S&P Global
Ratings

RatingsDirect®

Summary:
City of Laval

Primary Credit Analyst:
Stephen Ogilvie, Toronto + 1 (416) 507 2524; stephen.ogilvie@spglobal.com

Secondary Contact:
Jennifer Love, CFA, Toronto + 1 (416) 507 3285; jennifer.love@spglobal.com

Table Of Contents

Summary:

City of Laval

Issuer Credit Rating	AA/Stable/--

Key Rating Factors

Credit context and assumptions	Base-case expectations
Economic momentum, strong financial management, and supportive relationships with senior governments will support the City of Laval's creditworthiness. • Economic momentum from strong growth in the past two years will sustain the city's economy despite the impact of the COVID-19 pandemic, helping to maintain GDP per capita that is close to the national level. • Laval's strong financial management practices will continue to enable the city to implement its capital plan while limiting after-capital deficits and debt issuance. • We believe the city's relationship with the Province of Quebec will remain well balanced and supportive.	Capital spending and new debt issuance will increase moderately over 2020-2022 as budgetary performance proves resilient. • The effects of the pandemic on budgetary performance will be limited due to the city's efforts to manage the impact on its revenues and expenditures, and support from senior levels of government. • Although operating surpluses will decline modestly, growing capital revenues will keep after-capital deficits moderate as capital spending increases. • Laval's tax-supported debt burden will rise moderately over the three-year period as liquidity levels remain stable.

Outlook

The stable outlook reflects our expectations that, in the next two years, the city will demonstrate its ability to implement its long-term capital plans without putting additional pressure on its budgetary performance or debt burden. The outlook also reflects our expectation that Laval will maintain very strong liquidity balances, and that its financial management practices and economy will remain strong.

Downside scenario

We could lower the ratings in the next two years if the city's strategy to keep up with economic growth led to higher-than-expected spending and resulted in after-capital deficits consistently above 10% of total revenues and higher-than-expected borrowing that pushed tax-supported debt to operating revenues over 120%.

Upside scenario

All else being equal, we could take a positive rating action in the next two years if Laval was able to adjust its fiscal policy and respond to rising spending so that operating margins remained well above 5% of operating revenues and after-capital balances returned to sustainable surpluses, while maintaining a manageable debt burden and strong liquidity.

Rationale

Strong financial management practices and senior government support will limit the effect of the pandemic on Laval's budgetary performance. The city will implement its three-year capital plan and capital spending will increase year over year. Although operating surpluses will weaken modestly, growing capital revenues will keep after-capital deficits and increases in the city's tax-supported debt burden moderate. Economic momentum from the strong growth of the past two years will sustain Laval's economy in 2020 and propel a recovery in 2021. Stable liquidity levels will anchor the city's creditworthiness over the next three years.

A diversified economy with economic momentum and strong management practices will buttress the city's creditworthiness through the pandemic.

The pandemic will lower the province's real GDP by about 6% in 2020 and we expect a similar decline in the city's economy. Laval, however, entered the pandemic with economic momentum owing to the strong levels of investment of the past two years and that momentum, coupled with the city economic relaunch plan, should propel a robust recovery in 2021. Based on Laval's median income (which we use as a proxy for GDP and is higher than the province's), we expect the city's GDP per capita will remain close to the national level of US$42,600. Laval is north of Montreal and is the third-largest city in Quebec and the 13th largest in Canada. It is part of the Greater Montreal Area (GMA), the province's financial and socioeconomic center. The GMA dominates the Quebec economy, representing almost half of the province's population, employment, and output. In our opinion, Laval has a 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. In our view, Laval continues to benefit from significant public and private investment, which was over C$1 billion in 2019.

Laval's financial management practices are strong, in our opinion. The city has responded to limit the impact of the pandemic on revenues and expenditures, and implemented a plan to relaunch the economy. With support from senior levels of government, Laval will produce a surplus in 2020. The city has prudent financial policies that ensure a good degree of transparency and fiscal discipline. 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 funding sources. The municipal council consists of 22 members, the mayor and 21 councilors. The next election will take place in November 2021.

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.

The effects of the pandemic on budgetary performance will be limited and increases in after-capital deficits and the debt burden will be moderate despite rising capital spending.

