

Territory of Yukon

July 25, 2023

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
We expect the Territory of Yukon's economy will demonstrate solid growth in the next several years, although it remains heavily reliant on the mining sector.	Steady growth in federal transfers underpins healthy budgetary performance.
The medium-term capital plan has been reduced but spending will remain high relative to previous years.	Liquidity will remain well in excess of debt service requirements.
Extremely predictable and supportive institutional framework supports creditworthiness.	Yukon anticipates minimal debt requirements in the next several years, keeping the debt burden very low.

Primary contact

Adam J Gillespie

Toronto
1-416-507-2565
adam.gillespie
@spglobal.com

Secondary contact

Bhavini Patel, CFA

Toronto
1-416-507-2558
bhavini.patel
@spglobal.com

Research contributor

Ekta Bhayani

CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Mumbai

S&P Global Ratings' long-term issuer credit rating on the Territory of Yukon is 'AA' and its issue-level rating on the senior unsecured debt of Yukon Development Corp. (YDC), the territory's wholly owned electric utility, is also 'AA'.

An extremely predictable and supportive institutional framework, along with strong direct support from the federal government, continues to underpin Yukon's credit profile. We expect that economic growth in Yukon will continue in the next several years despite volatility in the key mining sector. This in turn will support own-source operating revenue growth, helping to offset inflationary cost pressures and finance the territory's large five-year capital plan. We believe that Yukon's budgetary performance will improve modestly in the next two years, while debt and liquidity metrics will remain strong.

Outlook

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The stable outlook reflects S&P Global Ratings' expectation that in the next two years, Yukon will maintain stable fiscal performance. We also expect that liquidity will remain above 100% of the next 12 months' debt service, and that the territory's tax-supported debt burden will remain well below 30% of consolidated operating revenues.

Downside scenario

Weaker financial discipline, particularly with regard to the planning, implementation, and funding of Yukon's capital program, leading to significantly deteriorated budgetary performance, a tax-supported debt burden exceeding 30% of consolidated operating revenues, or materially depleted free cash levels, could result in a negative rating action in the next two years.

Upside scenario

We could raise the ratings if Yukon's economic output increases materially, leading to significantly expanded financial flexibility and operating balances consistently exceeding 5% of operating revenues.

Rationale

Economy remains tied to mining sector but rebounding tourism should provide a lift.

Yukon is one of Canada's three territories and is in northwestern Canada. Although it represents a very small proportion of Canada's overall population and economic output, both have been increasing steadily in recent years. The population reached about 44,000 in 2022 and is expected to continue increasing at about 2% per year. Yukon's nominal GDP per capita is higher than the national average of about US\$54,7000 in 2023, given high income levels and high-value mining production in the territory. Individual mine projects can have a material impact on real GDP growth, as can government spending, which is largely supported by the federal government. In its 2023-2024 budget, the territory had forecast real GDP growth of 5.4% in 2023, but the subsequent announcement of a mine suspending operations will likely cut that by a few percentage points. However, the rebounding tourism sector should provide modest uplift and support growth stronger than S&P Global Economics' national forecast, which averages about 1.6% in 2023-2026. The public sector (public administration, health care and social assistance, and education) remains a significant and stabilizing force in Yukon's economy, as it represents more than one-third of output and employment. However, economic growth and employment are highly dependent on the mining sector and changes in Yukon's GDP are often fueled by volatility in it, which tempers our assessment of the strength of the territory's economy and the government's ability to materially increase its own-source revenues.

Yukon's financial management remains sound, in our view. The Liberal minority government, under new Premier Ranj Pillai, remains supported by the confidence and supply agreement with the New Democratic Party that has been extended to the next election slated for late 2025. The government has a track record of strong management that produces solid financial results supported by stable federal funding. Yukon's consolidated budgets use realistic assumptions and provide good prospective visibility but are detailed for only one year. The government has an ambitious five-year capital plan and continues to refine the related financing plan to ensure sufficient cash reserves remain in place. We believe that the territory's debt policy remains prudent, with balances outstanding well below legislated limits. Cash and debt management are integrated. Yukon has only one significant government-related entity, YDC, which has a strong policy rationale and operates with appropriate oversight mechanisms.

We believe that the institutional framework in which Canadian territories operate is extremely predictable and supportive and has demonstrated a high degree of institutional stability. The framework proved to be resilient throughout the pandemic, with government support remaining robust and predictable. Yukon benefits from significant revenue support through the Territorial

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Formula Financing (TFF) grant, Canada Health Transfer, and Canada Social Transfer payments from the federal government. We expect total federal transfers will continue to increase modestly in the next two years and continue to account for about 85% of Yukon's total revenues.

