City of Laval

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
The momentum of a recovering economy, sound financial management, and supportive relationships with senior governments will underpin the City of Laval's creditworthiness.	Budgetary results will tone down from their strong performance in 2020 but the debt burden will only increase moderately as capital spending increases.
--The economic momentum will lead to robust growth in 2021 and 2022, helping to maintain local nominal GDP per capita in line with the national level.	--Budgetary results in 2021-2023 will return to historical norms as the economy recovers and government support tails off.
--The city's strong financial management will continue to enable Laval to implement its capital plans while limiting after-capital deficits and new debt issuance.	--Laval's debt burden will rise only moderately despite elevated levels of capital spending in the next two years.
--Laval's relationship with the province of Quebec will remain supportive and well balanced.	--Liquidity levels will be very strong, as they have been historically.

S&P Global Ratings' long-term issuer credit rating on the City of Laval is 'AA'. Laval produced strong budgetary results in 2020 thanks to strong financial management and support from senior levels of government. Nevertheless, results will return to their long-term pattern of robust operating surpluses coupled with moderate after-capital deficits in 2021-2023 as a strengthening economy offsets the withdrawal of senior government support. Own-source revenues, especially those from fees and tariffs, will rebound with the economy thanks to rising vaccination rates and the elimination of social distancing measures. Capital spending will increase notably in the next two years, but the debt burden will increase only moderately--robust operating surpluses and capital grants will limit the requirement for new debt issuance. Laval's liquidity levels have been very strong historically and we expect this will continue in the next two years.

Outlook

The stable outlook reflects our expectation that, in the next two years, Laval will implement its capital plans without putting additional pressure on its budgetary performances and debt burden. The outlook also reflects our expectation that the city will maintain very strong liquidity balances, as it has done historically, and that financial management will remain strong against the backdrop of an economic recovery.

Downside scenario

We could lower the ratings in the next two years if Laval'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 the city's tax-supported debt burden over 120% of operating revenues.

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 capital spending pressures so that operating surpluses remained well above 5% of operating revenues and after-capital balances moved to sustainable surpluses while maintaining a manageable debt burden and historically strong liquidity levels.

Rationale

Strong financial management practices will complement a robust economic recovery as relationships with senior governments remain supportive.

Laval's economy will make a robust recovery from the pandemic. We expect that Laval's real GDP growth in 2021 will be in line with our expectations for Canada and Quebec. Furthermore, according to estimates prepared for the city, nominal GDP will increase more than 10% in 2021, following a 4% decline in 2020. Based on Laval's median household income, which we use as a proxy, we expect that the city's GDP per capita will be in line with the national level of almost $53,000. Laval is north of Montreal; it is the third-largest city in Quebec and the 13th largest in Canada. The city is part of the greater Montreal area, which is the province's predominant financial and socio-economic center. We believe Laval's diversified economic base tends to dampen volatility. Investment in the city surpassed C$1 billion again in 2020 and housing starts reached their highest level since 2009. Although employment has surpassed pre-pandemic levels, the city's unemployment rate as of July 2021 is uncharacteristically higher than that of the province.

Laval's financial management practices remain strong, in our opinion. The city has prudent financial policies and practices that promote fiscal discipline that elected officials fully support. Laval annually prepares detailed one-year budgets with three-year rolling capital plans with funding sources in addition to financial statements that are detailed and comprehensive. Transparency and disclosure are high, in our view. We believe management demonstrates the relevant expertise through its prudent debt and liquidity management. Management acted quickly at the outset of the COVID-19 pandemic to adjust service levels and associated expenditures and, with support from senior governments, was able to generate strong operating and after-capital surpluses in 2020. In the recent municipal election, voters elected a former councilor, Stephane Boyer, as the city's new mayor after the former mayor, Marc Demers, decided not to seek re-election. Laval's council consists of 22 members, 21 councilors, and the mayor.

We believe that Canadian municipalities benefit from a very predictable and well-balanced local and regional government framework that has demonstrated a high degree of institutional stability. Provinces mandate a significant proportion of municipal spending and they also impose fiscal restraint through statutory 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's strong budgetary results in 2020 will revert to robust operating surpluses and sizable after-capital deficits for 2021-2023 but its debt burden will increase only moderately.

