S&P Global Ratings

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City of Greater Sudbury

September 14, 2023

Primary contact

Amanpreet Kaur
Toronto
437-771-7950
Amanpreet.Kaur@spglobal.com

Secondary contact

Adam J Gillespie
Toronto
1-416-507-2565
adam.gillespie@spglobal.com

This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
A growing economy fueled by Sudbury's mining industry and large public sector will support the city's creditworthiness.	We expect property tax and user fee increases will allow the city to generate strong operating balances in the next two years.
Prudent financial management practices will support the city's elevated capital plan.	Increased capital expenditure to address deteriorating assets will widen after-capital deficits through 2025.
The city's relationship with the Province of Ontario will remain extremely predictable and supportive.	We anticipate the city will maintain a modest debt burden and robust liquidity.

S&P Global Ratings' long term issuer rating on City of Greater Sudbury is AA+. We expect strong demand for minerals and a large public sector to continue to support the city's economy in the next several years. However, increased capital spending to address previously approved large capital projects and deteriorating assets will result in higher after-capital deficits. We don't expect additional borrowing in the next several years, keeping the city's debt burden manageable. We also expect liquidity will remain exceptional.

Outlook

The stable outlook reflects our expectation that in the next two years, a healthy mining sector and growing immigration will help expand the economy. We also expect Sudbury's aging infrastructure will continue to require higher capital investments, resulting in moderately higher after-capital deficits. However, we expect the city will continue to generate healthy operating surpluses and maintain a modest debt burden.

Downside scenario

We could lower the rating in the next two years if Sudbury's revenue growth is materially lower than expected, with increasing capital needs resulting in after-capital deficits greater than 10% of total revenue on a sustained basis and requiring additional debt financing of the capital plan such that the tax-supported debt burden exceeds 60% of operating revenue.

Upside scenario

We could raise the ratings in next two years if Sudbury’s revenue increases faster than expected while the city achieves after-capital surpluses and the tax-supported debt declines to less than 30% of operating revenue.

Rationale

A sizable public-sector presence helps offset Sudbury’s exposure to the resource sector, and an extremely predictable and supportive local government framework bolsters the rating. We expect Sudbury’s economy will continue to grow moderately in next two years, with high median incomes and estimated GDP per capita in line with that of the national economy at about US$54,700.

Sudbury's population has grown 2.8% since 2016, and we expect that will continue due to the influx of international students and new residents, aided by programs like the federal rural and northern immigration pilot program. The public sector is a stabilizing force, in our view, and has become an important contributor to the local economy. This has helped the city’s economy to diversify from its historical dependence on nickel mining.

The city is a major retail, health, finance, and educational center for northeastern Ontario. While hotels and hospitals have largely recovered from the pandemic, with increased occupancy and surgery levels, airport passenger traffic is still lagging. Nevertheless, the resource sector--primarily nickel mining, as well as related support services--remains a major contributor to the economy and accounts for a significant proportion of total local employment.

We believe strong demand for nickel from the energy transition will support the mining sector and help drive Sudbury's economy. Nickel prices increased over 50% between 2022 and 2020 due to increased demand for electric vehicle batteries and the war in Ukraine. Although the prices have softened in recent months, they remain strong, leading several mines to reopen. This in turn will drive employment opportunities in the city.

Sudbury’s unemployment rate in June 2023 was 4.3%, lower than the provincial and national levels. However, the city continues to face challenges meeting the demand for skilled labor. Furthermore, the regional economy's relatively high reliance on mining, and in particular its exposure to the volatility of nickel prices, could affect Sudbury's revenue growth and expenditure needs. In addition, innovations in battery technology could reduce demand for regionally mined metals. In our view, this partially constrains the city’s economic profile.

In our view, Sudbury's financial management practices are strong, and largely in line with those of similarly rated peers. The city discloses pertinent information in a transparent, easy-to-access manner and prepares robust operating and capital budgets. Its annual operating and capital budgets reflect the broad goals outlined in the 10-year financial plan, which contains what we view as realistic assumptions.

The city plans to implement multi-year operating budgets in 2024, and we believe that the council that was elected in 2022 will continue to put forward sizable capital plans in line with its asset management plans. Similar to Canadian peers, Sudbury can issue debt only to finance capital expenditure (capex). We believe it has prudent and conservative policies as well as a stable and well-qualified management team to govern its debt and liquidity management.

Like other Canadian municipalities, Sudbury 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 can generally match expenditures well with revenue, except for capital spending, which can be intensive. Any operating surpluses typically fund capex and future liabilities (such as postemployment obligations) through reserve contributions. Municipalities have demonstrated a track record of strong budget results. Debt burdens, on average, are low compared with those of global peers and growth over time has been modest.

