From:	"Johnston, Sadhu" <Sadhu.Johnston@vancouver.ca>
To:	"Direct to Mayor and Council - DL" <CCDTMACDL@vancouver.ca>
CC:	"City Manager's Correspondence Group - DL" <CMCG@vancouver.ca> "Impey, Patrice" <Patrice.Impey@vancouver.ca>
Date:	3/14/2018 8:03:04 AM
Subject:	FW: S&P Global credit opinion - City of Vancouver
Attachments:	2018-02-22 SandP Affirm AAA Stable A-1+.pdf

Greetings Mayor and Council-

I thought you would be interested in the attached S&P Rating Agency recent publication on the City's credit rating. Here is the summary and attached is the detailed report.

City of Vancouver 'AAA' Long-Term And 'A-1+' Short-Term Ratings Affirmed; Outlook Remains Stable

Overview

- We expect the City of Vancouver's broad adherence to robust fiscal management to continue through the change in government set to take place in late 2018.

- This adherence will drive the execution of budget surpluses that will allow the city to pay down its debt, despite increasing spending needs.

- We are affirming our 'AAA' long-term issuer credit and senior unsecured debt ratings and 'A-1+' short-term issuer credit rating on Vancouver.

- The stable outlook reflects our expectation that, in the next two years, the city will maintain fiscal discipline in the face of an evolving policy mandate, which will benefit its already large liquidity cushion and shrinking debt burden.

Best

Sadhu

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Research Update:

City of Vancouver 'AAA' Long-Term And 'A-1+' Short-Term Ratings Affirmed; Outlook Remains Stable

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Research Update:

City of Vancouver 'AAA' Long-Term And 'A-1+' Short-Term Ratings Affirmed; Outlook Remains Stable

Overview

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- This adherence will drive the execution of budget surpluses that will allow the city to pay down its debt, despite increasing spending needs.
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Rating Action

On Feb. 22, 2018, S&P Global Ratings affirmed its 'AAA' long-term issuer credit and senior unsecured debt ratings on the City of Vancouver, in the Province of British Columbia (B.C.). At the same time, S&P Global Ratings affirmed its 'A-1+' short-term debt rating on the city. The outlook is stable.

Outlook

The stable outlook reflects our base-case scenario, which assumes that continued economic expansion and comprehensive fiscal planning will facilitate strong operating and after-capital fiscal surpluses over the next two years. These will fund debt repayment and support Vancouver's liquidity.

Although we view it as unlikely over the next two years, we could lower our ratings on the city if a housing correction from an economic downturn, or other external shock, negatively affected revenues. This, combined with a sluggish or inadequate response by management, could lead to sustained after-capital deficits, causing the debt burden to rise to more than 60% of consolidated revenues.

Rationale

Solid growth and high per capita income will continue to provide Vancouver with a supportive economic foundation to implement evolving policy objectives while maintaining fiscal sustainability. The city's experienced and well-qualified administration and well-documented fiscal planning will facilitate stability through the change in government in late 2018. Although spending growth will continue to outpace inflation, new revenue measures will allow Vancouver to respond to population demands, while maintaining surpluses and limiting the need for significant new borrowings.

Steady economic growth and detailed financial planning will facilitate a smooth political transition.

We do not expect significant policy shifts following the upcoming municipal election in October 2018, in part due to the high degree of institutional stability the city enjoys. In our view, the government framework under which Vancouver, like other Canadian municipalities, operates is very predictable and well-balanced. The provincial government imposes fiscal restraint through legislative requirements to pass balanced operating budgets. At the same time, provincial-municipal relationships have proven to be more dynamic than the federal-provincial one, largely because municipal governments are established through provincial statute and not the constitution. In that regard, we expect Vancouver's relationship with B.C. will continue to be supportive, and will strengthen on core policy issues that affect Vancouver. Recently, for example, the province worked with the city to amend the Vancouver Charter, allowing the city to implement a vacancy tax on empty homes. The tax is a tool to address Vancouver's housing shortage, given the low vacancy rate, which reached 0.9% in Vancouver's primary rental market in 2017. Housing affordability and accessibility are core policy issues at both the municipal and provincial level.

