

Municipality of Burgas
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Credit Rating of Municipality of Burgas	Initial Rating	Update	Update	Review
Date of Rating Committee:	17.04.2015	04.05.2016	03.05.2017	25.04.2018
Date of Publication:	24.04.2015	06.05.2016	05.05.2017	27.04.2018
Long-term Credit Rating:	BBB-	BBB-	BBB-	BBB-
Outlook:	Stable	Stable	Stable	Positive
Short-term Credit Rating:	A-3	A-3	A-3	A-3
Long-term National-scale Rating:	AAA (BG)	AAA (BG)	AA- (BG)	AA- (BG)
Outlook:	Stable	Stable	Stable	Stable
Short-term National-scale Rating:	A-1+ (BG)	A-1+ (BG)	A-1+ (BG)	A-1+ (BG)

BCRA - Credit Rating Agency (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

„BCRA – Credit Rating Agency” (BCRA) assigns the following ratings to Municipality of Burgas:

- **Long-term Credit Rating BBB-, outlook: positive, Short-term Credit Rating A-3;**
- **Long-term National-scale Rating AA-(BG), outlook: stable, Short-term National-scale Rating A-1+ (BG).**

The officially adopted by BCRA methodology for assigning a credit rating to municipalities is applied: http://www.bcra-bg.com/files/file_319.pdf

To elaborate the credit report and to assign the credit rating, BCRA uses information, provided by the rated municipality, Ministry of Finance, National Statistical Institute, National Employment Agency, its own database, consultants and other sources of public information

In 2017, the Bulgarian economy marks a real growth of 3.6% (3.9% in 2016), major drivers being the domestic consumption and the export of goods and services. The balance on current account as of the end of 2017 reports surplus at the amount of EUR 2 504 million (3.9% of GDP).

In 2017, the FDI in Bulgaria decreases by EUR 129.5 million, compared to the previous year and amount at EUR 950 million or 1.9% of the GDP. Over half of investment flows (56.5%) are registered in the form of debt instruments. The equity investments report a drop of 70.5% on an annual basis.

As of the end of 2017, the country's gross external debt amounts to EUR 32,350 million (63.5% of GDP). Debt amount registers a nominal decline of 4.4% compared to the end of the previous year mainly due to a significant decrease in the government's external debt as a result of the repayment of Eurobonds maturing in July. The share of long-term external debt in total external debt is 76.9% (78.2% at the end of 2016).

The data for the labour market in 2017 reports record-high indicators for the economic activity and employment rates. Ascending remains the labour income trend. Unemployment ratio also comes close to its pre-crisis levels (5.7 % for the last quarter of 2017).

In the period 2014-2016, the price level in Bulgaria (measured by the annual average HICP) is characterised by constant deflation processes. Since mid-2017, the deflation is overcome and the annual average price reaches 1.2% at the end of the year. The main contribution for the increase in prices have the food and commodity products on international markets.

Regarding the banking system, the events since 2014 contribute to the emergence of a potential danger to banking institutions from deepening the banking crisis and affecting a larger number of actors in the sector. Despite the increased risk in the financial system, marked by the fall of one of the main participants and the danger of fall of the second one, the banks in Bulgaria retain their stability. The announced results on August 13, 2016, from the held Asset Quality Review (AQR) and Stress Tests (ST), show that the banking sector is stable, well capitalized and support with public resources is not necessary.

The amount of own revenues of municipalities in Bulgaria, increases for a sixth consecutive year, as for the period the cumulative growth is at 40.2%, while for the last year is 9.5%, compared to 4.0% for the previous year. The ascending trend retains the income from local taxes and fees, with trends of 15.7% and 5.4% and exceed the reported rates from the previous year of 5.2% and 2.2%, respectively. The income from property management also increases by 4.6%, compared to 6.8% in 2015.

After two consecutive years of considerable growth of 21.0% in 2013 and 20.8% in 2014, in 2015 is observed a decline of 2.0% in the income from the property sale, while in 2016 the decrease is 19.4%. This is not a negative factor in the view of the one-off nature of the revenue source.

Following a growth of 15.3% in 2014, in the next year, the values of expenses for local activities and government funding remains almost unchanged (growth below 1%). With a major share in their structure are the maintenance costs at a rate of 47.6%, which record an increase of 4.8% on an annual basis. In 2016, the expenses for local activities and government funding decline by 9.3%.

After two consecutive years of shrinking municipal overdue liabilities, in 2015, again, their growth is observed (19.2% on an annual basis) and they

amount at BGN 189.9 million. (BGN 159.3 million at the end of 2014). As of the end of 2016, overdue liabilities slightly decrease to BGN 184.4 million.

As of the end of 2017, the overdue liabilities under the municipal budgets amount to BGN 146.1 million and 143 municipalities or 53% of a total number of municipalities form them. Above 46% or 122 municipalities of the total end the fourth quarter of 2017 without overdue liabilities. The decrease in overdue liabilities reports 34% or 89 municipalities, the total decrease of overdue liabilities is BGN 51.2 million compared to the end of 2016. For the same period, 24% of municipalities or 78 municipalities increase their overdue liabilities within one year in total by BGN 12.9 million.

