S&P Global
Ratings

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Research Update:

City of Winnipeg Ratings Affirmed At 'AA'; Outlook Remains Stable

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PRIMARY CREDIT ANALYST

Jennifer Love, CFA
Toronto
+ 1 (416) 507 3285
jennifer.love
@spglobal.com

SECONDARY CONTACT

Paul Judson, CFA
Toronto
(1) 416-507-2523
paul.judson
@spglobal.com

Overview

- The City of Winnipeg continues to benefit from a strong and stable economy.
- However, the city plans to address part of its sizable infrastructure deficit with debt financing, leading to a rising debt burden over the next two years.
- We are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on Winnipeg and maintaining the stable outlook.

Rating Action

On Nov. 15, 2019, S&P Global Ratings affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the City of Winnipeg, in the Province of Manitoba. The outlook is stable.

Outlook

The stable outlook reflects our expectation that Winnipeg's economy will continue to perform well in the next two years. Furthermore, we expect Winnipeg will post average after-capital deficits approaching 2% of total revenues over the next few years and tax-supported debt will increase to about 90% of operating revenues pursuant to the city's borrowing plans. Nevertheless, we estimate liquidity will remain robust.

Downside scenario

Although we view this as unlikely, we could lower the ratings if the city experiences an erosion of financial management practices, a material decline in operating balances, higher capital spending leading to a rise in after-capital deficits above 5%, and a deterioration in our debt assessment such that interest increases above 5% of revenues, or the debt burden increases above 120% of revenues.

Upside scenario

We could raise the ratings if the city's capital spending balances were positive on a sustained basis in conjunction with a lower and declining debt burden.

Rationale

Winnipeg remains committed to maintaining and improving city assets, especially roads, as requested by residents. To that end, the city has developed a variety of capital tools and asset management reports to track, manage, and plan capital projects. Furthermore, after many years of 0% tax increases, the city has introduced dedicated tax increases to fund roads and transit. However, we believe additional tax increases above the dedicated 2.33% capital levy are unlikely in the short term, and city management expects to issue debt to meet its capital plans. Consequently, despite Winnipeg's healthy operating balances, after-capital deficits and planned borrowing are causing the city's forecast debt burden to climb, although we expect it will remain below 120% of revenues during our two-year outlook horizon. We believe Winnipeg's growing and diversified economy and expected high operating balances should support the planned debt issuance while the city's strong liquidity balances will provide bondholders with additional support.

Economy is very strong and diversified while institutions remain broadly supportive.

Winnipeg is a growing midsize city that benefits from its role as the provincial capital as well as its diverse local economy. Financial services, manufacturing, and retail trade are the foundations of the Winnipeg census metropolitan area's economy. Because the city is Manitoba's capital and main population center, the public sector makes an important contribution to the local economy. The city is home to almost all of the preeminent provincial institutions, such as Manitoba Hydro-Electric Board, provincial ministries, specialized hospitals, universities, and colleges. Winnipeg's population has grown steadily since 1999, and the city expects it will experience 7.3% growth over the next five years. We estimate that Winnipeg's average GDP per capita is in line with that of Canada, above US$41,000, and we expect the city's economic growth will be in line with that of Canada based on its diversified economy and growing population.

In our view, Winnipeg exhibits strong financial management, which supports the ratings. We consider the management team to be experienced and qualified to enact fiscal policies, and to effectively respond to external risks. While the city prepares detailed capital plans, actual cash capital expenditures deviate from plans. City management has been proactive in developing capital asset tools and metrics including periodic state-of-infrastructure reports. However, policymakers continue to limit property tax increases to 2.33% annually despite a large infrastructure deficit and list of unfunded capital projects, which can weaken fiscal sustainability. Winnipeg's budgets reflect goals defined in the city's long-term financial plan, which is informed by resident surveys, and are based on realistic assumptions. In our view, the city's debt and liquidity management policies are prudent. Cash and debt management functions are integrated and the city has detailed annual planning of cash flows.

The institutional framework under which the city operates, like with other Canadian municipalities, is very predictable and well-balanced. The provincial government imposes fiscal restraint through legislative requirements to pass balanced operating budgets. At the same time, provincial-municipal relationships have been more dynamic than the federal-provincial one, largely because municipal governments are established through provincial statute and not the constitution. In that regard, we expect Winnipeg's relationship with Manitoba will continue to be generally supportive under the current provincial government.

