S&P Global Ratings

RatingsDirect®

Calgary

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
We expect Calgary, Canada's third-largest city, will continue to increase its tax base over the next three years, with residential growth offsetting lower non-residential expansion, particularly in the downtown area that has historically been home to energy company head offices.	A growing tax base, along with spending restraint, will support high operating balances that will partially fund the city's sizable capital program and mitigate debt issuance.
• Calgary's concentration in the energy sector contributes to the city's wealthy tax base but exposes it to volatile energy prices.	• The city will continue generating high operating balances and after-capital surpluses as it proceeds with its capital plan.
• The city's prudent long-term financial management practices will support continued healthy operating surpluses.	• Moderate new issuance will increase the debt burden, including ENMAX debt, to about 106% of operating revenues by 2025.
• An extremely predictable and supportive institutional framework supports the ratings.	• Calgary's robust liquidity will continue to support its creditworthiness.

S&P Global Ratings' long-term issuer credit rating on the City of Calgary is 'AA+'. Robust operating surpluses will continue to support the rating, as the city's revenue growth will be underpinned by an expanding residential tax base. A rebounding energy sector will benefit Calgary's economy, although we expect it will take time to address the high downtown office vacancy rates that the city has grappled with since 2015. Nevertheless, strength in other industries, along with solid population growth and household formation, have more than offset the impact of downtown office dynamics on the city's public finances. In addition, despite a large capital plan, which includes the Green Line light rail transit (LRT) project, we estimate that the city will continue posting after-capital surpluses over the next three years. Calgary will issue debt to help fund part of its capital spending but we expect the debt burden will remain manageable and that the city will maintain ample liquidity, with the debt service coverage ratio of more than 12x during our forecast horizon. Although we expect Calgary will continue to benefit from a supportive institutional framework and sound financial management, we believe that the city’s exposure to the volatile energy sector partially mitigates these strengths.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Calgary will continue posting after-capital surpluses despite its sizable capital plan in the next two years. In addition, we expect revenue growth and stable new issuance will keep the debt burden manageable, and, excluding debt on-lent to the city's wholly owned electricity distribution and transmission company, ENMAX Corp., it will decline to about 63% of operating revenues.

Downside scenario

We could take a negative rating action in the next two years if weakening financial management policies and deteriorating fiscal performance led to sustained after-capital deficits of more than 5% of total revenues and debt levels, excluding that of ENMAX, increased substantially, surpassing 120% of operating revenues.

Upside scenario

Although we view it as unlikely in the next two years, we could take a positive rating action if Calgary is able to maintain healthy after-capital surpluses, such that debt, excluding that of ENMAX, declines to consistently below 60% of operating revenues.

Rationale

Calgary's economy will remain vulnerable to a volatile energy sector while strong financial management will support creditworthiness.

We expect Calgary will remain the hub of Canada's oil and gas industry and the headquarters for many major energy-related companies. This results in high income levels, particularly with the recovery of the energy sector over the past 18 months, but represents substantial economic concentration. Despite this, we believe Calgary demonstrates characteristics of a strong economy and a wealthy revenue base. Although municipal GDP data are unavailable, we believe that Calgary's GDP per capita is higher than the national level, which we estimate will be about US$55,000 in 2023.

The rebalancing of Calgary’s downtown property market, which has been subject to the volatility of the energy industry and exacerbated by the lingering effects of the pandemic, will take time. However, we believe that growth in the residential share of the property tax base will continue to mitigate the effect of downtown office property dynamics on the city’s budgetary performance. The energy downturn that began in 2015 led to an oversupply of downtown office space, which caused property values to decline. As a result, the changing values shifted a larger portion of property taxes to residential properties and businesses outside downtown. Despite the rebound in the energy sector, businesses have not returned to downtown office space to the degree that was seen prior to 2015. Increase in remote work following the pandemic has also affected the demand for office space.

