S&P Global
Ratings

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Summary:

City of Greater Sudbury

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Summary:

City of Greater Sudbury

Issuer Credit Rating	AA/Stable/--

Key Rating Factors

Credit context and assumptions	Base-case expectations
Strong and stable financial management, and a recovering economy will support the ratings. • S&P Global Ratings expects moderate growth in household income, population, and taxable assessment to support the city's revenue generation. • We believe that the City of Greater Sudbury's prudent financial management practices will allow it to manage its growing capital plan without permanently weakening its budgetary performance or largely increasing its debt burden. • We believe the city's relationship with the Province of Ontario will remain supportive around core policy issues.	Significant capital spending will pressure the city's budgetary performance and moderately increase its debt burden over the duration of the projects. • The city will finance its rising capital program with a combination of reserves, grants, and debt. • We expect the city to maintain strong operating surpluses, while its after-capital balances will gradually slip into deficits. • At the same time, the debt burden will grow, but be largely manageable, and liquidity levels will remain sound.

Outlook

The stable outlook reflects our expectation that, in the next two years, after-capital deficits will remain less than 5% of total revenues, on average, and the tax-supported debt burden will remain modest. Moreover, we expect that the economy will continue to gradually improve and financial management practices will remain strong.

Downside scenario

Although unlikely, we could lower the rating in the next two years if the city were to experience a significant deterioration of its financial management practices, and we came to believe that sustained after-capital deficits will exceed 10% of total revenues on a consistent basis. In addition, economic deterioration as a result of increasing volatility in the mining sector could stress the ratings.

Upside scenario

We could raise the ratings if the city manages to complete its extensive capital plan and return to steady after-capital surpluses and a debt burden consistently below 30% of operating revenues. Alternatively, improving economic growth prospects could also result in a positive rating action.

Rationale

We believe Sudbury will continue to prove its political and managerial strength, enabling it to continue its effective revenue generation and cost management in the near term. We also expect the city will benefit from good local economic growth and gradual diversification in other sectors, despite being exposed to the mining sector and to the volatility in nickel prices. Although financial pressures generated by its commitment to reduce the infrastructure gap and complete several one-time projects will result in after-capital deficits and a higher debt burden, we believe they will be manageable and temporary.

The public-sector presence partly mitigates exposure to volatile industries while strong financial management supports the rating.

We expect the city's economy to continue to grow moderately in the next two years, supported by higher employment and household income. We believe Sudbury would generate nominal GDP per capita close to that of Ontario of about US$44,500, given its fairly high median household income. Historically a world leader in nickel mining, Sudbury has diversified its economy in the past 30 years and expanded from its resource-based economy to emerge as the major retail, economic, health, and educational center for northeastern Ontario. The public sector (health care, school boards, higher education, and municipal and provincial administration), which has become an important contributor to the local economy, acts as a stabilizing force, in our view. Nevertheless, employment remains fairly concentrated in the industrial sector, primarily nickel mining, which accounts for about 20% of total local employment. In addition, several mining companies, including the two largest in the region (Vale Ltd. and Glencore), have announced investments totaling about US$1.4 billion. While these will add a significant number of jobs to the local economy, we believe they will maintain the city's relatively high reliance on the mining sector, and in particular its exposure to the volatility of nickel prices. In our opinion, this could affect revenue growth and expenditure needs in the future, and partly constrains our assessment of the economic profile. Sudbury is centrally located in northeastern Ontario at the convergence of three major highways. It is the largest municipality in Ontario by area and has a population of about 165,000.

Following the 2018 municipal elections, the mayor and 10 of the city's 12 councillors were reelected for a second term. The council expects to finalize its updated four-year strategic business plan in 2019. 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 to pertinent information and prepares robust operating and capital budgets. Its annual operating budget and five-year capital plan, which we view as realistic, reflect the broad goals outlined in the 10-year financial plan. Similar to its Canadian peers, Sudbury can issue debt primarily 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.

We believe Sudbury, like other Canadian municipalities, benefits from a very predictable and well-balanced local 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 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 and landfill closure costs) through reserve contributions.

Significant capital spending will pressure the city's budgetary performance and moderately increase its debt burden over the duration of the projects.

Sudbury has proved its ability to increase taxes to match operating spending needs, and effectively control spending. This has allowed the city to preserve its operating balances, which have remained relatively stable and in strong surplus positions in recent years. We expect operating surpluses will remain close to historical levels over our 2017-2021 forecast horizon, at more than 13% of operating revenues, on average. Robust operating surpluses have enabled the city to internally finance its capital plan and limit the requirement for debt financing. However, Sudbury's capital spending will ramp up in the next several years, primarily to help address its infrastructure deficit, build a new arena and finalize the Junction (a project which includes a new art gallery/main library and a new conference center). Although the city expects to fund these projects with provincial and federal grants, we expect that after-capital deficits will occur, averaging almost 3.8% of total expenditures in 2017-2021.

