S&P Global Ratings

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Research Update:

City of Edmonton 'AA' Ratings Affirmed; Outlook Is Positive

July 11, 2024

Overview

- We expect the City of Edmonton will continue to support its strong budgetary performance and robust liquidity position. However, we also expect escalating capital costs will increase the city's deficits after-capital accounts. While the already high debt burden will increase, we believe the city will continue to manage its resources effectively.
- Accordingly, S&P Global Ratings affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on Edmonton.
- The positive outlook reflects our view that an expanding economy and prudent management will enable Edmonton to sustain its strong budgetary performance and advance its large capital plan without materially increasing its debt burden.

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Rating Action

On July 11, 2024, S&P Global Ratings affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the City of Edmonton, in the Province of Alberta. The outlook is positive. At the same time, S&P Global Ratings affirmed its 'A-1+' short-term rating and 'A-1(High)' Canada scale commercial paper rating on the city.

Outlook

The positive outlook reflects our expectation that the city's strong management will successfully address its elevated capital plan such that after-capital deficits will peak at about 7% of total revenues in the next two years and subsequently narrow. As a result, we expect that Edmonton's tax-supported debt burden will increase to about 146% of operating revenues in 2026 and that free cash will well exceed the next 12 months' debt service costs.

Downside scenario

We could revise the outlook to stable if management demonstrates an inability to mitigate high funding needs through fiscal measures, leading to sustained deficits after-capital accounts of more than 5% of total adjusted revenues.

Upside scenario

We could raise the rating in the next two years if Edmonton sustains a strong financial position with deficits after-capital accounts of about 5% of total revenues. In this scenario, we expect the city to sustain a rising but manageable debt burden.

Rationale

We believe that, despite a large outlay of capital spending in the near term, the city, through its fiscal actions and from support from senior levels of government, will post moderate after-capital deficits of about 7% of total revenue in the next two years. Nevertheless, we expect that Edmonton will achieve improving budgetary results thereafter, and that its debt burden will remain manageable. In addition, the city's exceptional liquidity position and supportive institutions continue to bolster its creditworthiness.

Although concentrated in the energy sector, Edmonton's economy will remain strong, and robust financial management will support the city's creditworthiness.

Edmonton's economy remains strong. The region is the design and fabrication center for most of the equipment used in the oil sands and natural gas sectors, resulting in high income levels and substantial economic concentration. We estimate the city's GDP per capita will be higher than Canada's US$54,300 in 2024. The city is the provincial capital and its economy historically has been anchored by a large public sector, which partially insulates the labor force from economic cycles. The estimated unemployment rate in 2023 exceeded initial projections and was higher than in 2022, increasing from 6.0% in 2022 to 6.2% in 2023, partly due to an expanding working-age population.

We expect Edmonton's residential share of the property tax base will keep expanding, fueled by an increasing population, as estimated in the city's economic outlook projected population growth higher than 3.6% for fall 2024, primarily due to significant migration.

In our opinion, the management team is experienced and qualified to implement appropriate fiscal policies and the city is willing to raise taxes when needed. City council recently approved a property tax increase of 8.9% for the 2024 budget. Edmonton has a robust set of financial policies and a well-documented financial plan. In addition, it provides transparent disclosure of pertinent information.

Management prepares detailed four-year operating and capital budgets, as well as 10-year capital and 10-year operating investment plans. In addition, it reports on capital and operating progress throughout the fiscal year. Debt and liquidity management is prudent. Since 2023, Edmonton has applied a more restrictive debt policy. It also has business plan details and formal risk management strategies and policies. The city follows a carbon budget, alongside financial budgets, to achieve emissions reduction targets. We expect these practices will continue over the next two years.

As do other Canadian municipalities, Edmonton 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. 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. Any operating surpluses can fund capital expenditures and future liabilities (such as postemployment obligations) through reserve contributions. Municipalities have demonstrated a track record of strong budget results and, therefore, debt burdens, on average, are low relative to those of global peers and growth over time has been modest.

Significant capital plans and escalating costs will increase the city's deficits after post-capital accounts while Edmonton maintains its high but manageable debt burden.

We expect Edmonton will continue to record solid budgetary performance from 2022 to 2026 as its tax revenues increase. On average, the city will achieve robust operating surpluses of about 16% of operating revenues during this period. Nevertheless, due to its significant capital plan and price increases, we anticipate higher deficits after-capital accounts of about 7% of total revenues. In our opinion, the city will manage its tax affordability and fiscal sustainability in future budget discussions.

