

**Municipality of
Aksakovo**

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	Initial Rating 04.02.2015
Credit Rating of Municipality of Aksakovo	
Long-term Rating:	BB+
Outlook:	stable
Short-term Rating:	B
National-scale long-term rating:	A- (BG)
Outlook:	stable
National-scale short-term rating:	A-1 (BG)

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BCRA - Credit Rating Agency (BCRA) assigns the following ratings to Municipality of Aksakovo:

- **Long-term credit rating BB+, outlook: stable, short-term credit rating B;**
- **National-scale long-term A-, outlook: stable, national-scale short-term rating A-1.**

BCRA uses the officially adopted methodology for assigning a credit rating to municipalities (http://www.bcra-bg.com/files/file_105.pdf).

In order to elaborate the credit report and to assign the credit rating, BCRA uses information, provided by the rated municipality, Ministry of Finance, NSI, National Employment Agency, its database, consultants and other sources of public information.

During the period under observation (2009-06.2014), the economy of Bulgaria was under the influence of the effects of the crisis, and the economic activity was still weak. During the last year, slow and hesitating recovery was observed, which depends strongly on the export (mainly on

the paces of recovery of the economy of the EU), as well increasing unemployment, low domestic consumption and investment activity.

During the last years there was a variety of changes in the legal framework, related to the activity of the municipalities, as among the most material changes is the adoption of the Public Finance Act (promulgated on 15.02.2013). The new act regulates the budgetary framework, the general pattern and structure of public finance, defining the scope, structure and main indicators of the consolidated fiscal schedule, fiscal rights, fiscal rules and restrictions, regime of the accounts for funds from the European Union, reporting of the budget organizations, etc. The act entered into effect at the beginning of 2014 and abolished the State Budget Law and Municipal Budget Act.

The economic crisis has an effect on the municipal budgets in both income and expense part as during last 1-2 years a slight improvement was reported. The total income of the municipalities in Bulgaria has a downtrend to 2012 (a 13.5% decline for the period 2009-2012), then growth of 11.4% was reported in 2013. The own income reported a positive change in 2011 (growth of 9.5% compared to the previous year). It is partially due to the taken measures of municipal management to raise the collection. To a great extent, the crisis affects the revenue from the sale of property, which for the period 2009-2012 shrank cumulatively by 32.1% and during 2013 reported growth of 21.0%.

	<p>CREDIT RATING Municipality of Aksakovo Credit rating*: BB+/B (outlook: stable) National-scale rating*: A-/A-1 (outlook: stable) 04.02.2015</p>
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**Long-term / short-term*

The current expenses for local activities and supplementary financing of government activities also has a downtrend to 2012 (a cumulative decline of 19.3% for 2009-2012), then increased by 5.6% in 2013. The decline of the capital expense continued to 2012 (cumulatively for 2009-2012 56.5%), then in 2013 growth of 15.1% was observed.

Municipality of Aksakovo is located in Northeast Bulgaria on the territory of Varna district. Its area is 461 sq. m. and occupies 12.4% of the territory of Varna district, 8% of the territory of the Black sea coast and 0.42% of the territory of the country. The municipality has a sea outlet – a strip of land of 4 km long. "Hemus" highway passes through the territory of the Municipality. The sea ports „Varna – Zapad“, „Varna – Iztok“ are closely located, as well as the international airport Varna and a ferryboat complex.

During the previous two years the population of municipality reported a decline but in 2013 the population reported growth of 0.7%, compared to a negative change of the population in Bulgaria (-0.5%). The density of the population in the municipality is lower compared to the average in the country, and during the last three years its level hasn't changed. The share of the working-age population in Aksakovo is lower compared to the average for Bulgaria at the expense of higher share of population under working age.

The production of the municipality increased during the last years, as for 2013 the growth is 13.8%. The investments in fixed tangible assets of the companies has similar dynamics. In 2013, they increased by 15.3%. The leading sector is the manufacturing by these two indicators.

During last two years, Municipality of Aksakovo reported a positive operating result, as for 2013 the result is by 77.8% higher than the reported in the previous year. In contrast to 2012, in 2013, the result from investment activity was negative and it is covered entirely by the operating surplus.

The income for local activities of the municipality in 2013 reported a considerable decline (33.1%), which is, however, in line of the subsidiaries and transfers, whilst the own income increased by 16.9% year on year. It also leads to growth of their share in the income for local activities, which reached to 81.4% - the highest level since 2009 up to present. The tax income increased by 21.1% in 2013 compared to the previous year in line of the

three main items, as the highest increase was reported by the property acquisition tax (42.3%), which has the largest weight on the tax income (43.9%).

Non-tax incomes are dominated by the taxes with a share of 79.6% in 2013 (82.0% in 2012), which reported growth of 13.9%. The receivables from waste tax have the largest weight (31.9%), which increased by 7.5%.

