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Research Update:

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

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Overview

- The City of Winnipeg's economy is very strong and budgetary performance has been stable. Tax-supported debt remains moderate but continues increasing as a result of the large capital plan.
- We are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on Winnipeg.
- The stable outlook reflects our expectation that, in the next two years, Winnipeg will post after-capital deficits of 9% of total revenues on average and tax-supported debt will increase to almost 100% of operating revenues. Nevertheless, we estimate liquidity will remain robust.

Rating Action

On Nov. 27, 2017, 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, in the next two years, Winnipeg will post after-capital deficits of 9% of total revenues on average and tax-supported debt will increase to almost 100% of operating revenues as a result of the large capital plan. Nevertheless, we estimate liquidity will remain robust with debt service coverage ratios above 100%.

Downside scenario

We could take a negative rating action if erosion of financial management practices and higher capital requirements lead to a material decline in liquidity in the next two years.

Upside scenario

We could take a positive rating action if the city's revenues increase, leading to after-capital deficits of less than 5% of total revenues in the next two years.

Rationale

Winnipeg has historically shown healthy operating balances and moderate after-capital deficits although we believe that the city's large capital plan will lead to moderately higher after-capital deficits and to sizable debt issuance in the next two years. Nevertheless, the city's dynamic and diversified economy as well as its sound financial management should help maintaining its stable budgetary performance and manageable debt levels.

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

We estimate that in 2014-2016, Winnipeg's average GDP per capita was in line with that of the province, at US\$40,455. 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 economy. As Winnipeg is the province's capital and main population center, 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.

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. 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.

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 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.

A large capital plan will result in higher after-capital deficits in 2018 and 2019, with significant debt issuance expected in 2019 to fund part of the projects.

In our base-case scenario, we expect modifiable revenues to remain stable at 88% of operating revenues on average in 2015-2019. Given somewhat high growth experienced in salaries and benefits, which the city is addressing, we estimate operating balances will slightly decrease to 9.3% of operating revenues on average in 2015-2019. We estimate capital expenditures will average 27.4% of total expenditures, leading to an average after-capital deficit of 6.7% of total revenues in 2015-2019. This deficit will fluctuate with the capital plan and will be higher in 2018 and 2019.

In our opinion, significant infrastructure renewal requirements constrain the city's budgetary flexibility. Winnipeg faces an infrastructure deficit of about C\$7 billion in the next 10 years, mainly to address aging roads, transit, facilities, buildings, and parks. Similar to other Canadian municipalities, Winnipeg is also limited in its ability to adjust operating expenditures meaningfully within the near term, mainly due to the provincially mandated level of services and multiyear labor contracts.

To fund part of its capital projects, in the next three years, the city plans to issue debt of C\$584 million, related to rapid transit and sewage. As a result, we expect tax-supported debt to increase to 97.1% of operating revenues at year-end 2019, up from 70.0% at year-end 2016. Interest costs accounted for 3.5% of operating revenues in 2016 and we expect them to remain below 5.0% during the two-year outlook horizon.

Winnipeg has robust liquidity in our opinion. We estimate its adjusted free cash and liquid assets will total C\$478 million on average in 2018 and will be enough to cover more than 4x the estimated debt service for the year. We expect this ratio to remain well 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.

Winnipeg has what we view as modest contingent liabilities and they relate largely to standard future retirement allowance, accrued vacation time, and landfill post-closure costs. They represented about 17% of 2016 operating revenues, which we do not consider to be significant and the city has reserves to cover a portion of them.

Key Statistics

Table 1

City of Winnipeg -- Selected Indicators					
	--Year ended Dec. 31--				
(Mil. C\$)	2015	2016	2017bc	2018bc	2019bc
Operating revenues	1,422	1,497	1,545	1,588	1,632
Operating expenditures	1,265	1,337	1,396	1,454	1,521
Operating balance	158	159	149	134	111
Operating balance (% of operating revenues)	11.1	10.6	9.7	8.4	6.8
Capital revenues	333	238	233	256	253
Capital expenditures	558	476	501	551	544
Balance after capital accounts	(68)	(78)	(119)	(161)	(180)
Balance after capital accounts (% of total revenues)	(3.9)	(4.5)	(6.7)	(8.7)	(9.6)
Debt repaid	93	5	41	50	50
Gross borrowings	76	80	93	138	447
Balance after borrowings	(85)	(3)	(66)	(74)	216
Modifiable revenues (% of operating revenues)	87.9	87.8	88.2	88.5	88.8
Capital expenditures (% of total expenditures)	30.6	26.2	26.4	27.5	26.3
Tax-supported debt (outstanding at year-end)	996	1,048	1,100	1,188	1,584
Tax-supported debt (% of consolidated operating revenues)	70.0	70.0	71.2	74.8	97.1
Interest (% of operating revenues)	3.9	3.5	3.6	3.7	4.1
National GDP per capita (single units)	55,430	55,910	58,448	60,211	61,903

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. 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 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' ratings on local and regional governments are based 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 Sovereign Statistics

Sovereign Risk Indicators, Oct. 13, 2017. Interactive version available at www.spratings.com/SRI

Related Criteria

- 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, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, Sept. 21, 2017
- Public Finance System Overview: Canadian Municipalities, Dec. 1, 2016

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/--

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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