Thanks to timely expenditure initiatives by the city and support from senior governments, Laval generated strong operating and after-capital surpluses of 19% of operating revenues and 4% of total revenues, respectively, in 2020. The city received about C$42 million from the province late in 2020, which it only partially used. The balance will support the 2021 and 2022 budgets. Nevertheless, budgetary results will revert to robust operating surpluses and notable after-capital deficits beginning in 2021. Revenue growth in 2021-2023 will be low, as fee revenues steadily recover but do not fully offset the elimination of pandemic support from senior governments in 2021. Expenditure growth will accelerate in 2021 as the city resumes providing services that were curtailed during the pandemic, but the rate of growth will return to inflationary levels in 2022 and beyond. We expect that for 2019-2023, operating surpluses will average about 11% of operating revenues and after-capital deficits about 7% of total revenues. We believe that Laval could outperform the forecast, as it has done in the past. Capital spending will rise to about C$350 million in 2022 and 2023 from C$270 million in 2020. The spending will go to the usual infrastructure priorities of a growing city: road, water, and wastewater networks; facilities; and sustainable development. Capital grants and contributions from developers will increase in step with the rise in capital spending, limiting somewhat new debt issuance.

Tax-supported debt, which stood at about C$890 million at the end of 2020, will rise to C$930 million in 2021 and could reach C$1.17 billion by the end of 2023. However, the tax-supported debt burden will rise more moderately thanks to robust revenue growth; tax-supported debt will represent 83% of operating revenues in 2021 and about 100% by the end of 2023. According to the city, it will borrow about C$215 million in 2021 and about C$325 million in 2022 to support its capital program and refinancings, including the capital and borrowings for Laval's transit company, Societe de transport de Laval. Laval's longstanding practice of funding a significant proportion of its annual capital plan from reserves has limited new issuance and increases in tax-supported debt and we expect this will continue. Thanks in part to low borrowing rates, the effect of additional new borrowing on the city's interest expense will also be moderate. The burden of interest expense will average 2.5% in 2020-2022.

Laval continues to benefit from strong internal liquidity support and satisfactory access to external liquidity for its funding needs, given the city's proven ability to issue into various markets. Cash and equivalents should average more than C$600 million over the next 12 months. We estimate that total adjusted free cash before debt service and borrowings will remain above C$500 million over the next 12 months and represent about 2.2x projected debt service for the period. Cash levels could decline if the city relies more on financing from reserves than currently expected; however, even in that instance, we expect Laval will be able to meet all of its debt service obligations in 2021-2023 comfortably.

City of Laval Selected Indicators

Mil. C$	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenue	1,032.8	1,074.9	1,153.4	1,116.7	1,126.0	1,159.9
Operating expenditure	860.5	933.3	938.2	1,017.0	1,049.6	1,081.6
Operating balance	172.3	141.7	215.3	99.7	76.4	78.3
Operating balance (% of operating revenue)	16.7	13.2	18.7	8.9	6.8	6.8
Capital revenue	88.9	50.2	102.5	77.4	101.5	147.0
Capital expenditure	290.7	224.7	269.8	314.0	348.6	350.0
Balance after capital accounts	(29.4)	(32.9)	47.9	(136.9)	(170.7)	(124.7)
Balance after capital accounts (% of total revenue)	(2.6)	(2.9)	3.8	(11.5)	(13.9)	(9.5)
Debt repaid	140.5	167.6	175.9	174.8	187.5	213.1
Gross borrowings	171.8	175.7	188.4	213.8	322.9	321.4
Balance after borrowings	2.0	(24.8)	60.5	(98.0)	(35.3)	(16.4)
Direct debt (outstanding at year-end)	870.6	878.7	891.3	930.2	1,065.7	1,174.0

City of Laval Selected Indicators

Direct debt (% of operating revenue)	84.3	81.8	77.3	83.3	94.6	101.2
Tax-supported debt (outstanding at year-end)	870.6	878.7	891.3	930.2	1,065.7	1,174.0
Tax-supported debt (% of consolidated operating revenue)	84.3	81.8	77.3	83.3	94.6	101.2
Interest (% of operating revenue)	2.8	2.8	2.5	2.6	2.3	2.3
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	46,453.9	46,326.7	43,258.2	52,948.3	54,410.6	55,679.7

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.

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, Published Oct. 12, 2021

Related Criteria

- International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., Published July 15, 2019
- Principles Of Credit Ratings, Published Feb. 16, 2011
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

Related Research

- As Canadian Municipalities Negotiate A New Landscape, Prudent Management Remains Crucial, Published Nov. 8, 2021
- S&P Global Ratings Definitions, Published Nov. 10, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Published Nov. 4, 2021
- Economic Outlook Canada Q4 2021: Growth Delayed But Not Derailed, Published Sept. 24, 2021
- Risk Indicators For Canadian Local And Regional Governments, Published Sept. 1, 2021
- Public Finance System: Canadian Municipalities, Published May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S, Published July 15, 2019

Ratings Detail (as of November 22, 2021)*

Laval (City of)	
Issuer Credit Rating	AA/Stable/--
Senior Unsecured	AA
Issuer Credit Ratings History	
30-Nov-2018	AA/Stable/--
02-Dec-2016	AA/Positive/--
09-Dec-2014	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.