In our view, Calgary demonstrates very strong financial management practices and has consistently proven its capacity to enact prudent fiscal policies, as well as to respond to external risks. We also believe that management accountability is strong. The city has well-defined financial policies and a well-documented financial plan. Management prepares four-year operating and capital budgets that council approves and that overlap with council terms. It also has a five-year capital forecast. In addition, we believe it has prudent and conservative policies to govern debt and liquidity management.

As do other Canadian municipalities, Calgary 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 have the ability to match expenditures well with revenues, except for capital spending, which can be intensive. Any operating surpluses typically 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.

High operating balances will partially fund the city’s sizable capital program and will mitigate debt issuance.

We expect operating balances will remain high over the next three years at about 19% of operating revenues, on average, which will continue to facilitate Calgary's ability to internally finance most of its capital plan and use moderate debt issuance to support the rest. We expect the city’s increasing residential tax base will continue to keep pace with its solid population growth, and that this, together with prudent spending, will keep budgetary performance strong. In addition, despite Calgary having a sizable capital plan, which includes the Green Line LRT, we estimate that it will continue posting after-capital surpluses of about 6% of total revenues, on average, over the next three years.

The substantial capital program will require Calgary to issue about C$1.5 billion in gross debt in 2023-2025. However, with expected growth in operating revenue and principal repayments of about C$1 billion due over the same period, we expect total tax-supported debt will reach about 106% of operating revenues at year-end 2025. Of note, the city's debt includes debt issued for ENMAX's regulated distribution business. We expect Calgary's debt, excluding on-lent debt, will represent about 63% of operating revenues in 2025. Interest costs (including ENMAX) accounted for about 3.5% of operating revenues in 2022 and we expect they will remain around that level during our two-year outlook horizon.

Calgary's credit profile is bolstered by what we view as an exceptional liquidity position and strong access to external liquidity, partially due to the city’s access to the Province of Alberta for term-debt financing. We estimate total free cash in the next 12 months will be enough to cover about 12.5x the estimated debt service for the period. We expect this ratio will remain well above 100% during the outlook horizon.

City of Calgary Selected Indicators

Mil. C$	2021	2022	2023bc	2024bc	2025bc
Operating revenue	4,059	4,524	4,584	4,713	4,855
Operating expenditure	3,285	3,662	3,727	3,818	3,911
Operating balance	774	862	857	895	944

Operating balance (% of operating revenue)	19.1	19.1	18.7	19	19.4
Capital revenue	575	602	880	927	994
Capital expenditure	900	876	1,437	1,513	1,623
Balance after capital accounts	449	588	301	309	316
Balance after capital accounts (% of total revenue)	9.7	11.5	5.5	5.5	5.4
Debt repaid	322	330	325	331	346
Gross borrowings	464	406	521	451	496
Balance after borrowings	591	664	497	429	465
Direct debt (outstanding at year-end)	4,452	4,602	4,798	4,918	5,067
Direct debt (% of operating revenue)	109.7	101.7	104.7	104.3	104.4
Tax-supported debt (outstanding at year-end)	4,516	4,660	4,879	4,988	5,132
Tax-supported debt (% of consolidated operating revenue)	111.3	103	106.4	105.8	105.7
Interest (% of operating revenue)	3.7	3.5	3.6	3.7	3.9
Local GDP per capita ($)	--	--	--	--	--
National GDP per capita ($)	52,358.60	54,917.70	54,720.30	56,364.90	59,092.10

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	2
Financial management	1
Budgetary performance	1

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, July 10, 2023

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 2023: A First-Half Resurgence Will Give Way To An Inevitable Slowdown, June 26, 2023
- Institutional Framework Assessments For International Local And Regional Governments, June 15, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021

- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Ratings Detail (as of July 13, 2023)*

Calgary (City of)	
Issuer Credit Rating	AA+/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Canada National Scale Commercial Paper	A-1(HIGH)
Issuer Credit Ratings History	
22-Oct-2004	AA+/Stable/A-1+
10-Oct-2002	AA/Positive/A-1+
15-May-1996	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.