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City of Winnipeg

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City of Winnipeg

This report supplements our research update "City of Winnipeg 'AA' Ratings Affirmed On Very Strong Economy And Strong Financial Management," published on Nov. 9, 2016. To provide the most current information, we may cite more recent data than that stated in the previous publication. These differences have been determined not to be sufficiently significant to affect the rating and our main conclusions.

Rationale

Issuer Credit Rating
AA/Stable/--

The ratings on Winnipeg reflect S&P Global Ratings' assessment of the city's very strong economic fundamentals, exceptional liquidity position, moderate debt burden, and very low contingent liabilities. The ratings also reflect our view of the very predictable and well-balanced institutional framework for Canadian municipalities and our assessment of the city's strong financial management. In our opinion, the city's large capital expenditure requirements limit its strong budgetary flexibility and lead to large after-capital deficits and, as a result, average budgetary performance.

In our view, a well-diversified economy compared with that of peers and a large public sector underpin Winnipeg's lengthy record of very strong economic performances. 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. Although municipal GDP data are not available, we believe Winnipeg's economy generated GDP per capita not significantly different from the US$43,200 that we expect the province to produce, on average, from 2014-2016. By the city's estimates, real GDP rose about 1.7% in 2015. Given the economic diversity, which helps offset cyclicality in any given sector, we expect GDP to average about 2.1% growth per year in the near term.

We believe Canadian municipalities benefit 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 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.

In our view, Winnipeg demonstrates strong financial management, which has a positive impact on its credit profile. The management team is what we consider experienced and qualified to effectively enact fiscal policies, as well as effectively respond to external risks. There is generally broad consensus to implement structural reforms. The city has a robust set of financial policies and annual financial statements are audited and unqualified. Its cash and debt management functions are integrated and the city has detailed annual planning of cash flows. In addition, it provides transparent, easy-to-access disclosure to pertinent information and prepares detailed three-year operating and six-year capital budgets.

Winnipeg has what we view as very low contingent liabilities. These relate largely to sick leave, workers' compensation, retirement allowances, and landfill, and represented less than 18% of adjusted operating revenues in

2015.

We expect that in the next two years, the city's debt levels will increase commensurate with the increase in the capital program. Based on our base-case forecast, we expect the city's tax-supported debt (S&P Global Ratings-defined) to represent about 83.7% of projected consolidated operating revenues or C$1.3 billion (net of sinking fund balances) in fiscal 2018. We also expect Winnipeg's interest costs, on average, to remain at less than 5% of adjusted operating revenues. Despite the increase in debt, we continue to view these levels as moderate. As of Dec. 31, 2015, tax-supported debt increased to 69% of consolidated operating revenues from 65.4% in the previous year.

In our opinion, significant infrastructure renewal requirements moderately constrain the city's strong budgetary flexibility. Winnipeg faces an infrastructure deficiency of about C$7 billion in the next 10 years, mainly to address aging roads, transit, facilities, buildings, and parks. In addition, Manitoba's increased pollution standards and the resulting mandate to improve wastewater systems have resulted in an accelerated capital program for sewage disposal systems. In addition, similar to other Canadian municipalities, Winnipeg is also limited in its ability to adjust operating expenditures meaningfully within the near term, mainly due to provincially mandated level of services and multiyear labor contracts. In our 2014-2018 base-case forecast, we predict that, on average, capital expenditures will represent just under 30% of total expenditures. We also expect that modifiable revenues will remain relatively stable, at more than 85% of adjusted operating revenues, on average.

Based on our 2014-2018 base-case forecast, we expect Winnipeg's operating performance to remain well-above 5% of consolidated operating revenues on average. Nevertheless, given the size of the city's capital plan, especially in the next two years for the North End Sewage Treatment Plant and the Waverly Underpass Project, we expect that Winnipeg will generate sizable after-capital deficits, averaging 5%-10% of total revenues. As a result, we assess the city's budgetary performance as average. Winnipeg recorded a surplus of 12.4% of adjusted operating revenues at year-end 2015, a moderate increase from the previous year's 10.2%. The city posted an after-capital deficit of 3.9% of total revenues, which was lower than the 6.1% recorded in 2014. In particular, after-capital deficits have been significantly higher than those before 2011, when after-capital results were near balance.

Liquidity

Winnipeg has exceptional liquidity in our opinion. We estimate total free cash and liquid assets (S&P Global Ratings-adjusted) to be about C$405 million in 2017 and to cover more than 425% of the estimated debt service for the year. Although we believe that some internal financing of capital will lead to a modest decline in adjusted liquidity balances in the next two years, we expect the balances to remain sufficient and cover more than 100% of the next 12 months' debt service.

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.

