S&P Global
Ratings

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City of Winnipeg

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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 operating performance will remain strong despite lingering COVID-19 pandemic-related impacts and inflationary pressures.
Prudent financial management practices will allow the city to mange its large capital plan and maintain budgetary performance.	We expect that the city's large capital plan will drive modest after-capital deficits in the next few years.
We expect the city's relationship with senior levels of government to remain extremely predictable and supportive.	We expect the tax-supported debt burden will remain largely stable despite additional borrowing; and liquidity will remain very strong.

On June 1, 2022, S&P Global Ratings raised its rating on the City of Winnipeg to 'AA+' from 'AA', following the revision of the Canadian municipal institutional framework assessment to extremely supportive and predictable from very predictable and well-balanced (see "**Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment,"** June 1, 2022. 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 margins but that large capital expenditures will drive modest after-capital deficits in the next two years.

Outlook

The stable outlook reflects our 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 revenue, on average. We believe that the city will enact a budget plan that supports revenue growth and fiscal sustainability, and that the debt burden will be largely stable despite moderate borrowing expected in the next two years to help finance the sizable capital plan.

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 if the city's revenue growth exceeded expectation such that after-capital balances turned consistently positive in conjunction with a declining debt burden.

Rationale

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

Winnipeg is the provincial 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. The city 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 nominal GDP per capita is in line with that of Canada, at about US$54,000 in 2022. Recent population growth has been hampered by lower immigration due to the pandemic, although we expect immigration to rebound in the next several years and remain the main driver of population growth.

In our view, Winnipeg exhibits strong financial management, which supports the ratings. The municipal election held in October 2022 saw two-time councilor Scott Gillingham elected as mayor and a low turnover of councilors. 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. Accordingly, 2023 will be the last year of the current budget plan and the new council has not yet provided guidance regarding property tax increases, which under the current plan are limited to 2.33% annually. 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.

At the midpoint of 2022, Winnipeg estimated that its budget shortfall for the year will reach almost C$52 million in its tax levy-supported operations, largely due to higher-than-expected snow-clearing expenses, rising fuel costs, and lingering pandemic-related impacts, and about C$34 million in its transit operations. The city has ample reserves to cover the deficit and there is potential for additional funding from senior levels of government to cover some of the ongoing shortfalls in areas such as transit, where the pandemic continues to affect revenues and expenses. Overall, we expect operating revenues to increase in the next several years and for the city to maintain healthy operating balances averaging about 12% of operating revenues in our 2020-2024 base case. Based on the capital plan, we expect that capital expenditures will remain elevated in the next several years as Winnipeg continues to work toward reducing its infrastructure deficit. We expect that average annual spending of about C$450 million will drive modest after-capital deficits averaging less than 3% of total revenues in the 2020-2024 base case period.

Winnipeg has not issued material net additional debt in the past two years, although we do expect about C$135 million of annual gross borrowing in the next several years to help fund its capital plan. However, we expect revenue growth to keep pace, resulting in a largely stable tax-supported debt burden of about 82% of operating revenue by the end of 2024. Interest costs will also be reasonable and average 4.1% of operating revenues from 2021-2023. 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 that it will maintain free cash and liquid investments equal to about 8x our estimated debt service requirements in 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$	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	1,676	1,668	1,671	1,728	1,788	1,878
Operating expenditure	1,437	1,448	1,468	1,554	1,587	1,625
Operating balance	239	221	203	174	200	253
Operating balance (% of operating revenue)	14.3	13.2	12.1	10.1	11.2	13.5
Capital revenue	400	147	124	222	196	193
Capital expenditure	804	384	359	527	465	458
Balance after capital accounts	(166)	(16)	(33)	(131)	(69)	(12)
Balance after capital accounts (% of total revenue)	(8.0)	(0.9)	(1.8)	(6.7)	(3.5)	(0.6)
Debt repaid	35	33	71	45	52	60
Gross borrowings	215	85	0	22	140	135
Balance after borrowings	15	36	(104)	(154)	19	63
Direct debt (outstanding at year-end)	1,373	1,443	1,375	1,353	1,440	1,515
Direct debt (% of operating revenue)	81.9	86.5	82.3	78.3	80.6	80.7
Tax-supported debt (outstanding at year-end)	1,413	1,479	1,409	1,383	1,467	1,538
Tax-supported debt (% of consolidated operating revenue)	84.3	88.6	84.3	80.0	82.1	81.9
Interest (% of operating revenue)	3.5	3.9	4.0	4.1	4.2	4.1
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	46,328.7	43,258.3	51,987.9	54,003.3	54,648.0	56,475.0

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	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. 10, 2022. 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

- Sector And Industry Variables: Sovereign Rating Methodology, Sept. 28, 2022
- Economic Outlook Canada Q4 2022: Canadian Growth To Slow On Higher Interest Rates And U.S. Weakness, Sept. 26, 2022
- Institutional Framework Assessments For International Local And Regional Governments, Sept. 13, 2022
- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021

Ratings Detail (as of November 21, 2022)*

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.