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CREDIT OPINION
26 October 2023

Update

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RATINGS

Winnipeg, City of

Domicile	Winnipeg, Manitoba, Canada
Long Term Rating	Aa2
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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City of Winnipeg (Canada)

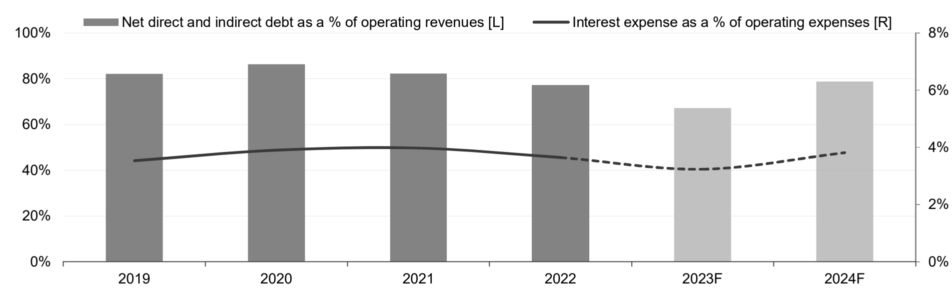
Update to following rating affirmation

Summary

The credit profile of the City of Winnipeg (Aa2 stable) reflects a stable institutional framework which provides the city with significant flexibility to address fiscal challenges. A well-diversified economy provides a reliable tax base for own-source revenues and cushions against economic volatility. The city maintains solid levels of long-term liquidity, although short-term liquidity has weakened following the recent depletion of the Financial Stabilization Reserve to address operating shortfalls, which will require several years to replenish. Operating challenges mainly result from inflationary pressures on expenses and a slower than projected recovery in transit ridership. High levels of capital expenses will result in the debt burden increasing to approximately 80% over the next two years as debt will be used to finance capital spending, following declining debt levels between 2021 and 2023.

Exhibit 1

A rising debt burden is driven by a growing capital plan but is supported by strong debt affordability



Sources: City of Winnipeg and Moody's Investors Service

Credit strengths

» Sector diversity and a rising population support economic growth

» Sound governance and management and mature institutional framework

» High levels of long-term liquidity and strong debt affordability

Credit challenges

» Inflation, social and weather-related costs and slower than projected transit recovery pressure operations

» Increasing capital spending and rising debt levels

Rating outlook

The stable outlook reflects the city's capacity to preserve its fiscal performance over the next 18-24 months thanks to largely predictable sources of income, along with strong economic performance that benefits from industry diversity and high levels of immigration. These will help the city balance the risks of high levels of infrastructure and social spending needs.

Factors that could lead to an upgrade

Upward rating pressure would result from a meaningful improvement in the city's debt burden along with rising liquidity levels and liquidity coverage ratios.

Factors that could lead to a downgrade

Downward rating pressure would result from sustained lower level of gross operating balances or a rise in net direct and indirect debt above 100% of revenues.

Key indicators

Exhibit 2

City of Winnipeg

(Year Ending 12/31)	2019	2020	2021	2022	2023F	2024F
Net Direct and Indirect Debt/Operating Revenue (%)	82.1	86.4	82.4	77.1	67.2	78.8
Gross Operating Balance/Operating Revenue (%)	14.0	13.3	12.1	8.9	9.6	8.6
Cash Financing Surplus (Requirement)/Total Revenue (%)	(6.4)	1.8	9.7	(1.6)	(3.2)	(1.9)
Interest Payments/Operating Revenue (%)	3.5	3.9	4.0	3.6	3.2	3.8
Debt Service/Total Revenue (%)	3.0	3.5	5.8	3.3	5.0	5.9
Capital Spending/Total Expenditures (%)	47.2	22.2	20.5	21.6	27.1	28.4
Self-financing Ratio	0.8	1.1	1.5	0.9	0.9	0.9

Sources: City of Winnipeg and Moody's Investors Service

Detailed credit considerations

On October 19, we affirmed Winnipeg's Aa2 senior unsecured debt ratings and aa2 baseline credit assessment (BCA), and maintained the stable outlook.

The credit profile of Winnipeg, as expressed in its Aa2 stable rating, combines a BCA for the city of aa2 and a high likelihood of extraordinary support from the Province of Manitoba in the event that the city faced acute liquidity stress.

Baseline credit assessment

Sector diversity and a rising population support economic growth

As the province's capital and largest city, Winnipeg has an advantage over other municipalities in the province for job opportunities and attracting skilled workers. The city's economy is more diverse than many Canadian municipal peers with a large number of industries between 5% and 15% of GDP which minimizes the likelihood that the city will face material economic cyclical pressures. Winnipeg is a major service center and is home to several key health and higher education institutions. It also has a broad manufacturing base which provides significant employment opportunities. The diversity of its economy continues to provide Winnipeg with access to a broad and stable tax base which translates into predictable property tax revenues that remain largely independent of economic cycles.

