S&P Global
Ratings

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Ville de Laval

November 20, 2023

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
We expect Laval's broad and diverse economy and its access to the Greater Montreal Area will continue to support strong local GDP growth in line with the national average.	We expect the city will generate robust operating surpluses coupled with moderate after-capital deficits in 2023-2025.
The city's strong financial practices and policies will guide the implementation of its capital plans while managing after-capital deficits and debt issuance.	Despite elevated capital spending in the next two years, the city will mitigate its debt service needs with the use of capital grants and developer contributions.
Similar to other municipalities in Canada, Laval's relationship with the Province of Quebec will remain extremely predictable and supportive.	Liquidity will remain strong and sufficient to cover the next 12 months of debt service.

S&P Global Ratings' long-term issuer credit rating on the City of Laval is 'AA+'. We expect that, supported by its strong and diverse local economy and continuous population growth, the city will continue to generate strong operating balances over our outlook horizon. Although its elevated capital plan will pressure after-capital balances and require additional debt issuance, we expect that prudent management practices will help the city to maintain robust financial results and liquidity more than sufficient to cover debt service.

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 increasing economic challenges.

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 above 120% of operating revenues.

Upside scenario

Although unlikely, 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 after-capital balances moved to sustainable surpluses while maintaining a manageable debt burden and historically strong liquidity.

Rationale

Strong economic performance, sound financial management practices, and historically supportive relationships with senior governments are the foundation of Laval's strong creditworthiness.

The city of Laval is the third largest in Quebec and benefits from its proximity to the city of Montreal to its south. As part of the Greater Montreal Area, Quebec's predominant financial and socioeconomic center, it benefits from access to the broad and diverse economic area, which serves to insulate it against economic volatility. Laval's own economy continues to expand following the slight dip it experienced during the early days of the pandemic, with local real GDP increasing 10.2% year-over-year in 2022 from 2021 and set to continue growing, albeit at a slower pace of 2.5% in 2023. Based on Laval's median household income, which we use as a proxy, we expect that GDP per capita is in line with the national average of US$54,400.

Laval's financial management practices remain strong, in our opinion. Despite an administrative restructuring in 2023 and some turnover among senior management, the city maintains prudent financial policies and practices to promote fiscal discipline, fully supported by elected officials. Laval annually prepares detailed one-year budgets with three-year rolling capital plans with funding sources identified, in addition to financial statements that are detailed and comprehensive. Transparency and disclosure in financial documents are high, in our opinion. We believe management demonstrates the relevant expertise through its prudent debt and liquidity management, and is in the process of implementing an updated cash management policy.

As do other Canadian municipalities, Laval benefits from an extremely predictable and supportive local and regional government framework that has demonstrated high institutional stability and evidence of systemic extraordinary support in times of financial distress. Most recently through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. 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 match expenditures well with revenues, except for capital spending, which can be intensive. Operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations) through reserve contributions. Municipalities have demonstrated a solid record of strong budgetary results and, therefore, debt burdens, on average, are low compared with those of global peers and growth over time has been modest.

Laval's debt will moderately increase as the city funds moderate after-capital deficits through 2023-2025.

We expect that over our outlook horizon, the city will produce operating revenues and expenditures that rise approximately in tandem and property tax levy increases. Historically, tax increases have been close to inflation. This will result in operating balances averaging approximately 10.3% over the period 2021-2025 (base case) and after-capital deficits averaging about 9.8%. Although these after-capital deficits are somewhat elevated above historical levels, we believe they will fall below 10% beyond 2023, back to historical levels. Adjusted to reflect our historical realization rates, capital spending over the forecast period will, we expect, average C$489 million per year, primarily directed to state-of-good-repair capital works like infrastructure projects and sustainable developments, as well as the completion of the headline Aquatic Complex and the creation of an additional central library. Capital grants and contributions from developers will increase in step with capital spending, limiting new debt issuance.

As the city in-part finances its capital plan with debt issuances, we expect its tax-supported debt burden will rise to C$1.5 billion by the end of 2025, representing approximately 105% of consolidated operating revenues. Laval expects to borrow about C$403 million over the forecast period, of which approximately C$60 million is to support the capital and borrowings for the city's transit company, Societe de transport de Laval. Laval's longstanding practice of funding a significant proportion of its annual capital plan from reserves mitigates new issuance needs and increases in tax-supported debt, and we expect this will continue. The effect of additional new borrowing on the city's interest expense will remain low, on average, though increase in outer years, averaging 2.8% in 2022-2024.

Laval benefits from strong internal liquidity support and satisfactory access to external liquidity for its funding needs, given its proven ability to issue into various markets. Total free cash available for debt service will be approximately C$300 million over the next 12 months and represent more than 100% of debt service, in our estimation (S&P Global Ratings-adjusted). Liquidity could come under pressure 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 2023-2025 comfortably.

City of Laval Selected Indicators

Mil. C$	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	1,153	1,121	1,192	1,283	1,376	1,445
Operating expenditure	938	1,019	1,059	1,151	1,234	1,292
Operating balance	215	102	134	132	142	153
Operating balance (% of operating revenue)	18.7	9.1	11.2	10.3	10.3	10.6
Capital revenue	102	89	86	116	248	211
Capital expenditure	270	286	353	441	512	514
Balance after capital accounts	48	(95)	(134)	(193)	(123)	(150)
Balance after capital accounts (% of total revenue)	3.8	(7.9)	(10.5)	(13.8)	(7.6)	(9.1)
Debt repaid	176	181	194	213	197	221
Gross borrowings	188	219	211	290	430	490

City of Laval Selected Indicators

Balance after borrowings	60	(57)	(117)	(117)	111	119
Direct debt (outstanding at year-end)	891	929	946	1,023	1,256	1,525
Direct debt (% of operating revenue)	77.3	82.9	79.4	79.7	91.3	105.5
Tax-supported debt (outstanding at year-end)	891	929	946	1,023	1,256	1,525
Tax-supported debt (% of consolidated operating revenue)	77.3	82.9	79.4	79.7	91.3	105.5
Interest (% of operating revenue)	2.5	2.3	2.0	2.8	3.5	4.6
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	43,349.7	52,358.6	54,917.7	54,414.8	55,764.6	58,226.4

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	1
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. 9, 2023

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- Economic Outlook Canada Q4 2023: Sluggish Growth Ahead, Sept. 25, 2023
- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Sept. 21, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022

Ratings Detail (as of November 20, 2023)*

Laval (City of)	
Issuer Credit Rating	AA+/Stable/--
Senior Unsecured	AA+
Issuer Credit Ratings History	
01-Jun-2022	AA+/Stable/--
30-Nov-2018	AA/Stable/--
02-Dec-2016	AA/Positive/--

*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.