City of Winnipeg

November 15, 2023

Primary contact

Hector Cedano, CFA
Toronto
1-416-507-2536
hector.cedano
@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 diverse economy with gradual population and employment growth will support the City of Winnipeg's creditworthiness.	The city's large capital plan will drive modest after-capital deficits in the next few years.
Prudent financial management practices will allow the city to manage its large capital plan and maintain stable budgetary performance.	The debt burden will remain largely stable through 2025.
An extremely supportive and predictable institutional framework underpins the rating.	Liquidity will stay very strong.

S&P Global Ratings' long-term issuer credit rating on the City of Winnipeg is 'AA+'. Winnipeg's diversified economy will support revenue growth, while its prudent financial management, moderate debt burden, and ample liquidity will help to sustain the city's creditworthiness in the longer term. We expect that Winnipeg will continue to generate robust operating balances but that large capital expenditures will drive modest after-capital deficits in the next two years.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, Winnipeg's relatively diverse economy will support its robust operating margins and help contain after-capital deficits to less than 5% of total revenues. Winnipeg will issue debt to help fund part of its capital spending plan but we expect the debt burden will remain largely stable as a result of debt repayment, contributions to sinking funds, and revenue growth. We estimate debt service coverage will remain higher than 100% in our forecast horizon.

Downside scenario

We could lower the ratings in the next two years if slower-than-expected economic growth hinders the city's revenue-generating ability and erodes budgetary performance such that after-capital deficits exceed 5% of revenues on a sustained basis and result in additional borrowing requirements that push the debt burden to more than 120% of revenues or the interest expense to greater than 5% of revenues.

Upside scenario

We could raise the ratings in the next two years if the city's revenue growth exceeded expectations such that after-capital balances turned consistently positive in conjunction with a decreasing debt burden.

Rationale

A diversified economy and an extremely predictable and supportive institutional framework underpin the ratings.

Winnipeg is the capital of Manitoba and benefits from a typically steady and diverse local economy, with large financial services, manufacturing, and retail trade sectors that support its growth. It is also home to a sizable and largely stable public sector, including many provincial ministries and agencies, hospitals, universities, and colleges, which helps to underpin employment in the city. We believe that Winnipeg's GDP per capita is in line with that of Canada, which we estimate will be about US$54,400 in 2023. Population growth was hampered by lower immigration during the pandemic. Nevertheless, immigration has started to rebound and we expect it will remain the main driver of population growth in the next several years.

In our view, Winnipeg exhibits strong financial management, which supports the ratings. We consider the management team to be experienced and qualified to enact financial policies, and to effectively respond to external risks. Along with a six-year capital plan, the city prepares a four-year operating budget (both approved annually), which extends one year into the new term of council. 2023 was the last year of the current budget plan and showed an increase in property taxes of 3.5% and in the frontage levy to C$6.95 per foot, compared with 2.33% and C$5.45, respectively, the year before. Despite much of the additional revenue being dedicated to infrastructure, rising construction costs, a large infrastructure deficit, and unfunded capital projects will continue to pressure fiscal sustainability. To meet these challenges, management has been proactive in developing capital asset management tools and metrics to better inform capital plans and address large infrastructure investment requirements. Winnipeg's budgets reflect goals outlined in the long-term financial plan, which is informed by resident surveys and is based on realistic assumptions. In our view, the city's debt and liquidity management policies are prudent, with integrated cash and debt management functions and detailed annual cash flow planning.

As do other Canadian municipalities, Winnipeg 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.

Elevated capital spending will pressure the city's budgetary performance in the next two years, although the debt burden will remain largely stable.

We expect operating balances will average 13% of operating revenues in 2021-2025. In 2023, Winnipeg recovered from higher-than-expected snow-clearing expenses and lingering pandemic-related impacts (including lower transit revenue) experienced in 2022. Increases in property taxes, the frontage levy, and government grants also strengthened the city's operating performance. We expect operating revenues will increase in the next several years and that the city will maintain healthy operating balances. Based on the capital plan, we expect that capital expenditures will remain elevated in the next several years as Winnipeg continues to work on reducing its infrastructure deficit, resulting in after-capital deficits of 3% of total revenues on average in 2021-2025.

Winnipeg has not issued material new debt in the past three years. Nevertheless, we expect about C$100 million of annual gross borrowing in the next two years to help fund its capital plan. However, we expect the debt burden will remain largely stable at about 72% of operating revenue by the end of 2025 as a result of debt repayment, contributions to sinking funds, and revenue growth. Interest costs will also be reasonable and average 3.8% of operating revenues in 2022-2024. The debt structure primarily consists of long-term debentures, bank loans, capital leases, and obligations related to public-private partnerships.

Winnipeg has robust liquidity, in our opinion. We estimate total free cash in the next 12 months will be enough to cover more than 5x the estimated debt service for the period. We expect this ratio will remain well above 100% during the outlook horizon. In addition, we believe Winnipeg's access to external liquidity is strong, evidenced by its proven ability to issue into public debt markets and the presence of a secondary market for Canadian municipal debt instruments.

City of Winnipeg Selected Indicators

Mil. C$	2020	2021	2022	2023bc	2024bc	2025bc
Operating revenue	1,668	1,671	1,763	1,880	1,913	1,977
Operating expenditure	1,448	1,468	1,606	1,595	1,647	1,699
Operating balance	221	203	157	286	267	278

City of Winnipeg Selected Indicators

Operating balance (% of operating revenue)	13.2	12.1	8.9	15.2	13.9	14.1
Capital revenue	147	124	123	219	199	183
Capital expenditure	384	359	409	571	520	478
Balance after capital accounts	(16)	(33)	(129)	(67)	(55)	(17)
Balance after capital accounts (% of total revenue)	(0.9)	(1.8)	(6.8)	(3.2)	(2.6)	(0.8)
Debt repaid	33	71	7	47	56	56
Gross borrowings	85	0	11	0	100	100
Balance after borrowings	36	(104)	(125)	(114)	(11)	26
Direct debt (outstanding at year-end)	1,443	1,375	1,359	1,312	1,355	1,399
Direct debt (% of operating revenue)	86.5	82.3	77.1	69.8	70.8	70.8
Tax-supported debt (outstanding at year-end)	1,479	1,409	1,391	1,345	1,389	1,432
Tax-supported debt (% of consolidated operating revenue)	88.6	84.3	78.9	71.5	72.6	72.4
Interest (% of operating revenue)	3.9	4.0	3.6	3.8	4.1	4.2
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	43,349.7	52,358.6	54,917.7	54,414.8	55,764.6	58,226.4

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	1
Financial management	2
Budgetary performance	2
Liquidity	1
Debt burden	3
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. 9, 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 Q4 2023: Sluggish Growth Ahead, Sept. 25, 2023
- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Sept. 21, 2023
- Local And Regional Government Risk Indicators: Canadian LRGs' Buoyant Fiscal Performance Will Persist Despite High Inflation And Near-Term Headwinds, Sept. 20, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022

Ratings Detail (as of November 15, 2023)*

Winnipeg (City of)	
Issuer Credit Rating	AA+/Stable/--
Senior Unsecured	AA+
Issuer Credit Ratings History	
01-Jun-2022	AA+/Stable/--
14-Jan-2003	AA/Stable/--
11-Sep-2002	AA-/Watch Pos/--

*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.