In addition to a supportive institutional framework, we believe that Vancouver's detailed long-term financial planning, as well as its experienced and well-qualified financial management teams, will provide a solid fiscal policy anchor through the upcoming change in government. The city's mayor, Gregor Robertson, of the Vision Vancouver political party, has announced that he will not run for a fourth term. The composition of the city's council, which has a Vision Vancouver majority, will also likely change. Unlike in most Canadian municipalities, candidates are generally associated with local political parties, rather than running as independent candidates. Nevertheless, we believe there is broad political consensus on fiscal discipline across party lines. At the same time, the capable and experienced administration, which implements the government's policies and monitors key external risks, will facilitate the continuity of very strong fiscal policy, in our view.

We believe that Vancouver's position as B.C.'s economic engine will continue over the next two years. This will provide a solid anchor for fiscal stability. The city is consistently ranked as one of the most livable in the world. The Census metropolitan area (CMA) economy includes major forestry, mining, finance, real estate and tourism. Vancouver is also one of the country's chief head office locations and attracts businesses in the advanced technology, biomedical research, and film industries. At the same time, the city is home to many of the province's preeminent public institutions, with two universities, several schools and colleges, several specialized hospitals, the Port of Vancouver, and Vancouver International Airport. Although GDP data from Statistics Canada are not available at the municipal level, we estimate that the city has per capita GDP equal to or higher than the three-year B.C. provincial average of over US$42,800. By estimates prepared by the Conference Board of Canada in its autumn 2017 report, the city's real GDP for the CMA rose by about 4.1% in 2016 (basic prices) and about 3.2% in 2017.

Revenue growth will largely mitigate higher spending commitments, preserving after-capital expenditure surpluses and liquidity levels, while shrinking the debt burden.

Vancouver's relatively low dependence on transfers from upper levels of government and tax competitiveness--both regionally and globally--provide the city with a high degree of revenue flexibility that will support its evolving spending mandate over the next two years. We expect the city's proportion of modifiable (own source) revenues to average nearly 99% of operating revenues over the next three years. Most senior government grants go to the regional districts, Metro Vancouver, which is responsible for most capital-intensive infrastructure (arterial roads and potable water and wastewater treatment plants). The city's own revenues mostly come from property taxes and fees (predominantly water and sewer). While property tax increases in Vancouver have historically been lower than those of other cities in the Metro Vancouver region, we expect that increasing spending needs related to public amenities and infrastructure to support population growth, as well as infrastructure renewal, will lead the city to raise property tax rates above inflation levels over the next several years. Capital spending, particularly on utilities, housing and transportation, continues to be high, averaging almost 18.8% of total expenditures over the forecast horizon, about two-thirds of which goes toward maintaining existing assets. While this high level of capital expenditure provides the city with a solid amount of spending flexibility, we believe that Vancouver is more limited in its ability to adjust operating spending in the near term, mainly due to multiyear labor contracts.

Strong growth in Vancouver's assessment base and higher-than-historical property tax rate increases will somewhat mitigate the impact of the evolving policy mandate over the forecast horizon. We expect the city's mandate to continue to evolve, consolidating the incorporation of services that have traditionally fallen under the provincial government's mandate, including emergency response, social housing, mental health and addictions, and childcare. This healthy level of growth on both the operating revenue and expenditure sides will permit the government to maintain robust operating surpluses of 12.7%, on average, over the next three years. Our forecasts do not incorporate new net revenues from Vancouver's empty homes tax, implemented this year, nor revenue from any other new revenue measures under evaluation, because it is too early to assess the impact of these measures. At the very least, we expect these measures to be revenue-neutral. Together, along with capital revenues stemming mostly from developer's contributions, the city's operating surpluses will, we expect, more than finance high levels of capital spending. We expect the after-capital surplus to average 6% from 2018-2020.

Budget surpluses over the forecast horizon will limit the city's dependence on new net borrowing, in our view. Although we expect Vancouver to issue C$90 million-C$100 million annually over the next several years for long-term capital purposes, principal repayments on existing debt for about that amount, on average, will lead to a declining debt burden. We forecast that the city's tax-supported debt (net of sinking funds and including debt obligations it guarantees) will reach about 40% of projected adjusted consolidated operating revenues by 2020, from an estimated 45% this year. Most of Vancouver's debt platform (about 88% of tax-supported debt net of C$418 million in sinking funds as of year-end 2016) consists of long-term bonds. The remainder is composed of mortgages and loan guarantees. We also expect that the city's interest payments will remain stable, and below 3% of operating revenues, through 2020.

