

City of Thunder Bay

May 17, 2023

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions

The City of Thunder Bay's local economy is anchored by its large, stabilizing public sector, helping to foster growth despite some obstacles related to its less-favorable socioeconomic profile.

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 extremely predictable and supportive.

Base-case expectations

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

Despite sizable capital plans, strong budgetary performances will keep debt levels manageable.

Thunder Bay's robust liquidity will continue to support its creditworthiness.

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S&P Global Ratings' long-term issuer credit rating on the City of Thunder Bay is 'AA+'. The city has sound financial management practices, which we believe allow it to consistently record healthy budgetary performances. As it proceeds with its relatively elevated capital plan, we expect that Thunder Bay will post, on average, robust operating balances exceeding 15% of operating revenue and a modest after-capital surplus. As a result, we project that the debt burden will remain well below 60% of operating margins in 2025 and view the city's exceptional liquidity position as a key credit strength. Although Thunder Bay benefits from a large public sector, a relatively weaker demographic profile 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 keep 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 the 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 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

The city's economy, with a sizable public sector and a supportive institutional framework, bolsters the rating.

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 acts as a stabilizing force. The manufacturing, retail, and mining sectors have contributed significantly to the local economy, whereas tourism continues to develop. We believe that Thunder Bay's GDP per capita is in line with the national average of about US \$55,000. Key labor force metrics improved significantly; the unemployment rate fell to an estimated 4.0% in April 2023 from 7.6% in 2020, during the COVID-19 pandemic. 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 economy, and could affect future revenue growth and expenditure needs.

In our view, Thunder Bay demonstrates sound financial management practices and the 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 Canadian peers, Thunder Bay 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. Most recently through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. 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

City of Thunder Bay

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) 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 results will remain strong and the debt burden will remain manageable.

We believe Thunder Bay will continue to generate high operating surpluses, averaging 17.6% of operating revenue in our base-case scenario for 2021-2025, which should aid it in internally financing its capital plan and limit the need for debt financing. We expect that capital spending in the next several years will increase, averaging about C\$120 million per year, which could result in a very modest after-capital account surplus on average in 2021-2025. Our forecast includes the capital plans of Tbaytel, the city's wholly owned and fully consolidated telecommunications company.

We estimate the city will issue about C\$136 million in gross debt between 2022-2025 to finance some deferred projects of 2019-2022: water, wastewater, solid waste, and Tbaytel's projects, among others. We expect total tax-supported debt as a proportion of operating revenues will be about 37% by fiscal 2025. Interest payments on consolidated tax-supported debt will likely remain at less than 2% of operating revenues. The debt burden is low, supported by high operating margins, which on average exceed total direct debt outstanding. 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\$181 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\$	2020	2021	2022bc	2023bc	2024bc	2025bc
Operating revenue	581	603	589	604	621	634
Operating expenditure	462	464	494	507	518	530
Operating balance	119	139	95	97	103	103
Operating balance (% of operating revenue)	20.5	23.0	16.1	16.1	16.5	16.3
Capital revenue	12	14	19	18	19	11
Capital expenditure	95	107	135	129	138	79
Balance after capital accounts	37	46	(22)	(15)	(17)	35
Balance after capital accounts (% of total revenue)	6.2	7.5	(3.7)	(2.4)	(2.6)	5.5
Debt repaid	32	29	25	28	25	26
Gross borrowings	24	17	39	34	48	15
Balance after borrowings	29	34	(9)	(8)	6	24
Direct debt (outstanding at year-end)	216	204	217	224	247	236
Direct debt (% of operating revenue)	37.2	33.8	36.8	37.0	39.7	37.2
Tax-supported debt (outstanding at year-end)	216	204	217	224	247	236

City of Thunder Bay Selected Indicators

Tax-supported debt (% of consolidated operating revenue)	37.2	33.8	36.8	37.0	39.7	37.2
Interest (% of operating revenue)	1.2	1.0	1.1	1.2	1.3	1.4
Local GDP per capita (\$)	--	--	--	--	--	--
National GDP per capita (\$)	43,349.7	52,358.6	54,966.5	54,764.1	56,363.5	59,299.6

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	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 10, 2023. 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook Canada Q2 2023: A Dip Is Expected, Though Resilience Persists, March 27, 2023
- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, March 24, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment,, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021

Ratings Detail (as of May 17, 2023)*

Thunder Bay (City of)

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

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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