Revised capital plan reins in spending, improving after-capital balances.

The territory's operating revenue growth will be supported by stable federal funding as well as tax revenue growth on stable forecast economic growth. Accordingly, we believe that Yukon's operating surpluses will remain relatively stable and average almost 5% of operating revenues in fiscal years 2022-2026. The territory's five-year capital plan is substantial at C\$2.1 billion, although this is about C\$500 million lower than the previous plan. About a third of spending will be directed toward transportation infrastructure, with significant investments also in land development, social development, education, and health. Based on historical trends, we do not expect cash expenditures to fully match the plan and federal grants typically support a large portion of these projects. Accordingly, we expect that Yukon will record, on average, after-capital deficits equal to 0.7% of total revenues for fiscal years 2022-2026, although operating revenue growth could result in sustained after-capital surpluses in the longer term.

Transfers from the federal government provide a considerable source of stable and predictable revenue but they limit the territory's budgetary flexibility. The TFF grant is an unconditional grant that helps territorial governments fund essential government services such as hospitals, schools, social services, and related infrastructure in the north, where there are numerous small and isolated communities. The grant is legislated for five years and was revised in 2019-2020. We expect that, although there are some technical changes to the formula with respect to the measurement of tax bases and fiscal capacity, any changes will remain broadly revenue neutral. The government of Yukon also recently signed an agreement with the federal government to provide for additional health transfers in the next 10 years.

We believe that its improved budgetary performance will allow Yukon to maintain stable liquidity with free cash and liquid assets sufficient to cover about 10x the next 12 months' debt service. Although elevated capital spending in the next several years could lower cash balances, debt service requirements remain very low relative to those of more indebted peers. In addition, our assessment of Yukon's liquidity is bolstered by our view that the territory has strong access to Canada's well-developed capital markets.

The territory's debt burden will remain very low in the next two fiscal years, especially in comparison with that of peers. Yukon does not anticipate any material own-purpose direct borrowing in the next several years. Our measure of total tax-supported debt, which includes direct debt of the government, capital leases, and the debt of YDC, is expected to moderate over our forecast horizon to less than 10% of operating revenues while the interest burden of direct debt will remain very low at less than 1% of operating revenues. Risks stemming from contingent liabilities, primarily consisting of vested sick leave and vacation, severances, and known environmental liabilities, are low and neutral to the territory's credit profile.

Territory of Yukon Selected Indicators

Budget Year* (Mil. C\$)	2020	2021	2022bc	2023bc	2024bc	2025bc
Operating revenue	1,624	1,704	1,835	1,887	1,932	1,975
Operating expenditure	1,531	1,634	1,767	1,780	1,824	1,860
Operating balance	93	71	69	108	108	115
Operating balance (% of operating revenue)	5.7	4.1	3.7	5.7	5.6	5.8
Capital revenue	30	64	71	58	62	58

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Territory of Yukon Selected Indicators

Capital expenditure	107	156	192	170	167	162
Balance after capital accounts	15	(21)	(52)	(5)	2	11
Balance after capital accounts (% of total revenue)	0.9	(1.2)	(2.8)	(0.3)	0.1	0.5
Debt repaid	5	5	6	6	6	6
Gross borrowings	0	0	5	0	0	0
Balance after borrowings	10	(26)	(54)	(10)	(3)	5
Direct debt (outstanding at year-end)	32	27	25	20	14	9
Direct debt (% of operating revenue)	2.0	1.6	1.4	1.0	0.7	0.4
Tax-supported debt (outstanding at year-end)	234	214	227	191	182	174
Tax-supported debt (% of consolidated operating revenue)	13.8	12.0	11.8	9.6	9.0	8.4
Interest (% of operating revenue)	0.1	0.1	0.1	0.1	0.0	0.0
Local GDP per capita (\$)	58,195.4	68,417.5	69,660.7	N/A	N/A	N/A
National GDP per capita (\$)	43,349.7	52,358.6	54,917.7	54,720.3	56,364.9	59,092.1

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. *Budget year 2022 equals fiscal year 2023. C\$--Canadian dollar. \$--U.S. dollar.

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	3
Financial management	2
Budgetary performance	4
Liquidity	1
Debt burden	1
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. 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- 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
- S&P Global Ratings Definitions, June 9, 2023
- Sector And Industry Variables: Sovereign Rating Methodology, March 24, 2023
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., March 22, 2023

Ratings Detail (as of July 25, 2023)*

Yukon (Territory of)

Issuer Credit Rating

AA/Stable/--

Issuer Credit Ratings History

08-Jun-2010

AA/Stable/--

*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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