S&P Global
Ratings

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Full Analysis:

Territory of Yukon

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This report does not constitute a rating action.

Key Rating Factors

Credit context and assumptions	Base-case expectations
Economic growth to remain positive in the near term, supported by mining projects.	We expect Yukon will continue to draw from its cash reserves to finance its capital program, thereby maintaining a very low debt burden but also reducing its available free cash reserves.
- Continued activity in the mining sector should support positive economic growth in the next two years, partly offset by weak growth in the tourism sector, which remains hampered by travel restrictions.	- The restrictions in place to address the COVID-19 pandemic are having a relatively modest impact on the territory's revenues and expenditures due to significant federal support.
- The Territory of Yukon's financial management practices will continue to focus on internal financing of capital expenditures and long-term financial sustainability.	- Yukon's fiscal performance, which we believe remains more constrained by limited flexibility than that of peers, given the high reliance on federal transfers, should remain fairly stable in the next two years.
- The territory's relationship with the federal government will remain stable, well balanced, and generally supportive.	- Yukon will continue to benefit from a very manageable debt burden over the next few years, while its liquidity, although lower, will remain ample to cover the next 12 months' debt service.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the revenue and expenditure impacts stemming from the pandemic-related restrictions will be largely temporary and that in the next two years, Yukon will maintain a relatively stable fiscal performance.

We also expect that liquidity will remain substantial despite drawdowns in the next two years, remaining well above 100% of the next 12 months' debt service; and that the territory's debt burden will remain very low, below 30% of operating revenues.

Downside scenario

Weaker financial discipline, particularly on the capital budget completion and funding, leading to significantly deteriorated fiscal performance, a debt burden exceeding 30% of operating revenues, or lower free cash levels that cover less than 100% of next 12 months' debt service 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

We expect the new minority government, formed after the territorial elections of April 2021, to function cohesively and remain committed to fiscal discipline. We believe that the direct budgetary impacts from the COVID-19 pandemic were less severe for Yukon than for Canadian provinces in 2020, given the relatively small proportion of its revenues that have direct exposure to economic activity. We expect that continued activity in the mining sector and Yukon's reliance on federal transfer payments, although limiting financial flexibility, will help the territory keep its budgetary performance fairly stable in the next few years. We also expect that ongoing efforts to internally finance its capital program, although gradually reducing available free cash, will help the territory maintain a very low debt burden.

Economic growth will remain positive in the near term, supported by new mine projects.

Yukon is one of Canada's three territories. It is in northwestern Canada, and had a population of 42,230 in 2020. Its nominal GDP per capita is higher than the national average of about US$53,000, given the high income levels and high-value mining production in the territory. S&P Global Economics forecasts Canada's real GDP will grow 6.1% in 2021 after declining 5.3% in 2020 (see "Growth Setback In The Spring Will Give Way To Summer Boom," published June 25, 2021, on RatingsDirect). Changes in Yukon's GDP are often fueled by activity in the mining sector. The start of production at Victoria Gold's Eagle and Keno Hill mines more than offset the slowdown caused by the pandemic and resulted in real GDP growth of 1.1% in 2020. Despite a still-weak tourism sector, we believe that ongoing mining operations, and the development of the Kudz ze Kayah mine (expected to open in 2024), together with the anticipated recovery in the services sector, will help to maintain positive real GDP growth in 2021, which the territory expects will reach 7.7%. Although beneficial to employment and economic growth, the new mining projects increase Yukon's already-high exposure to the mining sector. The sector's significant volatility tempers our assessment of the strength of the territory's economy and operating revenue growth. The public sector (public administration, health care and social assistance, and education) remains a significant and stabilizing force on Yukon's economy, as it represents more than one-third of output and employment.

The 2021 election resulted in a Liberal minority government supported by a confidence and supply agreement (CASA) with the NDP, which will be in effect until Jan. 31, 2023. The CASA sets out the terms for the two parties to work effectively and outlines areas deemed important by both caucuses. Yukon's financial management remains sound, in our view. The government has a long track record of strong management that produces solid financial results. While its pandemic response and continuing focus on improving education, health care, and relations with First Nations will result in higher near-term capital spending, we believe that the newly formed government will remain committed, at least until the CASA expires, to adequately matching revenues and expenditures to limit budgetary deficits. In addition, we expect the government to remain dedicated to using a funding strategy for its extensive capital plan that will avoid excessive use of cash reserves. Yukon's consolidated budgets use realistic assumptions and provide good prospective visibility but are detailed for only one year. Although the capital budget describes the approved projects over the next five years, it does not present a detailed list of sources of funding. We believe that the territory's debt policy remains prudent: debt limits are legislated and outstanding balances are well below the limits. Cash and debt management are integrated. Yukon has only one significant government-related entity, Yukon Development Corp. (YDC), which has a strong policy rationale and operates with appropriate oversight mechanisms.

