S&P Global
Ratings

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City of Vancouver

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City of Vancouver

This report does not constitute a rating action.

Key Rating Factors

Issuer Credit Rating
AAA/Stable/A-1+

Credit context and assumptions	Base-case expectations
Despite the effects of the pandemic, the City of Vancouver's broad and diversified local economy and prudent management will allow the city to recover and grow in a fiscally sustainable way. • We believe that Vancouver's position as B.C.'s economic engine will remain unchanged over the next two years, providing a solid anchor for fiscal stability. • We expect the city's management will adhere to its fiscal responsibility framework to maintain a low debt burden while mitigating the effects of the COVID-19 pandemic. • The city's relationship with upper levels of government will remain well balanced.	Fiscal surpluses, sufficient liquidity, and low debt will remain rating strengths. • Despite budgetary pressures, we forecast that Vancouver will maintain healthy operating balances. • These surpluses will continue to support the city's capital program, helping to keep its debt burden stable. • The city's robust liquidity supports creditworthiness.

Outlook

The stable outlook reflects S&P Global Ratings' assumption that a solid economy and comprehensive fiscal planning will facilitate operating and after-capital fiscal surpluses over the next two years, despite the pandemic. These will fund debt repayment and support Vancouver's cash position.

Downside scenario

We could lower our ratings on the city in the next two years if a housing correction from an economic downturn, or other external shock, negatively affected revenues. If this, combined with a sluggish or inadequate response by management, led to sustained after-capital deficits, causing the debt burden, net of statutory sinking funds, to rise to over 5x the operating margin, we could lower the ratings.

Rationale

As COVID-19 continues to spread globally, we believe that Vancouver is not immune to deterioration in economic activity and increased budgetary stresses resulting from the pandemic, as seen in 2020. Although the full impact of the pandemic is still uncertain and depends on the rate of spread and duration, we believe that Vancouver's prudent financial management and cost-containment efforts will continue to support strong operating balances and after-capital surpluses. At the same time, we expect the city's diverse economy and prudent financial management will help fund its capital agenda and sustain its low debt levels. In turn, this will support the city's extremely strong liquidity.

A stable economy and prudent management will support the city's creditworthiness through the pandemic.

We continue to view Vancouver's economy as strong and diversified; the city's average GDP per capita is consistently higher than the nation's level of C$47,400, given the city's high median household income, as well as its growing population. In addition, local industries are well diversified, with major sectors including trade, film and TV, tech, construction, finance, insurance, and real estate. The city's assessment base has been steadily growing since 2009, surpassing C$478 billion in 2019. We believe that, altogether, this strong economic base will provide a solid anchor for fiscal stability as the city recovers from the effects of the pandemic.

We believe that Vancouver's detailed and proactive long-term financial planning, as well as its experienced financial management team, are a key credit strength. The city has a lengthy track record of passing budgets prior to the start of its fiscal year with minimal variations from budgeted revenues and expenditures. Management accountability is strong, financial policies are prudent, and the city undertakes good disclosure and transparency. Vancouver prepares robust multiyear budgeting documents, as well as long-term capital planning and borrowing plans. The city's management team is experienced, qualified, and has undertaken extensive measures to respond to the effects of the pandemic through cost containment and right-sizing scope and level of services.

The institutional framework under which the city operates, as for other Canadian municipalities, 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 remain supportive.

Continued strong budgetary performance will assist in maintaining a manageable debt burden.

Although we expect that COVID-19 will have a material (yet temporary) impact on the city's finances, Vancouver entered the pandemic from a position of strength. The city has a history of healthy budgetary performance and we expect that this trend will continue over the outlook horizon. Recent tax increases, as well as cost-containment measures, will contribute to robust finances through high average operating balances of about 12% of revenues. Together with capital revenues stemming partly from developers' contributions to growth-related projects, operating surpluses will, we expect, cover high levels of capital spending to generate moderate average after-capital balances of about 4%.