During 2013, the subsidies and transfers reported a considerable decline of 76.6% mainly in line of the transfers between budgetary accounts (a 79.8% decline). On this item the municipality registered transfers for construction of regional waste depot, and in 2012 the largest value on this is reported for the years from 2008 up to now (nearly 4 mln. leva).

After the decline in 2012 (7.5%), in 2013 the current expenses of Municipality of Aksakovo increased year on year (4.6%) in line of all main categories of expenses. During 2008-2009 Municipality of Aksakovo made expenses in the amount of 3.0-3.2 mln. leva for investments year on year, then for next two years with the development of the economic crisis their size shrank to 1.0-1.4 mln. leva year on year. During 2012, the capital expenses reached nearly 4 mln. leva. This increase is related to the construction of regional waste depot. In 2013, the capital expenses were in the amount of BGN 1 055 thousand, which is an annual decline of 73.3%. For first six months of 2014 the municipality made expenses in the amount of BGN 243 thousand, which is comparable to the same period of the previous year (231 thousand leva).

Municipality Aksakovo did not report overdue liabilities as of 06.2014, which is a positive factor.

The structure of the expenses on functions for last five years is dominated by the utility expenses. Their share was the highest in 2012 (65.2%), and the lowest was in 2010 (34.8%).

The main change in the structure of the expenses in 2013 compared to the previous year is related to cutting expenses for utility (in line of the capital ones), which decreased by 60.6% compared to 2012.

The current utility expenses in 2013 decreased for second consecutive year, but remain dominated with a share of 42.3%. As in the previous years, most expenses are made for cleanness (44.0%),

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as the resources increased by 13.9%. Waste management expenses are after in significance (16.8%, growth of 4.6%) and expenses for maintenance of street network (16.1%, a decline of 56.3%).

The decrease of the capital expenses for utility in 2013 was 90.7% on a yearly basis, and is the main reason for the changes in the overall expense structure from point of view of the distribution by functions. The largest decline is reported compared to high basis: in 2012, the municipality realized considerable capital expenses in regard with the construction of the regional waste depot (2 827 хил.лв.). The level of the capital expenses of 302 thousand leva is the lowest which is reported since 2008 up to present.

The decline in the expenses for construction of the waste depot is related to delay of the project in line of the problems with acquisition procedures of properties. The depot's ground is closely located to the old dung-hill in village of Vaglen and will be used by the municipalities Varna and Beloslav. At the beginning of October 2013 a decision was taken to close up the old depot due to potential sources of groundwater contamination. At the end of the same month the actual activities started at the site, and the implementation shall be completed at the end of October 2015. Other important projects in the process of implementation are:

- „City infrastructure improvement of water and waste waters in Aksakovo" on OP „Environment" in the value of BGN 13 483 thousand (with a starting date August 2012);

- „Water supply network improvement in village of Kichevo, Municipality of Aksakovo" in the value of 1 351 thousand leva on Rural Development Programme.

The analysis made by BCRA compares the main financial indicators of Municipality of Aksakovo (calculated per capita of the population) with the average in the country, as well as with the values of a group of municipalities with similar amount of population. The data manifests that Municipality of Aksakovo has a favourable position by the reviewed indicators in a comparative aspect.

The Mayor of Municipality of Aksakovo is Mr. Atanas Stoilov throughout the analyzed period. He has been on this position since 1999. During the first round of the local elections he won his fourth mandate in October 2011 by 72.4% of the votes.

Since November 2013 another deputy mayor was included in the management structure, in total, the deputy mayors are three. The new deputy mayor Romyana Radilova is in charge of Ecology. „At one desk" service for individuals is established, as the management's goal is to increase the share of the services which could be obtained online. In 2013, immovable properties tax reached collection over 100%, and waste tax – 61%.

BCRA makes the municipality's financial forecast for the period 2014-2016. The results reveal that in case of similar development with the forecast Municipality of Aksakovo shall realize a positive operating result, as well as a positive free cash flow through the entire forecast period.

Main financial indicators in leva

	(thousand)	June 14	2013	2012
Incomes for local activities incl.		2 671 666	6 203 580	9 268 000
Own incomes		1 992 811	5 047 112	4 316 306
- tax income		879 415	1 703 172	1 405 881
- non-tax income		1 113 396	3 343 940	2 910 425
Subsidiaries and transfers for local activities		678 855	1 156 468	4 951 694
Capital expenses		243 324	1 055 030	3 951 319
Operating result		392 438	1 468 883	825 990
Operating result before interests		401 363	1 468 883	825 990
Result from investment activity		38 876	-332 177	646 685
Deficit/surplus for local activities		431 314	1 136 706	1 472 675