In spring 2024, Edmonton's capital plan to 2027 and beyond, totals C$10.3 billion for capital projects such as the light rail transit project (LRT expansion), which includes the Valley Line West and Metro Line to Blatchford, and the Yellowhead Trail Freeway and the Blatchford redevelopment. The spring budget contains a carry-forward from the 2023 budget, starting in 2024. LRT expansion alone makes up about 33% of the capital plan. In our base case, we expect the city to incur C$5.2 billion in capital expenditures from 2024-2026.

Although Edmonton shares the cost of some capital projects with senior levels of government--14% from the federal government and 15% from the province during 2023-2027--we do not expect the recent bills passed by the province to affect the funding amounts. However, potential additional red tape could affect the timing of the grants.

We expect the debt portion will make up about 35% of the total funding components, which will continue to drive borrowing. Many of these debt-funded plans are for renewal projects related to road and transit infrastructure. As a result, Edmonton plans to issue about C$2.2 billion in new debt from 2024-2026, increasing the tax-supported debt burden to C$5.9 billion, or 146% of operating revenue, by 2026, which is high compared with that of domestic peers. We also expect interest costs will rise to about 5% of operating revenues.

Our measure of tax-supported debt includes C$459.1 million in debt issued by Edmonton for EPCOR Utilities Inc., which provides clean water and reliable energy in Canada and the U.S. EPCOR is 100% owned by the city. The city's contingent liabilities are low. We do not consider the debt EPCOR issues in its own name as a contingent liability, because we believe the likelihood of the city providing the utility with extraordinary support in a stress scenario is low.

Edmonton's credit profile is bolstered by what we view as an exceptional liquidity position and strong access to external liquidity, largely due to the city's access to the Province of Alberta for term-debt financing. It can also draw up to C$250 million in promissory notes and C$250 million on its line of credit and can access the province for term debt financing. We estimate that the city's free cash will total about C$2 billion in the next 12 months, sufficient to cover about 4x estimated debt service for the period.

Key Statistics

Table 1

City of Edmonton -- Selected indicators

	Fiscal year-end Dec. 31					
(Mil. C$)	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenues	3,142	3,231	3,498	3,675	3,870	4,055
Operating expenditures	2,462	2,686	2,933	3,105	3,254	3,415
Operating balance	680	545	565	570	617	641
Operating balance (% of operating revenues)	21.7	16.9	16.1	15.5	15.9	15.8
Capital revenues	432	552	682	694	791	968
Capital expenditures	1,136	1,315	1,432	1,590	1,707	1,941
Balance after capital accounts	(25)	(219)	(185)	(326)	(299)	(332)
Balance after capital accounts (% of total revenues)	(0.7)	(5.8)	(4.4)	(7.5)	(6.4)	(6.6)
Debt repaid	240	261	288	314	283	305
Gross borrowings	379	654	564	688	848	787
Balance after borrowings	115	175	91	48	266	150
Direct debt (outstanding at year-end)	4,070	4,430	4,676	5,003	5,402	5,918
Direct debt (% of operating revenues)	129.5	137.1	133.7	136.1	139.6	145.9
Tax-supported debt (outstanding at year-end)	4,070	4,430	4,676	5,003	5,402	5,918
Tax-supported debt (% of consolidated operating revenues)	129.5	137.1	133.7	136.1	139.6	145.9
Interest (% of operating revenues)	3.7	4.1	4.9	4.7	5.1	5.6
National GDP per capita (single units)	65,825	72,249	72,127	73,304	75,035	77,376

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 Edmonton -- Ratings score snapshot

Key rating factors	
Institutional framework	1
Economy	2
Financial management	1
Budgetary perfomance	3

Table 2

City of Edmonton -- Ratings score snapshot (cont.)

Key rating factors	
Liquidity	1
Debt burden	4
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, July 8, 2024

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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook Canada Q3 2024: Turning The Corner, June 24, 2024
- Institutional Framework Assessment: Fiscal Autonomy Has Effective Limits For Canadian Provinces, April 2, 2024
- S&P Global Ratings Definitions, June 9, 2023

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	
Edmonton (City of)	
Issuer Credit Rating	AA/Positive/A-1+
Edmonton (City of)	
Commercial Paper	A-1(HIGH)
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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.