The city's population has grown modestly over the last decade, reaching 783,096 in 2022. The city projects that the population will grow significantly faster over the next 25 years, increasing by an aggregate 230,000 residents. The main source of population growth is international immigration which supports an expanding tax base and provides a source of employment. At the same time, overall affordability in Winnipeg is stronger than in many Canadian municipal peers given lower real estate prices and rental rates.

Sound governance and management and mature institutional framework

Winnipeg uses long-term capital and operating planning including 4-year budgets to identify and manage anticipated pressures. The city retains significant policy flexibility to make intra-year adjustments to its budget to account for unanticipated fiscal developments. The city's governance and management structure remains strong and includes prudent financial policies for both debt and cash management. Conservative asset management policies are intended to ensure that cash and short-term investments remain accessible and liquid, although the recent depletion of the city's Financial Stabilization Reserve has now necessitated a 5-year strategy to replenish the reserve balance.

The institutional framework governing municipalities in Manitoba is mature and highly developed. The division of roles and responsibilities between the Province of Manitoba and the City of Winnipeg is clearly articulated. Historically, changes to the institutional framework have occurred at a measured, evolutionary pace, following discussions between both parties.

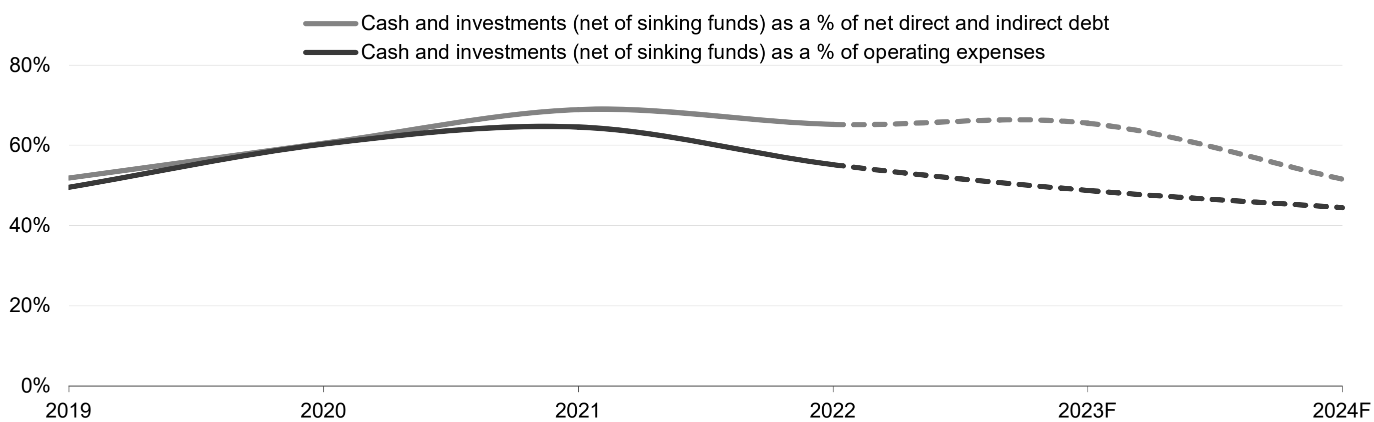
High levels of long-term liquidity and strong debt affordability

Recent strong operating results contributed to rising liquidity levels above the long-term historical average. Cash and investment balances, which totalled CAD886 million in 2022, include significant reserves and support ongoing operations and capital projects. Cash and investments covered 65.2% of net direct and indirect debt and 46.7% of expenses in 2022. Over the next three years, we expect that these balances will normalize at moderately lower long-term levels of around 45-50% of net direct and indirect debt and 40-45% of expenses as debt and expense levels rise and as the city will draw down its liquidity to fund expenses. Rebuilding the Financial Stabilization Reserve (a short-term operating fund used to cover deficits which has recently been depleted mainly to cover snow-clearing costs) will also improve short-term liquidity.

The city maintains growing sinking fund levels, which we project to be around CAD170 million at year-end 2023, or around 17% of sinking fund debentures. The city also benefits from strong access to both capital markets and bank lending, which allows it to refinance maturing bonds and issue new bonds at favourable yields. The investor base is diverse both domestically and internationally.

Exhibit 3

Liquidity coverage ratios will stabilize at lower long-term levels



Sources: City of Winnipeg and Moody's Investors Service

Winnipeg maintains strong debt affordability despite carrying a higher debt burden than many municipal peers. The city maintains internal debt limits to curb the rise of debt, including maintaining net debt at below 90% of revenue, and debt servicing at below 11% of revenue. Interest expense has declined to an estimated 3.2% in 2023 from 4.0% in 2021 as the city has not issued debt over the last three years which has improved debt affordability and allowed it to avoid higher borrowing costs despite rising interest rates. While we expect that the interest burden will reach 4% by 2025 as the city will issue sizeable debt to finance its capital plan, these levels remain strong and consistent with similarly rated peers.

Inflation, social and weather-related costs and slower than projected transit recovery pressure operations

The city faces pressures from expense growth related to a combination of inflationary operating and capital expense pressures and slower than previously projected transit recovery in ridership. The current high level of inflation, which we expect will remain above historical trend levels in 2023 and part of 2024, will keep operating expense elevated, including salaries and materials costs. At the same time, transit revenues and ridership levels continue to lag pre-pandemic levels, with ridership at roughly 75% of 2019 levels as of Q3 2023, although transit usage has been generally improving as more people return to office work or switch from cars to using transit.