The city's debt issuance and after-capital deficits are expected to persist over the next two years.

We expect Winnipeg will continue generating strong operating balances of C$270 million-C$280 million annually over the next two-three years. The city's strong population growth and diverse economy have supported increases in operating balances, which are expected to average 15.8% of operating expenditures during 2017-2021. Operating surpluses, while strong, will not be sufficient to meet all of the city's infrastructure financing needs. The city is working toward decreasing its infrastructure deficit, which is estimated to be C$6.9 billion over the next 10 years. We expect the city will spend a little over C$500 million annually over the next two-three years on capital projects, which is in line with historical levels. Approved capital projects over the next few years will focus predominantly on roads and to a lesser degree, utility projects. Large unfunded projects include rapid transit corridors and the north end sewage treatment plan upgrades.

City policymakers are committed to limiting tax increases to 2.33% annually; and will fund planned after-capital deficits with debt. In 2020 and 2021, the city plans to issue a total of C$200 million in debt, related to road work and rapid transit. As a result, we expect tax-supported debt to increase to about 87% of operating revenues at year-end 2021, up from 67% at year-end 2018. Interest costs accounted for 3.2% of operating revenues in 2018 and we expect them to remain slightly below 5.0% during the two-year outlook horizon. Winnipeg's direct debt represents less than five years of operating surpluses, which alleviates the debt burden, in our opinion.

Winnipeg has robust liquidity, in our opinion. We expect its free cash and liquid assets will total about C$484 million, or 368% of the next 12 months' debt service. We expect this ratio to remain above 100% during the outlook horizon. In our view, Winnipeg has strong access to external liquidity, given its proven ability to issue into public debt markets and the presence of a secondary market for Canadian municipal debt instruments.

Key Statistics

Table 1

City of Winnipeg -- Selected Indicators

	--Fiscal year ended Dec. 31--					
(Mil. C$)	**2016**	**2017**	**2018**	**2019bc**	**2020bc**	**2021bc**
Operating revenues	1,497	1,569	1,633	1,686	1,741	1,798
Operating expenditures	1,337	1,337	1,362	1,409	1,469	1,516
Operating balance	159	232	271	277	271	281
Operating balance (% of operating revenues)	10.6	14.8	16.6	16.4	15.6	15.7
Capital revenues	238	265	281	204	204	204
Capital expenditures	476	476	614	516	516	516
Balance after capital accounts	(78)	21	(61)	(35)	(41)	(31)

Table 1

City of Winnipeg -- Selected Indicators (cont.)

	--Fiscal year ended Dec. 31--					
(Mil. C$)	2016	2017	2018	2019bc	2020bc	2021bc
Balance after capital accounts (% of total revenues)	(4.5)	1.1	(3.2)	(1.9)	(2.1)	(1.5)
Debt repaid	5	35	5	48	68	70
Gross borrowings	80	0	0	220	100	100
Balance after borrowings	(3)	(14)	(66)	136	(8)	(1)
Direct debt (outstanding at year-end)	1,048	1,043	1,054	1,096	1,202	1,193
Direct debt (% of operating revenues)	70.0	66.5	64.5	65.0	69.1	66.4
Tax-supported debt (outstanding at year-end)	1,086	1,081	1,088	1,498	1,593	1,571
Tax-supported debt (% of consolidated operating revenues)	72.5	68.9	66.6	88.9	91.5	87.4
Interest (% of operating revenues)	3.5	3.4	3.2	3.5	4.4	4.4
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	56,169	58,607	59,879	61,413	63,082	65,120

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. dc--Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. uc—Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

City of Winnipeg -- Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	2
Economy	1
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, Oct. 10, 2019. 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Credit Conditions North America: Rising Recession Risk Adds To Trade, Rate Uncertainty, Sept. 30, 2019
- Guidance: Methodology for Rating Local and Regional Governments Outside of the U.S., July 15, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019
- Public Finance System Overview: Canadian Municipalities, July 18, 2018
- For Canada, Below-Potential Growth Is Likely In The Near Term, Oct. 7, 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	
Winnipeg (City of)	
Issuer Credit Rating	AA/Stable/--
Winnipeg (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.