Outlook

The stable outlook reflects our expectation that, in the next two years, debt will remain moderate and that Winnipeg's liquidity will remain exceptional and well above 100% of the following year's annual debt service. We also expect that

the city will continue to record healthy operating surpluses of greater than 5% of adjusted operating revenue, but due to its large capital plan, will also record after-capital deficits of 5%-10%, on average. In the next two years, a positive rating action is possible if the city's revenues increase, leading to after-capital deficits of less than 5% of total revenues. Although we believe the possibility remote, we could take a negative rating action if erosion of financial management practices leads to a material decline in liquidity and a significant increase in interest to greater than 5% of adjusted operating revenue because of the funding needs for higher capital requirements.

Canadian Municipalities Benefit From A Very Predictable And Institutional Framework

We view the Canadian provincial-municipal intergovernmental system as being very predictable and well-balanced because of its maturity and stability, low-to-moderate degree of mismatching of revenues and expenditures, moderate levels of transparency and accountability, and strong likelihood of extraordinary support from provincial governments.

Provincial-municipal relationships have proven to be more dynamic than the federal-provincial one, largely because the municipal governments are established through provincial statute and not the constitution. Historically, the provinces have taken a more active role in municipal affairs than the federal government in provincial matters. Although there have been long periods of relative stability, provincially imposed large-scale changes to municipal revenue powers and expenditure responsibilities have occurred.

Provinces mandate a significant proportion of municipal spending and, through legislation, require municipalities to pass balanced operating budgets (although they also provide operating fund transfers). Nevertheless, municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be intensive for some. Many have been limited in their ability to renew their infrastructure, roads, water, and wastewater, due to constraints on fee and property tax increases. Property taxes are the primary own-source revenues for Canadian municipalities, followed by fees and transfers from both the provincial and federal governments. Chief expenditure categories of Canadian municipalities are transportation services, which include roads and transit; environmental services, which include water distribution and treatment and wastewater collection; protection services such as fire and police; and recreation and cultural services. Small and rural municipalities generally receive higher provincial transfers, for both operating and capital programs, compared with those of their more urban counterparts, but there are no formal equalization schemes.

We believe the financial information provided is quite timely. National accounting standards are strong and improving, in our view, although adoption can vary somewhat. Statutes require audited statements. While there are no national standards that apply to budgeting practices, a five-year capital budgeting process is usually the minimum. In addition, only current-year budgeting is required generally for operations.

The provinces have an established history assisting their distressed municipalities through grants.

Economic Profile

Winnipeg, the capital of Manitoba, benefits from what we view as a very strong economy. We believe the city's well-diversified economy, compared with that of peers, offers a relatively high degree of protection from external economic shocks. Financial services, manufacturing, and retail trade are the foundations of the Winnipeg census metropolitan area's (CMA) economy. Although municipal GDP data are not available, we believe that the city's economy would generate GDP per capita not significantly different from the province, which we expect to average US$43,200. from 2014-2016. Furthermore, as Winnipeg is the province's capital and main population center (718,400 in 2015), the public sector contributes importantly 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.

Economic performance continued to remain stable in 2015

According to estimates prepared for Winnipeg, the city's economy continued to perform well, modestly improving compared with 2014's performance, based on various economic indicators. Real GDP increased about 1.7% in 2015. Given the diversity of Winnipeg's economy, which helps offset cyclicality in any given sector, we expect the city's GDP to continue to increase on average by about 2.1% per year in the near term.

In 2015, Winnipeg's population continued to increase (1.3%), largely because of immigration. The city continues to reap the benefits of The Provincial Nominee Program, an immigrant-attraction program it undertook in conjunction with the province. We expect little change in the city's historical population growth trends in the next two years.

Labor force results also remained stable. The city's unemployment rate increased modestly, to 6% in 2015 from 5.8% in 2014, and remained in line with the provincial average. Of note, the CMA continues to have one of the lowest unemployment rates of Canada's major metropolitan areas.

The construction sector's results were mixed. Housing starts increased by 11% while building permits decreased by 6.6%, compared with the previous year. In addition, the assessment base increased modestly by 1.7% year-over-year compared with an increase of 14.6% in 2014 (a reassessment year).

Strong Financial Management

In our view, Winnipeg exhibits strong financial management, which has a positive impact on the ratings. The management team is what we consider experienced and qualified to effectively enact fiscal policies, as well as effectively respond to external risks. There is generally broad consensus to implement structural reforms. We believe the city's annual reports are timely, transparent, and comprehensive. Management prepares three-year operating budgets and six-year capital forecasts that include annual approved budgets, which are well-documented. Winnipeg's budgets reflect goals defined in the city's long-term financial plan and are based on realistic assumptions. In our view, management'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. We also believe that formal risk management strategies and policies are well-articulated in the business plan. The council serves a four-year term and consists of the

mayor and 15 councilors. The current council, including a new mayor and seven new councilors, was sworn in at the beginning of November 2014.

