S&P Global
Ratings

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City of Greater Sudbury

September 27, 2022

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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 steady revenue growth will allow the city to generate strong operating balances in the next two years.
We expect financial management practices will remain prudent, allowing the city to manage its large capital program.	Increasing capital expenditures will widen after-capital deficits through our forecast horizon.
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.

On June 1, 2022, S&P Global Ratings raised its rating on the City of Greater Sudbury to 'AA+' from 'AA', following the revision of the Canadian municipal institutional framework assessment to extremely supportive and predictable from very predictable and well-balanced (see "**Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment**," published June 1, 2022, on RatingsDirect). We expect Sudbury's economy to grow in the next several years, buoyed by a healthy mining sector and a large, stabilizing public sector. However, the city's large capital plan will result in higher after-capital deficits in the forecast horizon. We don't expect additional borrowing in the next several years, keeping the city's debt burden manageable, while liquidity will remain exceptional.

Outlook

The stable outlook reflects our expectation that in the next two years, a healthy mining sector will help expand the economy. We also expect that Sudbury will continue to execute its large capital program, resulting in moderately higher after-capital deficits, but that it will continue to generate healthy operating surpluses.

Downside scenario

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

Upside scenario

We could raise the ratings if Sudbury's revenues increase faster than expected while the city manages its capital plan such that it achieves after-capital surpluses while the debt burden declines to less than 30% of operating revenues.

Rationale

A sizable public-sector presence helps offset exposure to the resource sector while an extremely predictable and supportive local government framework bolsters the rating

We expect Sudbury's economy will continue to recover and 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$56,000. Sudbury's economy has been diversifying from its historical dependence on nickel mining and the city is now the major retail, health, finance, and educational center for northeastern Ontario. The public sector (health care, school boards, higher education, and municipal and provincial administration) is a stabilizing force, in our view, and has become an important contributor to the local economy. Nevertheless, the resource sector, primarily nickel mining as well as related support services, remains a major contributor to the economy and accounts for about 20% of total local employment. We believe that the energy transition, and in particular the rising popularity of electric vehicles, will support the mining sector with high metal prices leading several mines to announce plans to reopen. However, we believe that 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 the future, and partially constrains our assessment of the economic profile.

In our view, Sudbury's financial management practices are strong, and largely in line with those of similarly rated peers. The city provides transparent, easy-to-access disclosure of pertinent information 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. Similar to its Canadian peers, Sudbury can issue debt only to finance capital expenditures, and 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.

As do 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 generally have the ability to 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) 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.

Increasing capital spending will pressure the city's budgetary performance in the next two years while the debt burden likely will peak in 2022

Overall, Sudbury's budgetary results outperformed our estimate for 2021 on a combination of extraordinary support from senior levels of government, cost mitigation strategies implemented in response to decreased demand for certain fee-based services, and lower-than-expected capital expenditures.

We expect that Sudbury will generate healthy operating surpluses averaging 15% of operating revenues in 2020-2024 through moderate tax increases, assessment growth, and user rate fees. We also expect that Sudbury's capital spending will ramp up in the next several years, primarily to help address infrastructure maintenance requirements, and progress with several large projects. Consequently, we believe that after-capital deficits will widen in the next two years to average 3.1% of total revenue in our 2020-2024 base case, although we expect the city to have sufficient cash to finance these deficits as it still holds significant proceeds from debt previously issued in 2020 and 2022 for capital investments. Sudbury recently cancelled its plan to construct a new arena and event center as part of a larger project that included a private casino and hotel after the projected costs increased well above the original estimates. The city had borrowed C$90 million to finance the project and these proceeds remain available to be redeployed, which could affect the level of capital spending and after-capital balances in 2024 and beyond.

In March 2022, Sudbury issued C$103 million of bonds to finance capital projects, including the redevelopment of beds at its long-term care facility. This will push its tax-supported debt to almost C$338 million, or about 54% of consolidated revenues by the end of the year. However, the city's current capital financing plan does not anticipate any additional borrowing in the next several years and we expect that the debt burden will moderate to 47% of our forecast operating revenue by the end of 2024. We expect that interest costs will remain very manageable at less than 2% of operating revenues on average in 2021-2023. We do not believe that 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.

Sudbury's credit profile is bolstered by what we view as an exceptional liquidity position and satisfactory access to external liquidity to meet financing needs. At the end of 2021, the city still held most of the proceeds from its most recent debt issue in short-term investments. Although we expect liquidity will decline as the related projects are completed in the next several years, we estimate that the city will hold about C$520 million of free cash in the next 12 months, sufficient to cover almost 25x the estimated debt service requirements.

City of Greater Sudbury Selected Indicators

Mil. C$	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	556	577	589	628	649	676
Operating expenditure	492	485	502	537	558	580
Operating balance	64	92	86	91	91	96
Operating balance (% of operating revenue)	11.5	16.0	14.7	14.5	14.0	14.2
Capital revenue	41	27	43	48	56	79
Capital expenditure	104	134	149	153	176	250
Balance after capital accounts	1	(14)	(20)	(13)	(30)	(75)
Balance after capital accounts (% of total revenue)	0.2	(2.4)	(3.1)	(2.0)	(4.2)	(10.0)
Debt repaid	5	5	9	9	11	11

City of Greater Sudbury Selected Indicators

Gross borrowings	0	200	0	103	0	0
Balance after borrowings	(3)	181	(29)	80	(41)	(86)
Direct debt (outstanding at year-end)	61	256	243	338	327	316
Direct debt (% of operating revenue)	11.0	44.4	41.2	53.8	50.3	46.7
Tax-supported debt (outstanding at year-end)	61	256	243	338	327	316
Tax-supported debt (% of consolidated operating revenue)	11.0	44.4	41.2	53.8	50.3	46.7
Interest (% of operating revenue)	0.5	1.1	1.2	1.5	1.6	1.5
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	46,328.7	43,258.3	51,987.9	56,006.4	58,012.8	58,081.4

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.

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, 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 11, 2022. 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Economic Outlook Canada Q4 2022: Canadian Growth To Slow On Higher Interest Rates And U.S. Weakness, Sept. 26, 2022
- Canada Real-Time Data: Summer Slowdown, Aug. 4, 2022
- 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 Definition, Nov. 10, 2021
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Ratings Detail (as of September 27, 2022)*

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/--

*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.