S&P Global Ratings

RatingsDirect®

Research Update:

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

November 17, 2020

Overview

- We expect that the COVID-19 pandemic will temporarily slow the City of Winnipeg's economic growth and stress fiscal performance as the city continues to address its capital plan.
- However, the city's well-diversified economy and robust levels of reserves and liquid assets will help it weather current pressures and preserve its credit metrics over the medium term.
- We are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings on Winnipeg and maintaining the stable outlook.

PRIMARY CREDIT ANALYST

Nineta Zetea

Toronto

+ 1 (416) 507 2508

nineta.zetea
@spglobal.com

SECONDARY CONTACT

Hector Cedano, CFA

Toronto

+ 1 (416) 507 2536

hector.cedano
@spglobal.com

RESEARCH CONTRIBUTOR

Ekta Bhayani

CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Rating Action

On Nov. 17, 2020, 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's economic growth will gradually 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 82% of operating revenues in 2022.

Downside scenario

We could lower the ratings if the effects of the pandemic are more severe and prolonged than currently expected, 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 the city'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

Although unlikely in the next two years, we could raise the ratings if the city's after-capital spending balances were positive on a sustained basis in conjunction with a lower and declining debt burden.

Rationale

We believe that Winnipeg's cost-containment efforts and emergency government support will limit the net impact of the COVID-19 pandemic on the city's budgetary performance. The city remains committed to maintaining and improving city assets, especially roads. This will lead to sustained capital spending and after-capital deficits that will prompt Winnipeg to continue issuing debt, as planned, in the next two years. We expect the city's diversified economy will facilitate the path to recovery in the next two years. In addition, Winnipeg's prudent financial management and robust liquidity will help to sustain the city's creditworthiness in the longer term.

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

Winnipeg faces one of the gravest situations in Canada as the second wave of the COVID-19 pandemic puts significant pressure on the health care system and local businesses. We believe Winnipeg's economy will significantly contract in 2020, in line with our national forecast, because of the measures implemented to control the spread of the coronavirus. However, we expect it will gradually recover over the next two years as pandemic-related restrictions ease. We estimate that Winnipeg's average GDP per capita is in line with that of Canada, above US$42,000, based on its broad economy and rising population. Winnipeg is a growing 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 of the preeminent provincial institutions, such as Manitoba Hydro-Electric Board, provincial ministries, specialized hospitals, universities, and colleges. Its population has grown steadily since 1999 and reached 763,900 in 2019. 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 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 fiscal 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 despite a large infrastructure deficit and list of unfunded capital projects, which can 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 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 accumulated net shortfall, inclusive of the financial implications of the pandemic and related offsetting actions will total C$30.3 million in 2020. This is primarily the result of the loss of some revenue sources, notably transit, which have declined 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 federal and provincial emergency funding will offset 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 2018-2022, operating balances will average about 14% of operating revenues and the after-capital deficit will be close to 3% on average. The city continues to work toward decreasing 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 over the next two-three years on capital projects. Approved projects over the next few years will focus predominantly on roads and, to a lesser degree, utilities. Large unfunded projects include rapid transit corridors and the north end sewage treatment plant upgrades.

City policymakers are committed to limiting tax increases to 2.33% annually, entirely dedicated to infrastructure; and will fund planned after-capital deficits with debt. Winnipeg issued C$305 million in debt in 2019 and 2020 and plans to issue an additional C$200 million in 2021 and 2022 to fund road work and rapid transit. As a result, we expect tax-supported debt will remain relatively stable at 82% of operating revenues at year-end 2022. Interest costs will remain manageable and average 3.7% of operating revenues from 2019-2021. Given the temporary fiscal pressures the city experiences, we are no longer applying the positive adjustment for high operating balance.

Winnipeg has robust liquidity, in our opinion. We estimate that it will maintain free cash and liquid investments equal to about 6x our estimated debt service requirements over the next 12 months. 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.

Key Statistics

Table 1

City of Winnipeg -- Selected Indicators

	--Year ended Dec. 31--					
(Mil. C$)	**2017**	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**
Operating revenues	1,569	1,633	1,683	1,674	1,729	1,779
Operating expenditures	1,337	1,362	1,437	1,476	1,503	1,537
Operating balance	232	271	246	198	227	242

Table 1

City of Winnipeg -- Selected Indicators (cont.)

	--Year ended Dec. 31--					
(Mil. C$)	**2017**	**2018**	**2019**	**2020bc**	**2021bc**	**2022bc**
Operating balance (% of operating revenues)	14.8	16.6	14.6	11.8	13.1	13.6
Capital revenues	265	281	457	225	250	250
Capital expenditures	476	614	873	450	500	500
Balance after capital accounts	21	(61)	(170)	(27)	(23)	(8)
Balance after capital accounts (% of total revenues)	1.1	(3.2)	(7.9)	(1.4)	(1.2)	(0.4)
Debt repaid	35	5	0	55	62	46
Gross borrowings	0	0	215	85	100	100
Balance after borrowings	(14)	(66)	45	3	15	46
Direct debt (outstanding at year-end)	1,043	1,054	1,373	1,505	1,485	1,464
Direct debt (% of operating revenues)	66.5	64.5	81.5	89.9	85.9	82.3
Tax-supported debt (outstanding at year-end)	1,081	1,088	1,405	1,505	1,485	1,464
Tax-supported debt (% of consolidated operating revenues)	68.9	66.6	83.5	89.9	85.9	82.3
Interest (% of operating revenues)	3.4	3.2	3.5	3.7	3.8	3.9
National GDP per capita (single units)	58,591	60,011	61,291	57,698	61,644	63,541

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. dc--Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. uc—Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

City of Winnipeg -- 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

Table 2

City of Winnipeg -- Ratings Score Snapshot (cont.)

Key rating factors	Scores
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. 12, 2020. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- 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

- Credit Conditions North America: Potholes On The Road To Recovery, Sept. 29, 2020
- S&P Global Ratings Definitions, Aug. 7, 2020
- Public Finance System: Canadian Municipalities, May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019

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/--
Winnipeg (City of)	
Senior Unsecured	AA