Approximately 80% of Sudbury's operating revenues are internally modifiable (primarily from taxes, fees, and user charges), giving it a high degree of budgetary flexibility, which we expect to remain largely stable within our two-year outlook horizon. However, Sudbury faces some practical constraints typical of Canadian municipalities, namely provincially mandated municipal programs and personnel costs, many of which are subject to collective agreements, and which limit the city's ability to cut spending. In addition, given Sudbury's greater focus on large infrastructure projects, such as roads, we believe that the city has little ability to defer such a capital program over the next few years. We estimate that the city's capital expenditures will account for about 23% of total expenditures, on average, from 2017-2021.

Large capital spending will require Sudbury to borrow about C$140 million from 2019-2021. The city estimates that its tax-supported debt will grow to about C$192 million in 2021, from C$66 million at the end of 2018. As a result, we estimate that Sudbury's tax-supported debt to operating revenues will reach about 32% at the end of 2021, up from 12% in fiscal 2018. Nevertheless, the city's debt burden represents less than three years of operating surpluses, which mitigates our assessment of the debt burden. In addition, despite the city's higher debt, we expect that the average interest expense will remain very manageable, at 0.6% of operating revenues, in 2018-2020.

Sudbury benefits from exceptional internal liquidity support. Although the city's current debt includes only loans and debentures issued through Infrastructure Ontario, we believe it would have satisfactory access to external liquidity for financing needs, similar to its local peers. We also believe that the city demonstrates very robust internal cash flow generation capability, with operating balances expected to remain largely above 2x its debt service, despite the additional debt issuance. We estimate that Sudbury's adjusted average cash and liquid assets total about C$300 million in fiscal 2020, which are sufficient to cover almost 31x the estimated debt service for the year.

We believe Sudbury's exposure to contingent liabilities is limited. They include debt of the two entities owned by the city, which totaled about 11% of the city's 2018 adjusted operating revenues. Sudbury Airport Community

Development Corp. is a community development corporation that promotes the Greater Sudbury Airport as the preeminent aviation hub and the key engine for the economic growth of Greater Sudbury and the surrounding region. Greater Sudbury Utilities Inc. is an investment holding company that provides distribution of electricity, broadband telecommunications services, and rental and customer support services. We believe that in the unlikely event of financial stress at the utility, which we view as self-supporting, the city's support would be limited to less than 10% of its operating revenues. Other contingent liabilities include standard employee benefits and landfill closure costs, which equaled about 13% of consolidated operating revenues at fiscal year-end 2018, and do not have a significant effect on the city's credit profile.

Selected Statistics

Table 1

City of Greater Sudbury--Selected Indicators

	-- Fiscal year ended Dec. 31 --					
(Mil. C$)	**2016**	**2017**	**2018**	**2019bc**	**2020bc**	**2021bc**
Operating revenues	493	516	541	560	585	604
Operating expenditures	431	448	468	486	507	520
Operating balance	61	69	72	75	78	84
Operating balance (% of operating revenues)	12.5	13.3	13.4	13.3	13.3	13.9
Capital revenues	11	42	33	50	49	72
Capital expenditures	64	119	105	153	149	219
Balance after capital accounts	9	(8)	0	(28)	(22)	(63)
Balance after capital accounts (% of total revenues)	1.8	(1.5)	0.0	(4.5)	(3.5)	(9.3)
Debt repaid	4	4	4	5	7	8
Gross borrowings	0	0	6	40	32	70
Balance after borrowings	5	(12)	2	7	3	(1)
Modifiable revenues (% of operating revenues)	79.3	78.9	78.7	79.0	79.4	79.6
Capital expenditures (% of total expenditures)	12.8	21.1	18.3	23.9	22.8	29.6
Direct debt (outstanding at year-end)	73	69	66	105	130	192
Direct debt (% of operating revenues)	14.9	13.4	12.1	18.7	22.2	31.8
Tax-supported debt (outstanding at year-end)	73	69	66	105	130	192
Tax-supported debt (% of consolidated operating revenues)	14.9	13.4	12.1	18.7	22.2	31.8
Interest (% of operating revenues)	0.7	0.6	0.5	0.5	0.8	1.2
National GDP per capita (single units)	56,169	58,607	59,838	60,723	62,446	64,365

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. Base case reflects S&P Global Ratings' expectations of the most likely scenario. Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade.

Ratings Score Snapshot

Table 2

City of Greater Sudbury -- Ratings Score Snapshot

Key rating factors	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Strong
Financial Management	Strong
Budgetary Flexibility	Strong
Budgetary Performance	Strong
Liquidity	Exceptional
Debt Burden	Very low
Contingent Liabilities	Low

Note: S&P Global Ratings' credit ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of Standard & Poor's "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the foreign currency rating on the government.

Related Criteria

- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments - June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs - October 15, 2009

Related Research

- Public Finance System Overview: Canadian Municipalities, July 18, 2018
- Institutional Framework Assessments For International Local And Regional Governments, Nov. 6,