S&P Global Ratings

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# Territory of Yukon

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This report does not constitute a rating action.

## Credit Highlights

### Overview

| Credit context and assumptions | Base-case expectations |
|---|---|
| Yukon's economy remains heavily reliant on the mining sector, but high prices and increasing production will underpin near-term growth. | Steady revenue growth will help to stabilize budgetary performance despite rising capital expenditures. |
| Management continues to refine its capital financing strategy to deliver on the territory's ambitious capital plan. | Cash levels could decline as capital spending increases but liquidity should remain sufficient to meet debt service requirements. |
| Extremely predictable and supportive institutional framework supports creditworthiness. | We expect that tax-supported debt will increase modestly in the next two years but remain below 30% of consolidated operating revenue. |

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'.

A stronger-than-expected economic recovery in 2021 and 2022 will support operating revenue growth and help to finance the territory's large five-year capital plan. We believe that Yukon's budgetary performance will remain stable in the next two years, while debt and liquidity metrics could weaken modestly on higher capital spending. An extremely predictable and supportive institutional framework, along with strong direct support from the federal government, continues to underpin Yukon's credit profile.

## Outlook

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

## Downside scenario

Weaker financial discipline, particularly with regard to the planning, implementation, and funding of Yukon's large 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

Although we view it as unlikely in the next two years, we could raise the ratings if Yukon's economic prospects materially improve, leading to significantly expanded financial flexibility and operating balances consistently exceeding 5% of operating revenues.

# Rationale

Economic growth will remain strong in the near term, supported by new mine projects. Yukon is one of Canada's three territories. It is in northwestern Canada and has a steadily rising population that reached 43,118 in 2021. Its nominal GDP per capita is higher than the national average of about US$54,860, given high income levels and high-value mining production in the territory. Real GDP growth of 9.1% in 2021 was much stronger than we had expected, reflecting the start of production at Victoria Gold's Eagle and Keno Hill mines as well as increased spending on health care and social assistance, largely supported by the federal government. The territory expects that growth in 2022 will be similar, as high prices continue to support mining activity and the important tourism sector rebounds, but that it will moderate more in line with S&P Global Economics' national forecast, averaging about 2.1% in 2023-2025. 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 remains supported by the confidence and supply agreement with the New Democratic Party that remains in effect until Jan. 31, 2023. 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 put in place 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 outstanding balances 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 has proved to be resilient to the financial crisis and the pandemic, as reflected by consistent federal government support, which absorbed most of the shock through indirect support to individuals and small businesses. Yukon benefits from significant revenue support through the Territorial 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. In fiscal 2021, they represented close to 85% of Yukon's total revenues.

Plans to ramp up capital spending could pressure available free cash in the near term. The territory's operating revenue growth will be supported by stable federal funding as well as healthy tax revenue growth following the strong general economic recovery through 2022. Accordingly, we believe that Yukon's operating surpluses will remain relatively stable and average 4.7% of operating revenues in fiscal years 2021-2025. The territory's five-year capital plan is relatively substantial at C$2.6 billion, with almost 60% directed toward transportation infrastructure, land development, social development, education, and health. Although federal grants support a large portion of these projects and we don't expect cash expenditures to fully match the plan, we believe that elevated capital spending will translate into recurrent after-capital deficits in the next two years. For fiscal years 2021-2025, we expect that Yukon will record, on average, after-capital deficits equal to 1.6% of total revenues.

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.

We believe that Yukon's liquidity will decrease in the near term to finance the expanded capital program but that free cash and liquid assets will remain sufficient to cover close to 3x the next 12 months' debt service. Although we believe that cash balances could fall further to fund the government's capital plan, we expect liquidity will remain greater than debt service requirements in the next two years. 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. We have assumed that the territory could finance about half of its after-capital deficits with external debt in fiscal years 2023-2025, although this does not result in a material increase in the debt burden, with tax-supported debt estimated at almost 16% of consolidated operating revenue by the end of fiscal 2025, from about 14% at the end of fiscal 2021. Our measure of tax-supported debt includes direct debt of the government, capital leases, and the debt of YDC. The interest burden of Yukon's direct debt will remain very low at less than 1% of its 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$) | 2019 | 2020 | 2021bc | 2022bc | 2023bc | 2024bc |
|---|---|---|---|---|---|---|
| Operating revenue | 1,451 | 1,611 | 1,748 | 1,759 | 1,766 | 1,798 |
| Operating expenditure | 1,403 | 1,531 | 1,650 | 1,685 | 1,697 | 1,710 |
| Operating balance | 48 | 80 | 98 | 74 | 69 | 88 |
| Operating balance (% of operating revenue) | 3.3 | 4.9 | 5.6 | 4.2 | 3.9 | 4.9 |
| Capital revenue | 25 | 43 | 52 | 83 | 94 | 81 |
| Capital expenditure | 117 | 107 | 129 | 207 | 236 | 234 |
| Balance after capital accounts | (44) | 15 | 20 | (50) | (73) | (65) |
| Balance after capital accounts (% of total revenue) | (3.0) | 0.9 | 1.1 | (2.7) | (3.9) | (3.4) |
| Debt repaid | 5 | 5 | 7 | 8 | 10 | 15 |
| Gross borrowings | 0 | 0 | 0 | 25 | 35 | 30 |
| Balance after borrowings | (50) | 10 | 14 | (33) | (48) | (50) |
| Direct debt (outstanding at year-end) | 37 | 32 | 25 | 42 | 67 | 84 |
| Direct debt (% of operating revenue) | 2.6 | 2.0 | 1.5 | 2.4 | 3.8 | 4.7 |
| Tax-supported debt (outstanding at year-end) | 227 | 234 | 238 | 255 | 280 | 295 |
| Tax-supported debt (% of consolidated operating revenue) | 15.1 | 13.9 | 13.1 | 13.9 | 15.2 | 15.8 |
| Interest (% of operating revenue) | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| Local GDP per capita ($) | 57,285.8 | 55,139.9 | 65,663.9 | 72,144.8 | N/A | N/A |
| National GDP per capita ($) | 46,328.7 | 43,258.3 | 51,987.9 | 56,006.4 | 58,012.8 | 58,081.4 |

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 2021 equals fiscal year 2022. 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 12, 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
- 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 2022: Near-Term Growth To Slow Amid Faster Rate Hikes And Surging Inflation, June 27, 2022
- Institutional Framework Assessments For International Local And Regional Governments, June 15, 2022
- Sector And Industry Variables: Sovereign Rating Methodology, Feb. 23, 2022
- S&P Global Ratings Definitions, Jan. 5, 2021

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

## Ratings Detail (as of July 13, 2022)*

**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.