We believe Canadian territories benefit from a very predictable and well-balanced local and regional government framework that has demonstrated a high degree of institutional stability. 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, we estimate they represented about 80% of Yukon's total revenues.

Yukon’s budgetary performance will remain relatively stable despite significant capital spending; however, available free cash, while still sound, will continue to decline in the near term.

Yukon has had relatively few cases of COVID-19, although travel and other restrictions related to the pandemic are likely to continue to dampen tourism and related service sectors for another year. The territory has responded to the pandemic by additional spending in the form of financial and economic supports for businesses, organizations, and individuals. Nevertheless, we believe that the impact of these efforts is relatively minor compared with that of Canadian provinces, and expect that Yukon’s operating surpluses will remain relatively stable and average about 3% of operating revenues in fiscal years 2020-2024. Yukon's budget includes significant capital projects that the territory expects to complete in the next five years. Although the realization of these projects benefits from adequate levels of capital grants, in addition to some of them being carried forward, we expect further capital spending will translate into recurrent after-capital deficits in the next two years. For fiscal years 2020-2024, we expect that Yukon will record, on average, after-capital deficits of close to 3% 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 regarding the measurement of tax bases and fiscal capacity, any changes will remain broadly revenue neutral. Although the TFF grant limits budgetary flexibility, in our view, it also provides the territory with a large degree of revenue stability and predictability.

We expect Yukon's liquidity to decline in the near term as the government draws from cash reserves to support capital programs. However, we expect that free cash and liquid assets will remain sufficient and cover about 11x of the next 12 months' debt service. We believe that Yukon has strong access to Canada's well-developed capital markets, bolstering our assessment of the territory's liquidity.

The territory's debt burden will remain very low in the next two fiscal years, especially in comparison with that of peers. Yukon expects its tax-supported debt, which includes direct debt, capital leases, and the debt of YDC, to reach about C$267 million, or close to 16% of consolidated operating revenues, by fiscal year-end 2024. Direct debt will continue to decline over the next two years, reaching about C$29 million by fiscal 2024. Interest expense will remain well below 1% of operating revenues and unfunded pension liabilities will remain modest. In addition, Yukon’s direct debt burden is very low relative to its operating performance (representing less than five years of operating surpluses), which also supports our assessment. Contingent liabilities are low and include primarily vested sick leave and vacation, severances, and known environmental liabilities.

Territory of Yukon Selected Indicators

Budget Year* (mil. C$)	2018	2019	2020bc	2021bc	2022bc	2023bc
Operating revenue	1,370.3	1,451.4	1,615.8	1,656.3	1,657.5	1,690.1
Operating expenditure	1,324.3	1,403.4	1,566.7	1,611.0	1,623.4	1,635.6

Territory of Yukon Selected Indicators

Operating balance	45.9	48.0	49.2	45.3	34.1	54.5
Operating balance (% of operating revenue)	3.4	3.3	3.0	2.7	2.1	3.2
Capital revenue	29.9	24.6	37.7	51.2	67.1	51.7
Capital expenditure	94.3	117.0	94.3	115.7	182.4	162.6
Balance after capital accounts	(18.5)	(44.4)	(7.4)	(19.3)	(81.2)	(56.5)
Balance after capital accounts (% of total revenue)	(1.3)	(3.0)	(0.5)	(1.1)	(4.7)	(3.2)
Debt repaid	5.1	5.2	6.9	6.0	6.1	4.9
Gross borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Balance after borrowings	(23.6)	(49.6)	(14.3)	(25.3)	(87.3)	(61.3)
Direct debt (outstanding at year-end)	42.1	37.1	30.2	30.1	29.0	29.2
Direct debt (% of operating revenue)	3.1	2.6	1.9	1.8	1.8	1.7
Tax-supported debt (outstanding at year-end)	231.6	227.2	233.2	250.7	249.6	267.4
Tax-supported debt (% of consolidated operating revenue)	16.3	15.7	14.4	15.1	15.1	15.8
Interest (% of operating revenue)	0.2	0.1	0.1	0.1	0.1	0.1
Local GDP per capita	75,191.3	76,189.8	76,959.5	79,907.0	83,052.4	84,933.0
National GDP per capita	60,195.8	61,465.9	58,015.8	65,195.3	67,992.0	69,683.2

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 2020 equals fiscal year 2021. C$--Canadian dollar

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
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, Published July 12, 2021. Interactive version available at http://www.spratings.com/sri

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., Published July 15, 2019
- General Criteria: Principles Of Credit Ratings, Published Feb. 16, 2011

Related Research

- Economic Outlook Canada Q3 2021: Growth Setback In The Spring Will Give Way To Summer Boom, Published June 25, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Published June 4, 2021
- S&P Global Ratings Definitions, Published Jan. 5, 2021
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., Published July 15, 2019
- Guidance: Sovereign Rating Methodology, Published Jan. 22, 2019