

# City of Thunder Bay

May 16, 2022

This report does not constitute a rating action.

## Credit Highlights

### Overview

#### Credit context and assumptions

We expect public institutions and a robust economy will continue to support the City of Thunder Bay's creditworthiness.

-- Despite the negative effects of the COVID-19 pandemic, a large public sector has supported stability in the city's property tax base.

-- Prudent financial management practices underpin the sustainability of Thunder Bay's budgetary performance and debt burden.

-- We believe the city's relationship with the Province of Ontario will remain predictable and well balanced.

#### Base-case expectations

Strong budgetary performance will keep debt levels manageable.

-- We anticipate the city will continue generating robust operating balances, derived from stable property tax receipts.

-- We expect that the city will maintain after-capital surpluses on a five-year average basis and will maintain a modest debt burden to support its capital plan.

-- The city's exceptional liquidity position will continue to support its creditworthiness.

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The long-term issuer credit rating on the City of Thunder Bay, in the Province of Ontario, is 'AA'. The city's stable property tax base will allow it to continue generating positive operating results and mitigate any lingering effects of the COVID-19 pandemic in 2022. We expect that despite an elevated capital plan to support growth-related projects, the city will continue to post overall after-capital surpluses and maintain a modest debt burden.

## 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 modest after-capital surpluses on average, supported by prudent financial management practices and despite near-term challenges and elevated capital spending. We also expect the city will keep a low debt burden and a robust liquidity position.

## Downside scenario

We could lower the ratings over the next two years if weaker-than-expected budgetary performance and rising capital needs produced after-capital deficits consistently above 5% of total revenues, and eroded liquidity to below 1x debt service coverage.

## Upside scenario

We could raise the ratings in the next two years if the city demonstrated a strong political 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 performance.

## Rationale

**Thunder Bay's economy, grounded by a large public-sector presence and a supportive institutional framework, helps to mitigate broader challenges.**

Thunder Bay is the center for many government services in northwestern Ontario and thus its economy is supported by a large public sector (health care, school boards, and municipal and provincial administration), which, in our view, acts as a stabilizing force. The manufacturing, retail, and mining sectors also contribute significantly to the local economy, notably due to the city's proximity to northern Ontario's Ring of Fire. While GDP per capita is not available at the local level, we believe Thunder Bay's nominal GDP per capita is generally in line with that of Canada at about US\$54,900. However, we believe that a weaker demographic profile, characterized by slow population growth and a proportion of residents aged 65 and older that is higher than national and provincial levels, constrains the city's economic profile, and could affect future revenue growth and expenditure needs.

In our view, Thunder Bay demonstrates adequate financial management practices and an ability to implement its strategic plan and budget. The city 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. Similar to its Canadian peers, Thunder Bay can issue debt only to finance capital expenditures, and we believe it has prudent policies to govern its debt and liquidity management.

We believe Thunder Bay, like other Canadian municipalities, benefits from a very predictable and well-balanced local and regional government framework that has demonstrated a high degree of institutional stability. 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 can match expenditures well with revenues, except for capital spending, which can be intensive. Any operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions.

**The city's strong budgetary performance will keep the debt burden manageable.**

We anticipate the city will continue to generate high operating surpluses, averaging almost 18% of operating revenue in our base-case scenario for 2020-2024, which will continue to aid it to internally finance its capital plan and limit the need for debt financing. Following the end of pandemic-related support, we expect the city will continue to post healthy, but slightly weaker, operating balances over the outlook horizon. We believe that capital spending in the next several years will increase, averaging about C\$120 million per year, which could result in after-capital balances narrowing to a modest surplus of 1.8% of total revenues on average in 2020-2024. Our forecast also includes the capital plans of Tbaytel, the city's wholly owned and fully consolidated telecommunications company.

## City of Thunder Bay

We estimate the city will issue about C\$115 million in gross debt between 2021-2024, some of which will help finance the expansion of Tbaytel's fiber optic network. We expect total tax-supported debt as a proportion of operating revenues will be about 37% by fiscal 2024. We believe interest payments on consolidated tax-supported debt will remain at less than 2% of operating revenues. Thunder Bay's debt burden is supported by high operating margins, which on average exceed total direct debt outstanding, highlighting the city's low debt burden. 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 an exceptional liquidity position and satisfactory access to external liquidity for financing needs. We estimate that free cash will total about C\$203 million in the next 12 months, which is sufficient to cover more than 6x the estimated debt service for the year.

### City of Thunder Bay Selected Indicators

Mil. C\$	2019	2020	2021bc	2022bc	2023bc	2024bc
Operating revenue	549	581	583	591	595	608
Operating expenditure	482	462	473	490	499	507
Operating balance	67	119	110	101	96	101
Operating balance (% of operating revenue)	12.2	20.5	18.9	17.1	16.1	16.6
Capital revenue	14	12	23	25	22	23
Capital expenditure	90	95	110	135	116	123
Balance after capital accounts	(10)	37	24	(9)	2	1
Balance after capital accounts (% of total revenue)	(1.7)	6.2	3.9	(1.5)	0.3	0.2
Debt repaid	31	32	29	25	27	26
Gross borrowings	28	24	17	33	50	16
Balance after borrowings	(12)	29	12	(2)	25	(8)
Direct debt (outstanding at year-end)	224	216	204	211	234	224
Direct debt (% of operating revenue)	40.8	37.2	34.9	35.7	39.3	36.9
Tax-supported debt (outstanding at year-end)	224	216	204	211	234	224
Tax-supported debt (% of consolidated operating revenue)	40.8	37.2	34.9	35.7	39.3	36.9
Interest (% of operating revenue)	1.3	1.2	1.1	1.1	1.2	1.3
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	46,328.7	43,258.3	52,051.4	54,858.8	54,988.3	57,231.5

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.

## Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
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 11, 2022. Interactive version available at <http://www.spratings.com/sri>

## Related Criteria

- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Feb. 23, 2022
- 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

- Institutional Framework Assessments For International Local And Regional Governments, April 11, 2022
- Economic Outlook Canada Q2 2022: Growth Forecasts Hold Up As Global Risks Rise, March 28, 2022
- S&P Global Ratings Definitions, Nov. 9, 2021
- As Canadian Municipalities Negotiate A New Landscape, Prudent Management Remains Crucial, Nov. 8, 2021
- Comparative Statistics: Risk Indicators For Canadian Local And Regional Governments, Sept. 1, 2021
- Public Finance System: Canadian Municipalities, May 12, 2020
- Guidance: Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

**Ratings Detail (as of May 16, 2022)\***

**Thunder Bay (City of)**

Issuer Credit Rating	AA/Stable/--
Senior Unsecured	AA

**Issuer Credit Ratings History**

27-Jun-2017	AA/Stable/--
20-Jun-2016	AA-/Positive/--
27-Jun-2013	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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