash payments, transfers, government and third-party subventions, and debt. Laval intends to increase its cash payments for capital expenditures in the next three years, primarily from savings related to operating cost reductions and contributions from previous surpluses. This would bring its contributions from its operating budget to C$30 million per year, with the aim of reducing debt exposure.

Exceptional Liquidity Levels

In our opinion, Laval's liquidity remains exceptional. The city had cash and temporary investments of almost C$681 million in fiscal 2015, up significantly from about C$556 million at the end of 2014. In our view, Laval also has satisfactory access to Canada's well-developed capital markets, which it maintained throughout the recession.

By our calculation, the city's 2017 estimated net free cash and liquid assets total C$722 million or 3.6x the next 12 months' debt service. 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 48% of Laval's debt outstanding will mature in the next five years. There is no foreign exchange and floating-rate exposure.

High Debt Burden

Laval's consolidated tax-supported debt has been increasing moderately over the past 10 years, because of gross debt borrowings being very close to debt repayment. In fiscal 2015, tax-supported debt was fairly stable, at C$766 million, or 88.8% of consolidated operating revenues. This was down slightly from 91.1% the previous year, primarily due to an increase in revenues.

The city expects to see its consolidated debt increasing more in the next three years. Total debt also includes a C$46 million borrowing Laval will issue on behalf of the not-for-profit organization responsible for the building of a multipurpose sports facility (Place Bell), and which the provincial government will service entirely via subsidies. As a result, the city expects to see its tax-supported debt reaching C$871.2 million in 2018, or 94.1% of its consolidated operating revenues. At the same time, we expect interest burden to remain fairly manageable, at an average of 5.8% from 2015-2017.

Laval has an unfunded liability for pensions and OPEBs. At the end of 2015, the unfunded liabilities for pension and OPEBS were C$164 million and C$106 million, respectively. Together, they represented 31% of 2015 operating revenues.

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--				
(%)	**2011**	**2012**	**2013**	**2014**	**2015**
Population	406,098	412,131	417,304	423,450	429,400
Population growth	2.9	1.5	1.3	1.5	1.4
Unemployment rate	7.9	7.4	6.6	7.2	8.1

Note: 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. Sources typically include Statistics Canada.

Table 2

City of Laval -- Financial Statistics

	--Fiscal year ended Dec. 31--								
(Mil. C$)	**2013**	**2014**	**2015**	**2016bc**	**2017bc**	**2018bc**	**2016uc**	**2017uc**	**2018uc**
Operating revenues	842	841	863	883	906	926	887	911	934
Operating expenditures	712	643	678	705	739	765	704	737	763
Operating balance	129	198	185	178	167	161	183	173	171
Operating balance (% of operating revenues)	15.4	23.6	21.4	20.2	18.4	17.4	20.7	19.0	18.3
Capital revenues	77	55	19	39	46	49	46	55	59
Capital expenditures	166	165	133	215	209	198	215	209	198
Balance after capital accounts	41	88	70	2	4	12	14	19	31
Balance after capital accounts (% of total revenues)	4.4	9.8	8.0	0.2	0.4	1.3	1.5	2.0	3.2
Debt repaid	164	148	137	138	143	142	138	143	142
Balance after debt repayment and onlending	(123)	(60)	(67)	(136)	(139)	(130)	(123)	(124)	(110)
Balance after debt repayment and onlending (% of total revenues)	(13.4)	(6.7)	(7.6)	(14.7)	(14.6)	(13.3)	(13.2)	(12.8)	(11.1)
Gross borrowings	167	149	137	147	210	169	147	210	169

Table 2

City of Laval -- Financial Statistics (cont.)									
	--Fiscal year ended Dec. 31--								
(Mil. C$)	**2013**	**2014**	**2015**	**2016bc**	**2017bc**	**2018bc**	**2016uc**	**2017uc**	**2018uc**
Balance after borrowings	43	89	70	12	71	40	24	86	59
Operating revenue growth (%)	(3.2)	(0.1)	2.5	2.4	2.5	2.2	2.9	2.6	2.5
Operating expenditure growth (%)	15.2	(9.7)	5.4	4.0	4.8	3.5	3.9	4.7	3.5
Modifiable revenues (% of operating revenues)	89.4	90.7	91.6	91.8	92.3	92.8	91.9	92.3	92.8
Capital expenditures (% of total expenditures)	18.9	20.4	16.4	23.4	22.1	20.6	23.4	22.1	20.6
Direct debt (outstanding at year-end)	758	766	766	776	844	871	776	844	871
Direct debt (% of operating revenues)	90.1	91.1	88.8	87.8	93.1	94.1	87.5	92.7	93.3
Tax-supported debt (% of consolidated operating revenues)	90.1	91.1	88.8	87.8	93.1	94.1	87.5	92.7	93.3
Interest (% of operating revenues)	7.3	6.1	5.6	5.6	6.3	6.2	5.6	6.2	6.1
Debt service (% of operating revenues)	26.8	23.7	21.5	21.2	22.0	21.5	21.1	21.9	21.3

Note: 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 usabil

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	Strong
Budgetary Flexibility	Strong
Budgetary Performance	Very strong
Liquidity	Exceptional
Debt Burden	High
Contingent Liabilities	Very low

*S&P Global Ratings' ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "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. 13, 2016. 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

Related Research

- Public Finance System Overview: Canadian Municipalities, Dec. 1, 2016
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, April 21, 2016
- Global Credit Conditions Weaken Broadly Amid Increasing Market Volatility, April 19, 2016

Ratings Detail (As Of December 15, 2016)	
Laval (City of)	
Issuer Credit Rating	AA/Positive/--
Senior Unsecured	AA
Issuer Credit Ratings History	
02-Dec-2016	AA/Positive/--
09-Dec-2014	AA/Stable/--
26-Nov-2013	AA-/Positive/--
15-Nov-2012	AA-/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.