S&P Global Ratings

RatingsDirect®

City of Winnipeg

11/17/2021

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
A rebounding economy, as pandemic restrictions ease, and cautious fiscal decisions support the City of Winnipeg's creditworthiness.	Fiscal performance remains strong due to cost savings and strong support from senior levels of government, allowing the city to continue delivering on its capital plan.
We expect gradual employment and population growth will spur Winnipeg's economic recovery in the next two years.	The city's operating performance will remain strong despite temporary weakness while it absorbs the pandemic impact.
Prudent management decisions will help contain costs as the city continues to deal with the financial impact of the pandemic.	Sustained capital spending will continue to contribute to moderate after-capital deficits.
We believe the city's relationship with the Province of Manitoba will remain well balanced and predictable.	We expect the tax-supported debt burden will increase steadily as the city proceeds with its capital plan, but will remain manageable; and liquidity will stay very strong.

S&P Global Ratings expects the city's diversified economy will support a relatively rapid return to pre-pandemic growth and revenue generation capacity in the medium term. In addition, Winnipeg's prudent financial management, adequate debt burden, and robust liquidity will help to sustain the city's creditworthiness in the longer term. Winnipeg's efforts to reduce spending, while continuing to deliver essential services, including transit, together with strong federal and provincial support, have spared its financial results in the past two years. The city remains committed to maintaining and improving city assets, especially roads, and will keep delivering on its substantial capital plan. As a result, Winnipeg will continue to run after-capital deficits and issue debt, as planned. We believe that, despite temporary weakness, its fiscal results will remain strong overall, and its debt burden will be manageable and comparable with that of similarly rated municipalities.

Outlook

The stable outlook reflects our expectation that, in the next two years, Winnipeg's economic growth will continue its gradual return to pre-pandemic levels. This will support revenue generation and help contain after-capital deficits to less than 5% of total revenue, on average. We believe that the debt burden will remain manageable despite substantial forecast capital spending that will require additional debt financing such that tax-supported debt will reach 94% of operating revenues in 2023.

Downside scenario

We could lower the ratings in the next two years if the city's ability to generate revenues is hindered by slower-than-expected economic growth, significantly limiting its capacity to address rising inflationary pressures, and leading to sustained budgetary performance erosion with after-capital deficits greater than 5% of revenues in the next two years; and if we came to believe that Winnipeg's response to such stress was inadequate, resulting in a debt burden that exceeds 120% of revenues or interest expense above 5% of revenues.

Upside scenario

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

Rationale

A diversified economy and well-balanced institutional framework support the ratings.

We expect that, after having significantly contracted in 2020 because of the measures implemented to control the spread of the coronavirus, Winnipeg's economy will recover and grow in line with our national forecast, as pandemic-related restrictions ease. We estimate that Winnipeg's nominal GDP per capita is close to that of Canada, of about US$53,000 in 2021, based on its broad economy. Winnipeg is an expanding 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. Winnipeg is home to almost all the preeminent provincial institutions, such as Manitoba Hydro-Electric Board, provincial ministries, specialized hospitals, universities, and colleges. Its population has risen steadily since 1999 and reached about 767,900 in 2020. Although immigration has slowed since the beginning of the pandemic, the city expects it will remain the primary driver of population growth over the next few 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. Management prepares a four-year operating budget and, while it approves 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, dedicated entirely to infrastructure, despite rising construction costs, a large infrastructure deficit, and a list of unfunded capital projects, which could weaken fiscal sustainability. 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 next municipal election will be held in 2022.

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 remain generally supportive under the current provincial government.

Sustained capital spending will continue to pressure the city's budgetary performance and require debt funding.

