

Research Update:

City of Vancouver Issuer Credit Rating Affirmed At 'AAA', Outlook Is Stable

February 7, 2022

Overview

- A strong economy continues to support healthy after-capital surpluses that will allow the city to pay down its debt, while maintaining its very high levels of liquidity.
- We expect the City of Vancouver's commitment to prudent fiscal management will continue over the next two years.
- We affirmed our ratings, including our 'AAA' long-term issuer credit rating and senior unsecured debt ratings on Vancouver, and maintaining our stable outlook.

Rating Action

On Feb. 7, 2022, S&P Global Ratings affirmed its 'AAA' long-term issuer credit and senior unsecured debt ratings, and its 'A-1+' short-term issuer credit rating, on the City of Vancouver, in the Province of British Columbia. The outlook is stable.

Outlook

The stable outlook reflects our assumption that a solid economy and comprehensive fiscal planning will facilitate overall operating and after-capital fiscal surpluses over the next two years. 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 material external shock, negatively affected revenues. If this, combined with a sluggish or inadequate response by management, led to sustained after-capital deficits, causing tax-supported debt, net of statutory sinking funds, to increase to over 60% of consolidated operating revenues, we could lower the ratings.

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Rationale

As Vancouver recovers from the effects of pandemic-driven lockdowns, we expect that strong underlying economic fundamentals like its broad and diversified economy and growing population will help the city to continue generating operating and after-capital surpluses through 2024. This will reduce Vancouver's need for significant new borrowings and sustain its low debt burden.

Vancouver's stable economy and prudent management will support the city's recovery from the pandemic

We expect Vancouver's economy will continue to recover over the next two years as pandemic-related restrictions ease and the impacts of the omicron variant remain largely short term. Despite the material impact that the pandemic has had on the city's economy, we continue to view Vancouver's economy as strong and diversified. The city's average GDP per capita is consistently higher than the national level of \$54,000 USD in 2022, given the city's high median household income and expanding population. Local industries are well diversified, with major sectors including trade, film and TV, technology, construction, finance, insurance, and real estate. 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.

In our view, Vancouver's detailed and proactive long-term financial planning, as well as its experienced financial management team, is a key credit strength. The city has a lengthy track record of passing budgets before 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. Its management team is experienced, qualified, and has undertaken extensive measures to respond to the effects of the pandemic through cost containment and right-sizing the scope and level of services.

Vancouver, like other Canadian municipalities, benefits 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 provide operating fund transfers and 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. Operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions. We expect Vancouver's relationship with British Columbia will remain supportive.

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

Although COVID-19 has had a material effect on the city's finances, we view this impact as temporary and budgetary performance as very strong. Vancouver entered the pandemic from a position of strength. 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 average operating balances of just under 15% of revenues. Together with capital revenues stemming partly from developers' contributions to growth-related projects, operating surpluses will cover high levels of capital spending to generate modest average after-capital balances of

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about 1.3% of adjusted operating revenues in our 2020-2024 base case.

We view Vancouver's debt burden as low and we expect that overall budget surpluses over the forecast horizon will prevent the city from becoming dependent on new net issuance. The city plans to issue up to C\$125 million annually in the next three years for long-term capital purposes. We believe its debt burden will remain manageable, with tax-supported debt (net of statutory sinking funds) forecast at 43% of adjusted operating revenues in 2024. We expect that its interest burden will remain low, below 2% on average through 2024. 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, as well as other Metro Vancouver member municipalities, 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\$2.5 billion (S&P Global Ratings-adjusted) over the next 12 months, well over 100% of estimated debt service payments 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.

Key Statistics

Table 1

City of Vancouver -- Selected Indicators

	--Year ended Dec. 31--					
	2019	2020	2021bc	2022bc	2023bc	2024bc
Operating revenues	1,747	1,671	1,747	1,784	1,827	1,875
Operating expenditures	1,473	1,431	1,474	1,518	1,568	1,615
Operating balance	274	239	273	266	260	260
Operating balance (% of operating revenues)	15.7	14.3	15.6	14.9	14.2	13.9
Capital revenues	180	148	238	326	292	292
Capital expenditures	301	328	517	578	519	519
Balance after capital accounts	153	59	(7)	13	33	33
Balance after capital accounts (% of total revenues)	7.9	3.2	(0.3)	0.6	1.6	1.5
Debt repaid	132	126	141	1	111	106
Gross borrowings	100	100	100	100	125	125
Balance after borrowings	120	33	(47)	113	47	53
Direct debt (outstanding at year-end)	684	694	702	727	742	761
Direct debt (% of operating revenues)	39.1	41.5	40.2	40.8	40.6	40.6
Tax-supported debt (outstanding at year-end)	728	746	740	765	780	799

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Table 1

City of Vancouver -- Selected Indicators (cont.)

	--Year ended Dec. 31--					
	2019	2020	2021bc	2022bc	2023bc	2024bc
Tax-supported debt (% of consolidated operating revenues)	41.7	44.6	42.4	42.9	42.7	42.6
Interest (% of operating revenues)	2.3	2	1.8	1.7	1.8	1.8
National GDP per capita (single units)	61,469	58,016	65,053	67,795	69,536	71,442

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.

Ratings Score Snapshot

Table 2

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	2
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 Sovereign Statistics

- Sovereign Risk Indicators, Dec. 13, 2021. Interactive version available at <http://www.spratings.com/sri>

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

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- 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

- Institutional Framework Assessments For International Local And Regional Governments, Dec. 15, 2021
- Economic Outlook Canada Q1 2022: Economy Set To Expand Strongly, COVID-19 And Inflation Risks Remain, Nov. 29, 2021
- S&P Global Ratings Definitions, Nov. 10, 2021
- As Canadian Municipalities Negotiate A New Landscape, Prudent Management Remains Crucial, Nov. 8, 2021
- Comparative Statistics: Risk Indicators For Canadian Local And Regional Governments, Sept. 1, 2021
- Public Finance System: Canadian Municipalities, May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

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+

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Ratings Affirmed

Vancouver (City of)

Senior Unsecured	AAA
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Commercial Paper	A-1+
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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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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