Laval

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This report does not constitute a rating action.

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Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
We believe the city's economy will repeat its strong 2021 performance and, together with sound financial management and supportive relationships with senior governments, this will help Laval navigate increasing economic challenges in 2023.	Budgetary results moderated from historical norms in 2021 and we expect similar performances in 2022-2024.
--The economic momentum from very strong growth in the local economy in 2021 will lead to strong growth again in 2022, keeping local nominal GDP per capita in line with the national average.	--We expect the city will generate robust operating surpluses coupled with moderate after-capital deficits in 2022-2024.
--The city's strong financial management will guide the implementation of its capital plans while limiting after-capital deficits and debt issuance.	--Increases in the debt burden will be limited despite elevated capital spending in the next two years.
--Laval's relationship with the province of Quebec will remain extremely predictable and supportive.	--Liquidity will continue to be very strong as cash and equivalents remain close to historical levels.

On June 1, 2022, S&P Global Ratings raised its Canadian municipal institutional framework assessment to extremely supportive and predictable from very predictable and well-balanced (see "**Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment,"**," published June 1, 2022, on RatingsDirect). We raised our issuer credit rating (ICR) on the City of Laval to 'AA+' from 'AA' at that time.

Laval produced healthy budgetary results in 2021 due to a vigorous economic rebound and strong financial management as support from senior levels of government waned. We expect similar performances in 2022-2024 with robust operating surpluses and moderate capital-driven after-capital deficits, both of which will be somewhat weaker than their long-term pre-pandemic averages. Increases in the city's tax-supported debt burden will be limited, and we believe that the burden will remain below 95% of operating revenues by the end of 2024. Laval's liquidity has been very strong historically and we expect that will continue in the next two years. We expect that growth in Laval's economy will remain in positive territory in 2023 despite increasing economic challenges from rising

interest and elevated inflation rates, and the threat of a recession. S&P Global Ratings' long-term issuer credit rating on the City of Laval is 'AA+'

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 gathering 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

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.

Rationale

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

Laval's economy recovered significantly in 2021 from the COVID-19 pandemic as nominal GDP jumped almost 14% according to estimates provided to the city. We expect a similar performance in 2022 with nominal growth of close to 10%, in line with our expectations for Canada and for Quebec. 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 $54,000. Laval is north of Montreal and is the third-largest city in Quebec and the 13th largest in Canada. It 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 economic volatility.

Generally, 2021 was a good year for the Laval economy. Investment in the city easily surpassed C$1 billion in 2021 for the fourth consecutive year. Employment grew close to 8% in 2021 as the unemployment rate fell to 7.1% from 8.2% in 2020. Housing starts declined 20% in 2021 from near-peak levels in 2020; however, housing starts to date in 2022 are tracking to surpass 2021 starts but fall short of 2020.

Laval's financial management practices remain strong, in our opinion. The city has prudent financial policies and practices, which promote fiscal discipline, that elected officials fully support. 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. The city updated its code of ethics in the past year to include modifications to the declaration of conflict of interest, gifts from suppliers, and a ban on retaliation. Laval's council consists of 22 members, 21 councilors, and the mayor.

As with 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 will produce healthy budgetary results in 2022-2024 with robust operating surpluses and moderate after-capital deficits that will limit the increase in the city's debt burden.

Laval's budgetary results moderated in 2021 from a very strong performance in 2020, as operating revenues declined slightly with the reduction in support from senior governments. For 2021, the city recorded an operating surplus of 9% of operating revenues and an after-capital deficit of 8% of total revenues. We expect similar results in 2022-2024. We estimate operating revenues will increase steadily over the period (close to 5% annually) but will be slightly outpaced by operating expenditures. We expect annual increases in the property tax levy will be held close to inflation rates. We expect that for 2020-2024, operating surpluses will average about 11% of operating revenues and after-capital deficits about 6% of total revenues. As was the case in 2021, the city's three-year capital plan will be large by historical standards. Capital spending will rise to about C$320 million in 2022, increasing to C$440 million in 2024 by our estimates, which are adjusted to reflect historical realization rates. The spending will go to the usual infrastructure priorities of a large and expanding city: state-of-good-repair work will represent about one-third of total capital spending; and the remainder will be dedicated to the historical priorities of road, water, and wastewater networks; facilities; and sustainable development. Capital grants and contributions from developers will increase in step with capital spending, limiting new debt issuance.

Tax-supported debt, which stood at about C$930 million at the end of 2021, will rise to about C$950 million in 2022 and could reach C$1.2 billion by the end of 2024. However, the tax-supported debt burden will rise more moderately thanks to healthy revenue growth; tax-supported debt will represent about 81% of operating revenues in 2022 and about 94% by the end of 2024. According to the city, it will borrow about C$200 million in 2022 and about C$370 million in 2024 to support its capital program and refinancing, 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. Despite rising interest rates, the effect of additional new borrowing on the city's interest expense will also be easily managed. The burden of interest expense will average 2.4% in 2021-2023.

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. We expect cash and equivalents will average more than C$550 million in 2023. Total free cash available for debt service will be more than C$500 million over the next 12 months and represent about 2.4x projected debt service, by our estimates. 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 2022-2024 comfortably.

City of Laval Selected Indicators

Mil. C$	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	1,075	1,153	1,121	1,170	1,240	1,283
Operating expenditure	933	938	1,019	1,066	1,143	1,177
Operating balance	142	215	102	104	97	106
Operating balance (% of operating revenue)	13.2	18.7	9.1	8.9	7.8	8.3
Capital revenue	50	102	89	72	139	219
Capital expenditure	225	270	286	320	355	439
Balance after capital accounts	(33)	48	(95)	(144)	(119)	(114)

City of Laval Selected Indicators

Balance after capital accounts (% of total revenue)	(2.9)	3.8	(7.9)	(11.6)	(8.6)	(7.6)
Debt repaid	168	176	181	186	199	196
Gross borrowings	176	188	219	203	279	371
Balance after borrowings	(25)	60	(58)	(126)	(40)	61
Direct debt (outstanding at year-end)	879	891	929	946	1,026	1,200
Direct debt (% of operating revenue)	81.8	77.3	82.9	80.9	82.7	93.5
Tax-supported debt (outstanding at year-end)	879	891	929	946	1,026	1,200
Tax-supported debt (% of consolidated operating revenue)	81.8	77.3	82.9	80.9	82.7	93.5
Interest (% of operating revenue)	2.8	2.5	2.3	2.2	2.8	3.3
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	46,328.7	43,258.3	51,987.9	54,003.3	54,648.0	56,475.0

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, Published Oct. 12, 2021

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 2022: Canadian Growth To Slow On Higher Interest Rates And U.S. Weakness, Sept. 26, 2022
- Local And Regional Government Risk Indicators: Institutional Strengths Buoy Canadian LRGs Even In Rough Waters, Sept. 22, 2022
- , Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- Sector And Industry Variables: Sovereign Rating Methodology, Sept. 28, 2022
- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021, Nov.. 10, 2021

Ratings Detail (as of November 21, 2022)*

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.

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