We believe the city's aging infrastructure will prompt increased capital spending, and that rising construction costs will pressure the city's after capital balances in the next two years.

Overall, Sudbury's operating balance remains solid for 2022 on higher investment income, extraordinary support from senior levels of government, higher user fee revenue, and lower-than-expected capex. This was partially offset by elevated winter control costs.

We expect the city's capital spending to ramp up in the next several years to address deteriorating infrastructure. We thus expect after-capital deficits will widen to an average of 4.8% of total revenue in 2023-2025 compared to an average surplus of 1.3% in 2020-2022. The city's asset management plan anticipates annual renewal needs almost double of what the city currently spends to address its infrastructure deficit.

To help fund higher capex, the city's long-term financial plan calls for moderate tax and rate increases, a higher reliance on user fees, and low but steady assessment base growth. We believe these measures will allow the city to grow its revenue and generate healthy operating surpluses averaging 14% of operating revenue in 2021-2025.

The council has significantly reworked major projects in the downtown core to keep costs within budget. C$158 million of the C$200 million issuance from March 2020 was intended to finance these projects. Most of these proceeds remain available to be redeployed, which could affect the level of capital spending and after-capital balances in 2024 and beyond.

The city's tax-supported debt peaked in 2022, at 52% of consolidated operating revenue, with the most recent issuance of C$103 million of bonds in March 2022 to finance capital projects. These include transportation projects and redeveloping beds at the city's long-term care facility. The city's current capital financing plan does not anticipate any additional borrowing in the next several years, and we expect the debt burden will moderate to 40% of our forecast operating revenue by the end of 2025.

We expect interest costs will remain very manageable at less than 1.45% of operating revenue on average in 2022-2024. We do not believe the liabilities of Sudbury's related entities, Sudbury Airport Community Development Corp. and Greater Sudbury Utilities Inc., represent a material contingent liability risk, as we believe the likelihood of the city providing extraordinary support to them in a stress scenario is low.

In our view, Sudbury's liquidity is a key credit strength, supported by what we view as satisfactory access to external liquidity to meet financing needs. At the end of 2022, the city still held most of the proceeds from its most recent debt issue in short-term investments.

Although we expect cash and reserve levels will decline as the related projects are completed in the next several years, overall liquidity will remain sufficient to cover all debt servicing requirements. We estimate total free cash in the next 12 months will be enough to cover more than 23x the estimated debt service for the period and will remain well above 100% through 2025.

City of Greater Sudbury Selected Indicators

Mil. C$	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	577	615	650	686	724	764
Operating expenditure	485	515	565	594	623	655
Operating balance	92	100	85	93	101	109
Operating balance (% of operating revenue)	16.0	16.2	13.1	13.5	13.9	14.3
Capital revenue	27	38	37	55	71	70
Capital expenditure	134	119	100	172	222	219
Balance after capital accounts	(14)	19	22	(24)	(50)	(40)
Balance after capital accounts (% of total revenue)	(2.4)	2.9	3.3	(3.3)	(6.4)	(4.8)
Debt repaid	5	13	9	11	11	10
Gross borrowings	200	0	103	0	0	0
Balance after borrowings	181	6	116	(36)	(61)	(50)
Direct debt (outstanding at year-end)	256	244	337	326	315	305
Direct debt (% of operating revenue)	44.4	39.7	51.9	47.5	43.6	40.0
Tax-supported debt (outstanding at year-end)	256	244	337	326	315	305
Tax-supported debt (% of consolidated operating revenue)	44.4	39.7	51.9	47.5	43.6	40.0
Interest (% of operating revenue)	1.1	1.2	1.5	1.5	1.4	1.3
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	43,349.7	52,358.6	54,917.7	54,720.3	56,364.9	59,092.1

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	2
Budgetary performance	2
Liquidity	1
Debt burden	2
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,

Ratings Score Snapshot

Key rating factors	Scores
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, July 10, 2023. 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

- Economic Outlook Canada Q3 2023: A First-Half Resurgence Will Give Way To An Inevitable Slowdown, June 26, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Sector and Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, March 24, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022

Ratings Detail (as of September 14, 2023)*

Greater Sudbury (City of)	
Issuer Credit Rating	AA+/Stable/--
Senior Unsecured	AA+
Issuer Credit Ratings History	
01-Jun-2022	AA+/Stable/--
18-Jun-2018	AA/Stable/--

Ratings Detail (as of September 14, 2023)*

*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.