

# City of Thunder Bay

May 15, 2025

This report does not constitute a rating action.

## Ratings Score Snapshot



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## Credit Highlights

### Overview

Credit context and assumptions	Base-case expectations
A sizable public sector supports the City of Thunder Bay's economy despite challenges posed by the city's less-favorable socioeconomic profile.	Property tax revenue stability and senior government grants will continue to help the city generate solid operating surpluses.
Adequate financial management practices will support the city's budgetary performance and debt burden sustainability.	Overall budgetary performance will remain healthy and mitigate reliance on debt to fund capital projects.
An extremely predictable and supportive local and regional government framework bolsters our view of the city's creditworthiness.	We anticipate Thunder Bay will sustain robust liquidity, which bolsters its credit strength.

We estimate that the City of Thunder Bay will post robust financial performance on average from 2023-2027, resulting in strong operating balances averaging almost 18% of operating revenue. The city continues to advance its capital plan. We expect that after-capital surpluses will average 3.2% of total revenues in the same period, primarily due to reductions in capital expenditures by Tbaytel, the city's wholly owned and fully consolidated telecommunications company. We project that the debt burden will remain approximately 31% of operating margins in 2027. In our view, the city's exceptional liquidity position is a key credit strength. Although Thunder Bay benefits from a robust public sector, its demographic profile, which is weaker than that of peers, tempers our view of its economic profile.

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## 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 after-capital surpluses, supported by prudent financial management practices and despite inflationary difficulties and elevated capital spending. We also expect the city will sustain a low debt burden just above 30% and a robust liquidity position.

### Downside scenario

In the next two years, we could lower the ratings if the city's operating 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 decreasing, 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 financial timeliness and transparency, further strengthening the city's management.

## Rationale

### **Thunder Bay's economy is supported by a stable public sector, which helps mitigate the challenges posed by its demographic profile.**

Thunder Bay is in northwestern Ontario and serves as a hub for numerous government services, enhancing its economy through a sizable public sector that includes health care and social assistance, school boards, and municipal and provincial administration. This strong public sector plays a crucial role in providing stability to the local economy. The retail, manufacturing, mining, and tourism sectors also contribute to the local economy. Our base-case assumption is that the local economy will largely remain stable in the face of increased uncertainty associated with international trade disputes, given recent experience weathering the effects of tariffs (for further information, see "Global Macro Update: Seismic Shift In U.S. Trade Policy Will Slow World Growth," published May 1, 2025, and Global Credit Conditions Special Update: U.S.-China Tariff De-Escalation Brings Some Temporary Relief" published May 15, 2025 on RatingsDirect). We believe that Thunder Bay's GDP per capita aligns with the national average of approximately US\$54,800 in 2025. However, the city's demographic profile is a constraint, evidenced by slow population growth and a higher proportion of residents aged 65 and older, which account for about 22% of the population; both are weaker than national and provincial levels. Thunder Bay faces a shrinking employed population, which could dampen future revenue growth and expenditure needs. However, forecast metrics have improved as the city advocates for growth, supported by provincial and federal government initiatives such as immigration and housing programs. This could potentially lead to an increase in workforce participation.

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

and capital budget; the latter includes identified funding sources and three-year projections. The city has announced its intention to adopt a multiyear budgeting framework and expects to implement it by 2026. We expect financial management initiatives to continue evolving and will closely monitor their progress. In addition, the city is completing the third phase of its asset management plan, expected to conclude in 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.

### **Financial performance to stay strong with after capital surpluses; the debt burden will remain manageable.**

We expect the city's tax revenue will remain stable; coupled with consistent provincial grant support, this will sustain strong operating surpluses averaging 18% of operating revenue in our base-case scenario for 2025-2027. That said, we believe that Thunder Bay's weaker demographic profile, characterized by an aging population, somewhat constrains the city's ability to raise revenue.

Thunder Bay's budget incorporates a capital plan for maintaining aging infrastructure and investments in future growth. Key projects in 2025 include the Indoor Turf Facility, which alone accounts for 24% of the total capital plan; roads; public works; and housing projects. We expect that annual capital spending will average approximately C\$120 million over fiscal years 2025-2027. This figure includes projects planned by Tbaytel, which expects to reduce its capital expenditure by 2026. As a result, we expect the city to post, on average, an after-capital account surplus of 3.4% of total revenues over the 2025 to 2027 period.

Thunder Bay will fund most of its capital plan from senior government grants and debt. We estimate total debt will be C\$220 million in fiscal 2027. We expect total tax-supported debt as a proportion of operating revenues will be about 31% at the end of that year and that this metric will remain relatively stable. It's our understanding that the debt burden is supported by steady debt repayments and high operating balances. Interest expenses will remain less than 2% of operating revenues in the forecast period. 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\$233 million in the next 12 months, which is sufficient to cover almost 8x the estimated debt service for the year.

## City of Thunder Bay

### City of Thunder Bay Selected Indicators

Mil. C\$	2022	2023	2024bc	2025bc	2026bc	2027bc
Operating revenue	623	640	659	675	691	707
Operating expenditure	522	521	535	550	566	581
Operating balance	101	119	123	125	126	126
Operating balance (% of operating revenue)	16.3	18.5	18.7	18.6	18.2	17.9
Capital revenue	20	21	20	22	16	16
Capital expenditure	122	117	128	147	105	107
Balance after capital accounts	0	22	15	1	37	35
Balance after capital accounts (% of total revenue)	0.1	3.4	2.2	0.2	5.2	4.9
Debt repaid	25	28	24	23	21	21
Gross borrowings	39	14	12	38	35	21
Balance after borrowings	13	8	3	17	51	35
Direct debt (outstanding at year-end)	217	203	191	206	220	220
Direct debt (% of operating revenue)	34.8	31.7	28.9	30.5	31.9	31.2
Tax-supported debt (outstanding at year-end)	217	203	191	206	220	220
Tax-supported debt (% of consolidated operating revenue)	34.8	31.7	28.9	30.5	31.9	31.2
Interest (% of operating revenue)	0.9	1.0	1.1	1.1	1.1	1.1
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	56,256.8	54,220.3	54,282.6	54,835.8	57,988.6	62,446.4

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. 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.

## Rating Component Scores

Key rating factors	Scores
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 10, 2025. An interactive version is 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: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Global Credit Conditions Special Update: U.S.-China Tariff De-Escalation Brings Some Temporary Relief, May 15, 2025
- Global Macro Update: Seismic Shift In U.S. Trade Policy Will Slow World Growth, May 1, 2025
- Subnational Government Outlook 2025: Canadian LRG Revenues Will Play Catchup To Meet Higher Operating Costs And Stabilize Debt Growth, Jan. 16, 2025
- S&P Global Ratings Definitions, Dec. 2, 2024
- Risk Indicators For Canadian Local And Regional Governments: Strong Fiscal Management Is Key To Withstand Population Pressures, Sept. 19, 2024
- Institutional Framework Assessment: Canadian Municipalities Employ Flexibilities Within Fiscal Framework To Temper Cost Pressures, April 2, 2024

### Ratings Detail (as of May 15, 2025)\*

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.

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