Large Infrastructure Requirements Limit Otherwise Strong Budgetary Flexibility

Canadian municipalities generally have relatively strong budgetary flexibility, with modified revenues exceeding 70% of operating revenues. Modifiable revenues represent the revenues (primarily taxes and fees) that a government may change. We view the financial flexibility of Canadian municipalities as moderately constrained on the expenditure side due to a high degree of municipal services, which the provinces mandate and provide municipal governments little discretion over the costs of delivering these services in addition to multiyear collective agreements.

Generally, in our opinion, Canadian municipalities have more flexibility on the revenue side, with a high proportion of modifiable revenues. However, political pressures, taxpayer resistance, and affordability considerations place some practical limits on the extent to which these revenues can rise (property taxes more so than rates and user fees). In our 2014-2018 base-case forecast, we predict that the city's modifiable revenues will represent, on average, above 85% of adjusted operating revenues.

Property taxes are typically the largest source of modifiable revenues, accounting for 46% of Winnipeg's adjusted operating revenue in 2015. Municipal residential property taxes are below the average of other Canadian cities. The city's budgets have included modest tax rate increases since 2012, following a 14-year freeze, and we expect future budgets to include modest increases in line with inflation (2.33% in the 2016 budget). Of note, Winnipeg continues to incorporate a dedicated 2% levy to fund improvements to local and regional roads (1% each), which we believe will help it to address its infrastructure deficit. Nevertheless, because of the city's limited ability to cut capital spending, particularly for its water and wastewater infrastructure, budgetary flexibility remains constrained.

Similar to those of other Canadian municipalities, Winnipeg's capital program is allocated largely to its core infrastructure, namely water and sewer networks, roads, and transit. More specific to Manitoba municipalities, the province's increased pollution standards and the resulting mandate to improve wastewater systems have resulted in an accelerated capital program for the sewage disposal systems. In our 2014-2018 base case forecast, we predict the city's level of capital spending to be relatively stable and that capital expenditures will represent, on average, about 30% of total expenditures. In fiscal 2015, capital expenditures represented about 30.6% of Winnipeg's total expenditures (compared with 28.9% in 2014).

Average Budgetary Performance Stems From Large After-Capital Deficits

To improve comparability across local and regional governments globally, S&P Global Ratings adjusts the published figures of all municipalities to reflect their budgetary balances on a cash basis. This includes adjusting for major accruals; restating capital spending to a cash basis by removing the influence of capital amortization and net income of certain government business enterprises; and adjusting for one-time revenues.

Winnipeg's continued population growth has contributed to steady assessment and property tax revenue growth. As a result, the city has recorded healthy operating performance. We expect that it will continue to produce operating balances of greater than 5% of adjusted operating revenue, on average, from 2014-2018. In 2015, it produced an operating balance of 12.4% of adjusted operating revenue.

After accounting for capital revenue and expenditures, since 2010, Winnipeg has made extensive investments in its capital plan, resulting in large after-capital deficits of greater than 5% of total revenues. The city's 2016-2021 capital plan calls for about C$2.9 billion in spending with the bulk used to improve and expand its sewage assets, roads, bridges, and transit. Given the city's significant capital requirements, particularly in the next two years, we expect that after-capital deficits will average 5%-10% of total revenues in our 2014-2018 base-case forecast.

Exceptional Liquidity Bolsters City's Credit Profile

In our view, Winnipeg's creditworthiness benefits from its exceptional liquidity. For 2017, we estimate total free cash and liquid assets (S&P Global Ratings-adjusted) to be about C$405 million, which will cover more than 425% of the estimated debt service for the year. In our opinion, the city's adjusted liquid asset balances as a percent of the next 12 months' debt service are in line when compared with those of international peers and average when compared with those of domestic peers. Although we believe that some internal financing of capital will lead to a modest decline in adjusted liquidity balances in the next two years, we expect the balances to still cover more than 100% of the next 12 months' debt service.

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.

Debt Burden Will Remain Moderate

Our tax-supported debt measure includes the city's direct debt in addition to debt obligations that the city guarantees, public-private partnership obligations, and bank indebtedness. We expect that tax-supported debt levels will continue to increase to about C$1.3 billion (net of sinking fund balances) by 2018. At that time, based on our base-case forecast, the city's tax-supported debt could reach about 83.7% of projected consolidated operating revenues, a level we continue to view as moderate. At fiscal year-end 2015, Winnipeg's tax-supported debt (S&P Global Ratings-defined) stood at about C$996 million, or 69% of consolidated operating revenues, a nominal increase from 65.4% the previous year. The city's debt burden remained relatively stable year-over-year, with interest continuing to represent less than 4% of operating revenues. Its debt burden places it near the median of similarly rated domestic and international peers.

