S&P Global
Ratings

RatingsDirect®

City of Thunder Bay

Primary Credit Analyst:
Stephen Ogilvie, Toronto + 1 (416) 507 2524; stephen.ogilvie@spglobal.com

Secondary Contact:
Adam J Gillespie, Toronto + 1 (416) 507 2565; adam.gillespie@spglobal.com

Research Contributor:
Deepanshu Goyal, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

Table Of Contents

City of Thunder Bay

This report does not constitute a rating action.

Key Rating Factors

Issuer Credit Rating
AA/Stable/--

Credit context and assumptions	Base-case expectations
We expect public institutions and a robust economy will continue to support the City of Thunder Bay's creditworthiness. • High income levels and a large and stabilizing public sector presence plus, temporarily, federal income support programs have fostered stability in the city's property tax base despite the negative effects of the COVID-19 pandemic. • We expect Thunder Bay will manage its capital program such that it maintains robust budgetary performance and debt issuance is limited. • We believe the city's relationship with the Province of Ontario will remain well balanced and generally supportive.	• We believe that the financial effects of the pandemic are receding and that the city's cost-containment efforts (including measures in place to address the pandemic) together with support already received from senior levels of government will be sufficient to manage the financial impact on Thunder Bay's revenues and expenditures in 2021. • We expect that the city will continue to generate solid operating and after-capital surpluses on a five-year average basis despite the impact of the pandemic. • We expect modest debt issuance in the next two years, which coupled with operating revenue growth and scheduled debt repayments, will result in a lower debt burden by 2023, while maintaining a healthy liquidity position.

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 maintain 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

We believe that Thunder Bay's prudent financial management practices and cost-containment efforts, along with strong pandemic-related provincial and federal support, will cover the financial impact from the COVID-19 pandemic in 2021 as it did in 2020. We expect that the city will generate modest after-capital surpluses in the next two years, and that efforts to increase ongoing internal contributions to fund its capital program will lead to a declining debt burden over time.

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 therefore its economy is supported by a large and stable public sector (health care, school boards, and municipal and provincial administration), which acts as a stabilizing force, in our view. The manufacturing, retail, and mining sectors also contribute significantly to the local economy. 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$49,900. However, we believe that a weaker demographic profile, characterized by low population growth and a larger proportion of elderly residents, constrains the city's economy 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 the city 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.

High operating balances and strong liquidity will allow Thunder Bay to keep debt low.

We expect the city will continue to generate high operating surpluses, averaging almost 17% of operating revenue in our base-case scenario for 2019-2023, which will help it to internally finance its capital plan and limit the need for debt financing. To date, the COVID-19 pandemic has not resulted in any weakening of operating balances, as tax revenues have continued to flow and management implemented actions to offset the lower collection of transit and fee-based revenues, as well as the increased costs from the purchase of personal protective equipment, among others, in 2020. The city received about C$9.4 million from the Safe-Restart Canada Plan, which fully covered the net financial impact of about C$3.8 million in 2020. It will use the remainder (C$5.6 million) to mitigate additional financial pressure in 2021. In addition, the city received about C$6.7 million from additional COVID-19 funding (including transit) to help a potential shortfall of about C$7.2 million in 2021.

We believe that capital spending in the next several years will be high, averaging about C$98 million, which could result in after-capital balances narrowing to a modest surplus of 2.4% of total revenues, on an average, in 2019-2023. Our forecast also includes the capital plan of Tbaytel, the city's wholly owned and fully consolidated telecommunications company.

We estimate the city will issue about C$75 million in gross debt through 2023, some of which will help finance the expansion of Tbaytel's fiber optic network. However, given large principal payments of about C$81 million due over the same period, we expect Thunder Bay's total tax-supported debt as a proportion of operating revenues will decline to about 35.5% by fiscal 2023 from about an estimated 37% in 2020. In addition, the city's total debt is less than five years of operating surpluses, indicative of a low debt burden. We believe interest payments on consolidated tax-supported debt will remain at less than 2% of operating revenues. Thunder Bay's 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$147 million in the next 12 months, which is sufficient to cover more than 4x the estimated debt service for the year.

Key Statistics

Table 1

City of Thunder Bay -- Selected Indicators

	--Fiscal year-end Dec. 31--					
(Mil. C$)	**2018**	**2019**	**2020**	**2021bc**	**2022bc**	**2023bc**
Operating revenues	550	549	581	564	578	591
Operating expenditures	459	482	460	471	479	488
Operating balance	91	67	121	92	98	103
Operating balance (% of operating revenues)	16.5	12.2	20.8	16.4	17.0	17.4
Capital revenues	7	14	12	14	16	14
Capital expenditures	82	90	95	94	106	95
Balance after capital accounts	16	(10)	38	13	8	22
Balance after capital accounts (% of total revenues)	2.9	(1.7)	6.5	2.3	1.4	3.6
Debt repaid	29	31	32	29	26	27
Gross borrowings	28	28	24	22	15	38
Balance after borrowings	14	(12)	31	7	(3)	33
Direct debt (outstanding at year-end)	226	224	216	210	199	210
Direct debt (% of operating revenues)	41.1	40.8	37.1	37.2	34.4	35.5

Table 1

City of Thunder Bay -- Selected Indicators (cont.)						
	--Fiscal year-end Dec. 31--					
(Mil. C$)	**2018**	**2019**	**2020**	**2021bc**	**2022bc**	**2023bc**
Tax-supported debt (outstanding at year-end)	226	224	216	210	199	210
Tax-supported debt (% of consolidated operating revenues)	41.1	40.8	37.1	37.2	34.4	35.5
Interest (% of operating revenues)	1.3	1.3	1.2	1.2	1.2	1.2
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	60,196	61,466	57,994	63,315	65,056	67,332

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. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

City of Thunder Bay -- 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 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., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit Conditions North America: Q2 2021: As Outlook Brightens, Risk Remain, March 30, 2021
- Prudent Financial Management And A Strong Institutional Framework Are Helping Canadian Municipalities Negotiate The Impact of COVID-19, Nov. 30, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Public Finance System: Canadian Municipalities, May 12, 2020

Ratings Detail (As Of June 23, 2021)*	
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.