The effects of the pandemic on Laval's budgetary performance in 2020 will be limited due to the city's efforts to manage the impact on its revenues and expenditures and support from senior levels of government. The city has received confirmation of about C$42 million from the Quebec and federal governments in fiscal support. As well, Laval has benefited from reduced compensation and program expenses, and increased receipts from land transfer taxes. The city will produce a surplus of about C$30 million in 2020, a significant improvement from the deficits forecast at mid-year. However, we expect that operating surpluses will weaken somewhat in 2021 and 2022. Operating surpluses will average 12.7% of operating revenues for 2018-2022. Capital spending in 2020 will be about C$275 million, which is up substantially from about C$225 million in 2019. Spending will rise in the next two years, reaching almost C$350 million by 2022. Capital revenues, however, will also rise in the next two years and moderate after-capital deficits. After-capital deficits will average 5.8% of total revenues for 2018-2022.

Moderate after-capital deficits will limit the growth of tax-supported debt. The city's strategy of using cash payments to partially fund its extensive capital plan also limits borrowing in the near term. Nevertheless, the city will borrow almost C$200 million in 2020 and C$300 million in 2021, including amounts borrowed for its transit company Societe de Transport de Laval. Tax-supported debt will only rise moderately. Tax-supported debt will stand at about C$900 million or 83% of operating revenues at the end of 2020 and rise to C$1.14 billion or 100% of operating revenues at the end of 2022. The interest burden will remain manageable, averaging about 2.6% of operating revenues for 2019-2021.

In our view, Laval benefits from very strong internal liquidity support and satisfactory access to external liquidity for its financing needs, given its proven ability to issue into various markets. Cash and marketable securities will average almost $600 million over the next 12 months. We estimate that total adjusted free cash before debt service and borrowings (and including haircuts) will be almost C$300 million over the next 12 months and cover about 1.22x projected debt service for the period. Although cash levels could decline moderately in the next two years if the city draws on its reserves to finance some capital projects, and interest and principal payments increase, we believe that free cash and liquid assets will remain more than sufficient to cover all debt service requirements through 2020-2022.

Key Statistics

Table 1

City of Laval -- Selected Indicators

	--Fiscal year--					
(Mil. C$)	**2017**	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**
Operating revenues	896	1,033	1,075	1,093	1,153	1,144
Operating expenditures	784	861	933	955	1,015	1,041
Operating balance	112	172	142	138	137	103
Operating balance (% of operating revenues)	12.5	16.7	13.2	12.6	11.9	9.0
Capital revenues	72	89	50	69	74	120
Capital expenditures	251	291	225	276	304	346
Balance after capital accounts	(67)	(29)	(33)	(70)	(93)	(124)
Balance after capital accounts (% of total revenues)	(6.9)	(2.6)	(2.9)	(6.0)	(7.6)	(9.8)

Table 1

City of Laval -- Selected Indicators (cont.)						
	--Fiscal year--					
(Mil. C$)	**2017**	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**
Debt repaid	141	140	168	160	177	194
Gross borrowings	208	172	176	184	300	309
Balance after borrowings	0	2	(25)	(46)	30	(9)
Direct debt (outstanding at year-end)	839	871	879	903	1,026	1,141
Direct debt (% of operating revenues)	93.6	84.3	81.7	82.6	89.0	99.7
Tax-supported debt (outstanding at year-end)	839	871	879	903	1,026	1,141
Tax-supported debt (% of consolidated operating revenues)	93.6	84.3	81.7	82.6	89.0	99.7
Interest (% of operating revenues)	3.7	2.8	2.8	2.6	2.5	2.5
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	58,591	60,011	61,291	57,698	61,644	63,541

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

City of Laval -- Ratings Score Snapshot	
Key rating factors	**Scores**
Institutional framework	2
Economy	1
Financial management	2
Budgetary performance	3
Liquidity	1
Debt burden	3
Stand-alone credit profile	aa
Issuer credit rating	AA

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.

Key Sovereign Statistics

- Sovereign Risk Indicators, Oct. 12, 2020. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- S&P Global Ratings Definitions, Aug. 7, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019
- Public Finance System Overview: Canadian Municipalities, May 12, 2020