Vancouver's budgetary performance will also limit the need to draw down on the city's robust liquidity reserves. In our forecast, we estimate that the city will maintain free cash and liquid assets (S&P Global Ratings-adjusted) sufficient to cover over 40x our estimated debt service requirements for 2018. Further bolstering liquidity is Vancouver's satisfactory external liquidity, given the city's continued access to a strong and diversified pool of Canadian banks.

We do not expect Vancouver's contingent liabilities to present significant risks to the city's creditworthiness. As a member of Metro Vancouver, which provides regional services to member municipalities, Vancouver is contingently liable for the debt of the regional authorities, which we view as a modest risk to the city. At fiscal year-end 2016, Metro Vancouver's debt represented about 134% of the city's adjusted operating revenue. We believe these entities are unlikely to need Vancouver's support in the event of financial stress because they take in revenues to sustain their operations through property taxes the city collects on their behalf, as well as fees. Other contingent liabilities, which include standard employee benefits and landfill postclosure liabilities, represented about 11% of adjusted operating revenues at year-end 2016 and do not have a significant impact on Vancouver's credit profile.

Key Statistics

Table 1

City of Vancouver -- Selected Indicators

	--Fiscal year ended Dec. 31--						
(Mil. C$)	**2014**	**2015**	**2016**	**2017bc**	**2018bc**	**2019bc**	**2020bc**
Operating revenues	1,339	1,381	1,459	1,511	1,566	1,625	1,682
Operating expenditures	1,171	1,194	1,267	1,327	1,371	1,420	1,462
Operating balance	168	186	192	184	195	205	221
Operating balance (% of operating revenues)	12.5	13.5	13.2	12.2	12.4	12.6	13.1
Capital revenues	193	178	236	282	250	223	223
Capital expenditures	231	226	376	397	353	315	315

Table 1

City of Vancouver -- Selected Indicators (cont.)							
	--Fiscal year ended Dec. 31--						
(Mil. C$)	**2014**	**2015**	**2016**	**2017bc**	**2018bc**	**2019bc**	**2020bc**
Balance after capital accounts	129	138	53	69	92	114	130
Balance after capital accounts (% of total revenues)	8.5	8.8	3.1	3.8	5.1	6.2	6.8
Debt repaid	178	17	5	130	6	132	132
Gross borrowings	105	90	90	85	95	95	95
Balance after borrowings	57	211	138	23	182	78	93
Modifiable revenues (% of operating revenues)	98.7	98.3	98.4	98.6	98.6	98.7	98.7
Capital expenditures (% of total expenditures)	16.5	15.9	22.9	23.0	20.5	18.1	17.7
Direct debt (outstanding at year-end)	659	650	644	635	647	657	620
Direct debt (% of operating revenues)	49.2	47.1	44.1	42.0	41.3	40.4	36.9
Tax-supported debt (outstanding at year-end)	717	704	696	688	700	709	673
Tax-supported debt (% of consolidated operating revenues)	53.5	51.0	47.7	45.5	44.7	43.6	40.0
Interest (% of operating revenues)	2.7	2.8	2.7	3.0	2.8	2.8	2.2
National GDP per capita (single units)	55,807	55,430	55,910	58,407	60,167	61,735	63,474

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. The main sources are the financial statements and budgets, as provided by the issuer. Base case reflects S&P Global Ratings' expectations of the most likely scenario. bc--Base case.

Ratings Score Snapshot

Table 2

City of Vancouver--Ratings Score Snapshot	
Key rating factors	**Assessment**
Institutional Framework	Very predictable and well-balanced
Economy	Very strong
Financial Management	Very strong
Budgetary Flexibility	Strong
Budgetary Performance	Very strong
Liquidity	Exceptional
Debt Burden	Low
Contingent Liabilities	Low

Note: S&P Global Ratings bases its ratings on local and regional governments on the 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 rating on the govenrment.

Key Sovereign Statistics

Sovereign Risk Indicators, Dec. 14, 2017. Interactive version available at http://www.spratings.com/sri

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- 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

- Americas Economic Snapshots, February 2018
- Default, Transition, And Recovery: 2016 Annual Non-U.S. Local And Regional Government Default Study And Rating Transitions, May 8, 2017
- Public Finance System Overview: Canadian Municipalities, Dec. 1, 2016

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed

Vancouver (City of)	
Issuer credit rating	AAA/Stable/A-1+
Senior unsecured	AAA
Commercial paper	A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.