Contingent Liabilities Are Very Low

Winnipeg has standard future retirement allowance, as well as accrued vacation time and landfill post-closure costs, which when combined totaled about 18% of 2015 operating revenue. We do not consider this to be significant, and the

city has reserves to cover a portion of these liabilities.

Ratings Score Snapshot

Table 1

City of Winnipeg -- Ratings Score Snapshot

Key rating factors	Assessment
Institutional framework	Very predictable and well-balanced
Economy	Very strong
Financial management	Strong
Budgetary flexibility	Strong
Budgetary performance	Average
Liquidity	Exceptional
Debt burden	Moderate
Contingent liabilities	Very low

*S&P Global Ratings bases its ratings on local and regional governments on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "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 government's foreign currency rating.

Key Statistics

Table 2

City of Winnipeg -- Economic Statistics

	--Fiscal year ended Dec. 31--				
(%)	2015	2014	2013	2012	2011
Population (total)	718,400	709,253	698,696	689,300	677,800
Population growth	1.3	1.5	1.4	1.7	1.3
Real GDP growth	2.6	2.0	1.9	1.6	1.4
Unemployment rate	6.0	5.8	6.0	5.6	5.8

Note: 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. Sources typically include national statistical offices.

Table 3

City of Winnipeg -- Financial Statistics

	--Fiscal year ended Dec. 31--					
(Mil. C$)	2018bc	2017bc	2016bc	2015	2014	2013
Operating revenues	1,584	1,534	1,486	1,443	1,442	1,396
Operating expenditures	1,495	1,411	1,333	1,265	1,296	1,199
Operating balance	89	123	153	178	146	198
Operating balance (% of operating revenues)	5.6	8.0	10.3	12.4	10.2	14.2
Capital revenues	219	249	254	312	274	223
Capital expenditures	499	567	579	558	526	544
Balance after capital accounts	(191)	(195)	(172)	(68)	(105)	(123)

Table 3

City of Winnipeg -- Financial Statistics (cont.)

	--Fiscal year ended Dec. 31--					
(Mil. C$)	**2018bc**	**2017bc**	**2016bc**	**2015**	**2014**	**2013**
Balance after capital accounts (% of total revenues)	(10.6)	(10.9)	(9.9)	(3.9)	(6.1)	(7.6)
Debt repaid	40	35	33	93	95	112
Net budget loans	N/A	N/A	N/A	N/A	N/A	N/A
Balance after debt repayment and onlending	(231)	(230)	(205)	(161)	(200)	(236)
Balance after debt repayment and onlending (% of total revenues)	(12.8)	(12.9)	(11.8)	(9.1)	(11.7)	(14.6)
Gross borrowings	187	141	110	76	180	60
Balance after borrowings	(44)	(89)	(95)	(85)	(20)	(176)
Operating revenue growth (%)	3.3	3.2	3.0	0.0	3.3	7.1
Operating expenditure growth (%)	5.9	5.8	5.4	(2.4)	8.1	7.9
Modifiable revenues (% of operating revenues)	89.2	88.8	88.5	88.1	88.3	88.4
Capital expenditures (% of total expenditures)	25.0	28.7	30.3	30.6	28.9	31.2
Direct debt (outstanding at year-end)	1,326	1,179	1,073	996	943	790
Direct debt (% of operating revenues)	83.7	76.8	72.2	69.0	65.4	56.6
Tax-supported debt (% of consolidated operating revenues)	83.7	76.8	72.2	69.0	65.4	56.6
Interest (% of operating revenues)	4.1	3.9	3.7	3.9	3.7	3.9
Debt service (% of operating revenues)	6.7	6.2	5.9	10.3	10.3	12.0

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 lower rating. Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a higher rating.

Key Sovereign Statistics

Sovereign Risk Indicators, Oct. 13, 2016. Interactive version available at www.spratings.com/SRI.

Related Criteria And Research

Related Criteria

- Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- 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, Oct. 15, 2009
- Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Slower Growth And Volatile Markets Loom Over North America's Stable Credit Conditions, July 11, 2016
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, April 21, 2016
- Public Finance System Overview: Canadian Municipalities, Dec. 10, 2015

Ratings Detail (As Of November 15, 2016)	
Winnipeg (City of)	
Issuer Credit Rating	AA/Stable/--
Senior Unsecured	AA
Issuer Credit Ratings History	
14-Jan-2003	AA/Stable/--
11-Sep-2002	AA-/Watch Pos/--
15-Feb-2000	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.