Ongoing budget surpluses over the forecast horizon will prevent the city from becoming dependent on new net issuance. At the same time, we believe Vancouver's high operating surpluses mitigate its debt burden. We expect Vancouver will issue about C$125 million annually in the next two years for long-term capital purposes; nevertheless, we believe its debt burden will remain manageable, with tax-supported debt (net of statutory sinking funds and guarantees) forecast to average just 42% of adjusted operating revenues in 2023. We expect that its interest burden will remain low, staying below 3%, on average, through 2023. Vancouver's contingent liabilities are also low, in our view. As a member of Metro Vancouver, which provides regional services to member municipalities and is responsible for mostly capital-intensive infrastructure, Vancouver is contingently liable for the debt of the regional authorities. However, 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 and user fees collected by member municipalities. We also believe that other contingent liabilities, including standard employee benefits and landfill post-closure costs, do not have a significant impact on Vancouver's credit profile.

The city maintains exceptional levels of liquidity, bolstering its financial position. We estimate free cash balances and investments will be about C$1.5 billion (S&P Global Ratings-adjusted) over the next 12 months, sufficient to cover almost 21x our estimated debt service requirements during that period (excluding bullet maturities funded with sinking funds). Similar to that of its domestic peers, Vancouver's access to external liquidity is satisfactory, in our view.

Ratings Score Snapshot

Table 1

City of Vancouver -- Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	1
Budgetary performance	1
Liquidity	1
Debt burden	1
Stand-alone credit profile	aaa
Issuer credit rating	AAA

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 Statistics

Table 2

City of Vancouver -- Selected Statistics						
	-- Year ended Dec. 31 --					
(Mil. C$)	**2017**	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**
Operating revenues	1,518	1,655	1,747	1,697	1,724	1,840
Operating expenditures	1,343	1,400	1,473	1,488	1,564	1,643
Operating balance	175	255	274	209	160	197
Operating balance (% of operating revenues)	11.5	15.4	15.7	12.3	9.3	10.7
Capital revenues	298	219	180	320	469	439
Capital expenditures	310	234	301	421	617	578
Balance after capital accounts	163	239	153	108	12	58
Balance after capital accounts (% of total revenues)	9.0	12.8	7.9	5.4	0.5	2.6
Debt repaid	9	9	7	16	34	1
Gross borrowings	85	90	100	100	125	125
Balance after borrowings	239	320	245	193	103	183
Direct debt (outstanding at year-end)	668	663	614	569	541	656
Direct debt (% of operating revenues)	44.0	40.1	35.2	33.5	31.4	35.6
Tax-supported debt (outstanding at year-end)	716	709	659	608	580	695
Tax-supported debt (% of consolidated operating revenues)	47.2	42.9	37.7	35.8	33.7	37.8
Interest (% of operating revenues)	2.7	2.3	2.3	2.7	2.6	2.4
National GDP per capita (single units)	58,575	60,196	61,466	57,854	61,614	64,039

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.

Key Sovereign Statistics

- Sovereign Risk Indicators, Dec. 14, 2020. Interactive version available at http://www.spratings.com/sri

Related Criteria

- Methodology Of Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology for Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles of Credit Ratings, Feb. 16, 2011

Related Research

- Credit Conditions North America: Some Relief, Sizable Risks, Dec. 3, 2020
- Public Finance System Overview: Canadian Municipalities, May 12, 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

Ratings Detail (As Of February 11, 2021)*		
Vancouver (City of)		
Issuer Credit Rating		AAA/Stable/A-1+
Commercial Paper		
Local Currency		A-1+
Senior Unsecured		AAA
Issuer Credit Ratings History		
07-Feb-2017	*Foreign Currency*	AAA/Stable/A-1+
05-Feb-2016		AA+/Positive/A-1+
26-Feb-2015		AA+/Stable/A-1+
07-Feb-2017	*Local Currency*	AAA/Stable/A-1+
05-Feb-2016		AA+/Positive/A-1+
26-Feb-2015		AA+/Stable/A-1+

*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.