These challenges are compounded by recurring weather related costs, especially related to snow clearing, as well as costs needed to address social pressures including crime and addiction. Expense pressures have resulted in a gradual decline in gross operating surpluses over the last 5 years to 8.9% in 2022 from 16.2% in 2018. We expect that gross operating surpluses will remain below 10% over the next two years.

These pressures are mitigated by stable own-source revenue streams which account for approximately 83% (2022) of its total revenues. The majority of own-source revenue comes from property tax and user fees, derived from a broad and consistent tax base, which are largely independent of economic cycles. The city has also been able to mitigate some of the fiscal pressures through a combination of efficiency savings (including hiring freeze for public sector employees and a salary freeze for senior management) Further, during the pandemic years, the city benefitted from significant federal and provincial funding support.

Increasing capital spending and rising debt levels

The need to maintain the city's capital infrastructure in good condition, along with rising population levels, will require continued increases in capital spending, with the city's rolling 6-year CAD3.1 billion capital plan exceeding the size of recent plans. In addition, the city is responsible for cost increases of some of the larger capital plans, including the renewal of the North End Sewage Treatment Plant which now has a revised cost estimate of CAD2.3 billion. Higher capital costs will increase capital expenses if additional provincial or federal funding is not received.

Under the capital plan, the city plans to issue approximately CAD332 million in new debt in 2024 and an aggregate CAD1 billion between 2025 and 2031 to support its capital infrastructure needs, including transit and solid waste disposal and sewage. As a result, we expect that following a period of no debt issuance between 2021 and 2023, net debt will rise to approximately 80% of revenue by 2025 from 67% projected for 2023, in line with pre-pandemic levels.

Extraordinary support considerations

Moody's assigns a high likelihood of extraordinary support from the Province of Manitoba, reflecting Moody's assessment of the incentive provided by the risk to the province's reputation as the regulator of municipalities and incentive for the provincial government to minimize the risk of potential disruptions to capital markets if Winnipeg, or any other city, were to default.

ESG considerations

Winnipeg's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4
ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Winnipeg's **CIS-2** ESG Credit Impact Score reflects low exposure to environmental and social risks and a positive governance profile.

Exhibit 5
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	S-2	G-1
Neutral-to-Low	**Neutral-to-Low**	**Positive**

Source: Moody's Investors Service

Environmental

The **E-2** issuer profile score (IPS) reflects the city's susceptibility to floods and severe weather, including heavy snow falls, which have resulted in mitigation expenses. However the city manages these risks through its budgeting process and allocations from reserves.

Social

Winnipeg's **S-2** IPS reflects the city's need to provide public emergency services including police and paramedic, however predictable demographic trends allow for long-term forecasting of service requirements. Social challenges from a recent rise in crime exert some spending pressure on the city to address challenges, although provincial and federal support offsets some of the cost pressures.

Governance

The **G-1** IPS reflects the city's prudent financing planning including multi-year budget forecasts. This provides the city the ability to identify potential pressures and allows for sufficient time to adjust plans accordingly to mitigate any credit implications. Financial reports are transparent and timely with adherence to strict policies on debt and investment management.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of aa2 is close to the scorecard-indicated outcome of aa1. The scorecard-indicated outcome reflects (i) an idiosyncratic risk score of 2 (presented below) on a 1 to 9 scale, where 1 represents the strongest relative credit quality and 9 the weakest; and (ii) a systemic risk score of Aaa, as reflected in the sovereign bond rating for the Government of Canada (Aaa stable).

For details of our rating approach, please refer to Rating Methodology: Regional and Local Governments, 16 January 2018

Exhibit 6

City of Winnipeg

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				**5.20**	**20%**	**1.04**
Economic Strength [1]	7	87.94%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				**1**	**20%**	**0.20**
Legislative Background	1		50%			
Financial Flexibility	1		50%			
Factor 3: Financial Position				**2.50**	**30%**	**0.75**
Operating Margin [2]	1	10.41%	12.5%			
Interest Burden [3]	5	3.77%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	5	77.11%	25%			
Debt Structure [5]	1	3.99%	25%			
Factor 4: Governance and Management				**1**	**30%**	**0.30**
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						**2.29 (2)**
Systemic Risk Assessment						**Aaa**
Suggested BCA						**aa1**
Assigned BCA						**aa2**

[1] Local GDP per capita as % of national GDP per capita
[2] Gross operating balance by function/operating revenues
[3] (Adjusted) interest expenses/operating revenues
[4] Net direct and indirect debt/operating revenues
[5] Short-term direct debt/total direct debt
Source: Moody's Investors Service; Fiscal 2022.

Ratings

Exhibit 7

Category	Moody's Rating
WINNIPEG, CITY OF	
Outlook	Stable
Baseline Credit Assessment	aa2
Senior Unsecured -Dom Curr	Aa2

Source: Moody's Investors Service

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