Winnipeg estimates that the pandemic impact will be more severe in 2021 than originally estimated. It expects the financial shortfall to reach C$84.2 million, or about C$23 million more than budgeted. This is primarily due to the loss of some revenue sources, notably transit, which have fallen significantly, and increased spending as the city provides essential services and is incurring additional expenditures to address health and safety needs. However, the city expects that some of the federal and provincial emergency funding carried forward from 2020, together with the use of its stabilization reserve and offsetting actions it has taken, will cover this gap. As a result, we believe Winnipeg's budgetary performance will remain relatively strong in the next two years, albeit somewhat below historical levels. In our base-case scenario for 2019-2023, operating balances will average about 13% of operating revenues and after-capital deficits will be about 3% on average. The city continues to work toward reducing its infrastructure deficit, which it estimates at C$7 billion over the next 10 years. We expect it will spend C$450 million-C$500 million annually in the next two-three years on capital projects. Approved projects will focus predominantly on roads and, to a lesser degree, utilities. Large unfunded projects include rapid transit corridors and, in part, the north end sewage treatment plant upgrades.

We expect Winnipeg's debt burden will remain manageable in the next two years, despite a gradual increase as the city follows its scheduled borrowing plan required to complete approved road work and rapid transit projects. We forecast tax-supported debt will reach 94% of operating revenues at year-end 2023. Interest costs will also be reasonable and average 3.8% of operating revenues from 2020-2022. Debt structure primarily consists of long-term debentures, bank loans, capital leases, and public-private partnerships.

Winnipeg has robust liquidity, in our opinion. We estimate that it will maintain free cash and liquid investments equal to about 9x our estimated debt service requirements over the next 12 months. Winnipeg's strong access to external liquidity is 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$	2018	2019	2020	2021bc	2022bc	2023bc
Operating revenue	1,632.9	1,683.3	1,675.1	1,638.6	1,682.1	1,735.8
Operating expenditure	1,361.7	1,437.3	1,447.6	1,464.5	1,489.0	1,516.7
Operating balance	271.2	246.0	227.5	174.1	193.0	219.1
Operating balance (% of operating revenue)	16.6	14.6	13.6	10.6	11.5	12.6
Capital revenue	281.4	457.0	165.8	220.0	220.0	244.5
Capital expenditure	613.9	872.8	409.4	450.0	450.0	500.0
Balance after capital accounts	(61.2)	(169.8)	(16.1)	(55.8)	(37.0)	(36.5)
Balance after capital accounts (% of total revenue)	(3.2)	(7.9)	(0.9)	(3.0)	(1.9)	(1.8)
Debt repaid	4.9	0.0	0.0	34.8	39.1	47.4
Gross borrowings	0.0	215.2	85.0	12.1	125.0	125.0
Balance after borrowings	(66.1)	45.4	68.9	(78.5)	49.0	41.1
Direct debt (outstanding at year-end)	1,053.7	1,372.6	1,437.7	1,390.7	1,522.2	1,605.5
Direct debt (% of operating revenue)	64.5	81.5	85.8	84.9	90.5	92.5
Tax-supported debt (outstanding at year-end)	1,087.7	1,413.0	1,473.8	1,423.8	1,552.2	1,632.5
Tax-supported debt (% of consolidated operating revenue)	66.6	83.9	88.0	86.9	92.3	94.1
Interest (% of operating revenue)	3.2	3.5	3.9	3.7	3.7	3.9
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	46,453.9	46,326.7	43,258.2	52,948.3	54,410.6	55,679.7

City of Winnipeg Selected Indicators

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	2
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, July 12, 2021. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Published Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., Published July 15, 2019
- Principles Of Credit Ratings, Published Feb. 16, 2011

Related Research

- Institutional Framework Assessments For International Local And Regional Governments, Published Oct. 6, 2021
- Economic Outlook Canada Q4 2021: Growth Delayed, Published Sept. 24, 2021
- S&P Global Ratings Definitions, Published Jan. 5, 2021

- Public Finance System: Canadian Municipalities, Published May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., 2019 July 15, 2019
- Guidance: Sovereign Rating Methodology, Jan. 22, 2019

Ratings Detail (as of November 17, 2021)*

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.