S&P Global Ratings

RatingsDirect®

City of Thunder Bay

May 16, 2024

This report does not constitute a rating action.

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Ratings Score Snapshot

Institutional framework
Extremely predictable and supportive
Very predictable and well-balanced
Evolving but balanced
Evolving but unbalanced
Volatile and unbalanced
Very volatile and underfunded

Individual credit profile	Score (1 Strongest – 5 Weakest)
Economy	2
Financial management	3
Budgetary performance	1
Liquidity	1
Debt burden	1

Issuer credit rating
AA+/Stable/--

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
A stable economy fueled by a sizable public sector will continue to support the rating on the City of Thunder Bay despite some obstacles related to the city's less-favorable socioeconomic profile.	Property tax increases and solid provincial grants will allow the city to generate solid operating surpluses.
Prudent financial management practices will support the sustainability of Thunder Bay's budgetary performance and debt burden.	We expect minimal after-capital surpluses on average due to increased capital expenditure, thus sustaining a moderate debt burden on the horizon.
The city's relationship with the Province of Ontario will remain extremely predictable and supportive.	We anticipate the city will sustain its robust liquidity, which bolsters its credit strength.

We estimate that Thunder Bay will sustain strong financial performance on average from 2022-2026, resulting in robust operating surpluses averaging almost 16% of operating revenue. The city is preparing a larger capital plan than in previous years; nevertheless, we expect a modest after-capital surplus on average. As a result, we project that the debt burden will remain well below 60% of operating margins in 2026. In our view, the city's exceptional liquidity position is a key credit strength. Although Thunder Bay benefits from a large public sector, its demographic profile, which is weaker than that of peers, tempers our view of its economy.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, Thunder Bay will maintain overall sound financial results, generating near-balanced after-capital results on average, supported by prudent financial management practices and despite near-term inflationary challenges and elevated capital spending. We also expect the city will sustain a low debt burden and a robust liquidity position.

Downside scenario

In the next two years, we could lower the ratings if the city's revenue is materially lower-than-expected, weakening budgetary performance, with rising capital needs resulting in after-capital deficits above 5% of total revenues on a sustained basis, internal liquidity declining, and additional debt financing of the capital plan.

Upside scenario

We could raise the ratings in the next two years if Thunder Bay's management demonstrated a strong commitment to continued stability in budget results, liquidity, and debt metrics through the implementation of more detailed long-term financial planning, with specified future capital and operating needs and related funding sources providing greater visibility into the long-term sustainability of its financial timeliness and transparency, further strengthening the city's management.

Rationale

Thunder Bay's economy is supported by a sizable and stable public sector, which helps mitigate demographic hurdles.

Thunder Bay is the center for many government services in northwestern Ontario. Thus, its economy is supported by a large public sector (health care, school boards, and municipal and provincial administration), which acts as a stabilizing force. The manufacturing, retail, and mining sectors have contributed significantly to the local economy, while tourism is still developing. Thunder Bay's GDP per capita aligns with the national average of about US$55,000. However, we believe that a weaker demographic profile, characterized by slow population growth and a higher proportion of residents aged 65 and older compared with national and provincial levels, along with a rapidly shrinking employed population in comparison with the retired/unemployed share of the population, constrains the city's economy and could affect future revenue growth and expenditure needs. Nevertheless, key labor force metrics have improved significantly; the unemployment rate is an estimated 4.3% as of December 2023, lower than the national rate of 5.8%. As part of the city's plans and because of its efforts to boost the economy and population, the federal government, through Canada Mortgage and Housing Corp., approved C$20.7 million under the Housing Accelerator Fund. The target is 1,691 housing units built by February 2027.

In our view, Thunder Bay demonstrates sound financial management practices and the ability to implement its strategic plan and budget. Management prepares a one-year operating budget as well as a detailed three-year capital budget, including identified funding sources, along with a 10-year outlook as part of a long-term financial plan. The city plans to introduce a multiyear budgeting process and expects to implement it by 2026 upon council approval. Although it is too early to determine its effects, we believe financial management initiatives will be ongoing and we will closely monitor their progress. Thunder Bay is completing the third phase of its asset management plan, expected to conclude by 2025. Similar to Canadian peers, the city can issue debt only to finance capital expenditures, and we view its policies on debt and liquidity management as prudent.

