S&P Global
Ratings

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Research Update:

City of Greater Sudbury Ratings Affirmed At 'AA'; Outlook Is Stable

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Overview

- Economic growth will rebound in 2021 as COVID-19 pandemic-related restrictions ease, propelled by the City of Greater Sudbury's resource sector and large public sector.
- The city's large capital plan will widen after-capital deficits through 2022 and the related debt financing will also increase the debt burden, which we expect will peak in 2022.
- We are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on Sudbury.
- The stable outlook reflects our expectation that in the next two years, the city will continue to execute its large capital program, resulting in modest after-capital deficits, but that it will continue to generate healthy operating surpluses.

Rating Action

On Sept. 22, 2021, S&P Global Ratings affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the City of Greater Sudbury, in the Province of Ontario. The outlook is stable.

Outlook

The stable outlook reflects our expectation that in the next two years, a robust mining sector will help the economy recover from the near-term impacts of the pandemic. We also expect that the city will continue to execute its large capital program, resulting in modest 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 revenues do not increase at the expected rate, resulting in large 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 exceeded 60% of operating revenues.

Upside scenario

We could raise the ratings if Sudbury manages to complete its extensive capital plan and achieve an after-capital surplus while the debt burden declines to less than 30% of operating revenues.

Rationale

We expect that Sudbury's economy will rebound in 2021, buoyed by a healthy resource sector and large, stabilizing public sector. Although the city will continue to face operating challenges, its effective cost containment efforts will help ensure robust budgetary performance throughout the forecast horizon. Its ambitious capital plan will necessitate some further borrowing in the next two years, but we believe that the debt burden will be very manageable, and that liquidity will remain very strong.

Debt burden expected to peak in 2022 on borrowing for large capital plan.

Overall, Sudbury's budgetary results outperformed our estimate for 2020 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.

Although pandemic-related impacts on revenues and expenses have continued through 2021, we expect that revenues will resume a more normal growth trajectory in 2022, allowing the city to hold healthy operating surpluses of more than 14% of operating revenues on average in 2019-2023. We also expect that Sudbury will maintain fairly high levels of capital spending in the next several years, primarily to help address infrastructure requirements, and complete several large projects, including an arena, an art gallery/library, and a new conference center. Consequently, we believe that after-capital deficits will rise in the next two years to average a modest 2.5% of total revenue in our 2019-2023 base case.

In March 2020, Sudbury issued C$200 million of bonds to finance several large, one-time projects, including an arena and event center. Based on the current capital financing plan, we expect the city to borrow about C$100 million in 2022 and that tax-supported debt will peak at C$327 million. This represents a significant increase from C$61 million in debt outstanding at the end of 2019 and will push the city's debt burden to almost 54% of our forecast operating revenue by the end of 2022, before beginning to moderate. We expect that interest costs will remain very manageable at less than 2% of operating revenues on average in 2020-2022. 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 2020, 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 maintain about C$450 million of free cash in the next 12 months, sufficient to cover almost 20x the estimated debt service requirements.

A sizable public-sector presence helps offset exposure to the resource sector while strong financial management practices bolster the rating.

We believe Sudbury's economy will begin to recover over the next two years as vaccination rates rise and pandemic-related restrictions ease. Despite the material impact that the pandemic has had on the city's economy, we believe Sudbury still demonstrates characteristics of a strong economy, with high median incomes and estimated GDP per capita about in line with that of the national economy at about US$52,900. Sudbury's economy has been diversifying from its historical dependence on nickel mining and is now the major retail, health, 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 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.

We believe Sudbury, 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 have the ability to match expenditures well with revenues, except for capital spending, which can be intensive. Operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions.

Key Statistics

Table 1

City of Greater Sudbury -- Selected Indicators

	--Year ended Dec. 31--				
(Mil. C$)	**2019**	**2020**	**2021bc**	**2022bc**	**2023bc**
Operating revenues	560	581	589	611	636
Operating expenditures	492	485	502	522	540
Operating balance	68	96	86	89	96
Operating balance (% of operating revenues)	12.1	16.6	14.7	14.5	15.0
Capital revenues	41	27	43	52	45
Capital expenditures	104	134	149	182	155

Table 1

City of Greater Sudbury -- Selected Indicators (cont.)

	--Year ended Dec. 31--				
(Mil. C$)	**2019**	**2020**	**2021bc**	**2022bc**	**2023bc**
Balance after capital accounts	5	(11)	(20)	(41)	(15)
Balance after capital accounts (% of total revenues)	0.9	(1.7)	(3.1)	(6.2)	(2.1)
Debt repaid	4	8	9	12	11
Gross borrowings	0	200	0	98	0
Balance after borrowings	1	181	(29)	45	(26)
Direct debt (outstanding at year-end)	61	256	243	327	312
Direct debt (% of operating revenues)	10.9	44.1	41.2	53.6	49.0
Tax-supported debt (outstanding at year-end)	61	256	243	327	312
Tax-supported debt (% of consolidated operating revenues)	10.9	44.1	41.2	53.6	49.0
Interest (% of operating revenues)	0.5	1.1	1.2	1.6	1.5
National GDP per capita (single units)	61,466	58,016	65,195	67,992	69,683

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.

Ratings Score Snapshot

Table 2

City of Greater Sudbury -- Ratings Score Snapshot

Key rating factors	**Score**
Institutional framework	2
Economy	2
Financial management	2
Budgetary perfomance	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 12, 2021. An interactive version is available at http://wwspratings.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

- Economic Outlook Canada Q3 2021: Growth Setback In The Spring Will Give Way To Summer Boom, June 25, 2021
- Institutional Framework Assessments For International Local And Regional Governments, Feb. 8, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Public Finance System: Canadian Municipalities, May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Guidance: Sovereign Rating Methodology, Jan. 22, 2019

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Greater Sudbury (City of)	
Issuer Credit Rating	AA/Stable/--
Greater Sudbury (City of)	
Senior Unsecured	AA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.