As do other Canadian municipalities, Thunder Bay 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.

Operating performance will remain strong, and despite the increase in capital projects, the city will sustain a moderate debt burden.

We believe the city's budgetary performance will remain robust. In our base-case scenario for 2022-2026, we expect Thunder Bay will continue to generate high operating surpluses, averaging almost 16% of operating revenue. This will be strengthened by its increases in property tax and consistent provincial grant support.

The city is proceeding with its expanded capital plans on infrastructure projects such as facilities, roads, waterworks, wastewater, and solid waste, with most focusing on renewal and maintenance, as well as Tbaytel's--the city's wholly owned and fully consolidated telecommunications company--capital projects. By our estimates, the city's expenditures on these projects average C$112 million annually from 2023 to 2026. Therefore, we expect the city to post an after-capital deficit in 2023 and 2024 but still post a very modest after-capital account surplus on the 2022-2026 average.

Thunder Bay will fund most of its capital plan with reserves and debt. We estimate total debt to be C$207 million in fiscal 2026; in fact, we expect total tax-supported debt as a proportion of operating revenues will be about 30% at the end of that year and that this metric will remain relatively stable. Interest payments on consolidated tax-supported debt will likely remain at less than 2% of operating revenues. Exposure to contingent liabilities is low and does not represent a material credit risk, in our opinion.

Thunder Bay's credit profile is bolstered by what we view as exceptional liquidity and satisfactory access to external liquidity for financing needs. We estimate that free cash will total about C$172 million in the next 12 months, which is sufficient to cover more than 5.5x the estimated debt service for the year.

City of Thunder Bay Selected Indicators

Mil. C$	2021	2022	2023bc	2024bc	2025bc	2026bc
Operating revenue	604	623	637	660	681	700
Operating expenditure	464	522	541	557	574	589
Operating balance	140	101	96	103	106	111
Operating balance (% of operating revenue)	23.2	16.3	15.1	15.6	15.6	15.9
Capital revenue	14	20	19	20	14	14
Capital expenditure	107	122	129	134	93	90

City of Thunder Bay Selected Indicators

Balance after capital accounts	48	(0)	(14)	(10)	28	35
Balance after capital accounts (% of total revenue)	7.7	(0.0)	(2.2)	(1.5)	4.0	4.9
Debt repaid	29	25	28	24	24	21
Gross borrowings	17	39	14	31	24	18
Balance after borrowings	36	13	(28)	(4)	28	32
Direct debt (outstanding at year-end)	204	217	203	210	210	207
Direct debt (% of operating revenue)	33.8	34.8	31.9	31.7	30.9	29.6
Tax-supported debt (outstanding at year-end)	204	217	203	210	210	207
Tax-supported debt (% of consolidated operating revenue)	33.8	34.8	31.9	31.7	30.9	29.6
Interest (% of operating revenue)	1.0	0.9	1.1	1.1	1.1	1.1
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	52,515.2	55,549.1	53,394.3	53,955.7	N/A	N/A

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. C$--Canadian dollar. $--U.S. dollar.

Rating Component Scores

Key rating factors	Scores
Institutional framework	1
Economy	2
Financial management	3
Budgetary performance	1
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, April 8, 2024. Interactive version available at http://ww.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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessment: Fiscal Autonomy Has Effective Limits For Canadian Provinces, April 2, 2024
- Economic Outlook Canada Q2 2024: Staying Subdued, March 26, 2024
- S&P Global Ratings Definitions, June 9, 2023

Ratings Detail (as of May 16, 2024)*

Thunder Bay (City of)	
Issuer Credit Rating	AA+/Stable/--
Issuer Credit Ratings History	
01-Jun-2022	AA+/Stable/--
27-Jun-2017	AA/Stable/--
20-Jun-2016	AA-/Positive/--

*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.