In 2016, the population in the municipality of Burgas declines, but significantly lower than the average in the country for the period. The density retains significantly higher. During the period, there is an increase in the share of the working-age population both in Burgas and on average in the country. Burgas Municipality, however, is characterized by a higher level of the indicator. Another positive factor is the higher share of the population in under-working age. As of February 2018, the unemployment rate in the municipality of Burgas is 3.7%, which is the lowest level in the region.

In 2016, the output of the companies, registered in Burgas Municipality, decreases for a second consecutive year, with an annual decline of 7.1%, while the cumulative one for last two years is at 21.6%. The decline is due to the leading sector – manufacturing industry with a share of 67.1%, where the decrease is 6.1%.

After the record high value of investments in Fixed Tangible Assets achieved in 2013, in the coming years, the value of the indicator declines in each year, with a decrease of 29.8% in the last 2016 and cumulative from 2013 to 2016 the decrease is 62.7%. A decline is observed in most sectors, with a major contribution of the mining and quarrying industry (39.0%, BGN 143 386 thousand). The structure of investments remains strongly dominated by the manufacturing sector with a share of 42.1%, followed by the commercial sector

	CREDIT RATING Municipality of Burgas Long-term/ Short-term Rating: BBB- / A-3 Outlook: Positive National-scale Rating: AA- (BG) / A-1+ (BG) Outlook: Stable April 2018
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with a share of 20.3% and the transport sector with a share of 10.3%.

In 2017, the Municipality of Burgas reports a positive operating result of BGN 15,507 thousand, which represents 17.4% of the own revenues for the period. This is the biggest surplus achieved by the municipality over the past ten years. The result of investment activity is also positive, amounting to BGN 833 thousand. As a result, the municipality also achieved a total surplus and a net cash flow of BGN 16 340 thousand.

The revenues for local activities of the Municipality of Burgas register an insignificant decrease in 2017 (less than 1%) entirely under subsidies and transfers, while own revenues grew by 11.9%.

The increase in tax revenues exceeds the one from own revenues, amounting at 14.4%. Their structure is dominated by the property tax with a share of 34.8%, which grows by 6.0%. The most significant increase in relative aspect is in the property tax - 33.8%, which is a positive factor, as far as it remarks an increased economic activity. For the third most important tax on vehicles - the realised growth is 5.2%.

The increase in non-tax revenues is 10.0%, while the leading item is the 54.5% share of non-tax revenue (excluding VAT and other taxes). On another hand leading in the fee structure is the domestic waste fee with a share of 66.4%, registering growth of 9.8%.

The revenues from the sale of municipal property in 2017 amount to BGN 7 788 thousand, which is its highest level since 2008 and represents a growth of 73.1% on an annual basis. A large amount of this revenue source is not necessarily assessed due to its volatile nature.

In 2017, the current expenditures for local activities and financing of the Municipality of Burgas report a decrease of 3.0%, mainly due to the main item - maintenance, which decreased by 4.8%. Salary and insurance costs retain their upward trend with growth of 9.8% in the previous year. The interest expenses decrease by 17.4% (the municipality has no new credits during the update period). The capital expenditures with budget funds are characterized by a significant decline in 2017 at a rate of 45.4%. The cost of acquiring tangible fixed assets is of highest weight at 91.6%.

The Municipality of Burgas continues to have no overdue liabilities as of both the end of 2017 and two months later, which is assessed as a positive factor.

Regarding the expenditures structure by functions, it should be noted that in 2017 the public utility expenditures remain leading, although their share declined for the second consecutive year to 40.6%. Next in importance are the costs for recreation and culture, which weight increases by 5.2 p.p. to 18.2%. Growth is also observed in the third group of expenses – general state services, which increased by 1.5 p.p. up to 15.1%.

In connection to the current public utility expenditures by function in 2017, they are characterised with a decline of 9.0% compared to the previous year. Leading is the cleaning expenses amounting to BGN 15 135 thousand, a share of 48.9%, which have a slight decline in 2016, while in 2017 they grow by 6.8%. Next are the costs for construction, repair and maintenance of the street network with a share of 23.7%, which however report a decrease of 13.6%. The waste management expenses have a weight of 10.8%, which also report a decline of 18.4%. The current planting costs (25.9%), which account for 7.6% of the total current expenses, also decrease. The capital expenditures by the function are at the amount of BGN 4 556 thousand, which level is the lowest since 2014. The annual decline is significant and amounts to 60.8%. Most funds are invested in water supply and sewerage, followed by investments in waste management with a share of 10.8%.

Regarding the expenditures for culture, most of the funds are invested in Sports Complex “Slaveikov”, whereas BGN 813 thousand are own resources, BGN 1 000 thousand are capital subsidy and the rest are provided by EMEPA. The complex has an athletics area, basketball and volleyball playgrounds, three tennis courts, two football playgrounds with artificial turf, wrestling hall, children's and playgrounds, and a 12-meter climbing wall and a small skate park.

The overall capital program of Burgas Municipality for 2017 amounts to BGN 54,158 thousand (annual growth of 14.0%), of which BGN 2 468 thousand (4.6%) financed by the capital subsidy, BGN 615 thousand of the transitional balance

(1.1%), BGN 3,630 thousand. (6.7%) by own funds, BGN 12,332 thousand. (22.8%) by the EMEPA, and BGN 35 113 thousand (64.8%) under international programs.

The position of Burgas Municipality for 2016 is examined in a comparative plan on a set of indicators, calculated per capita. A comparison is made with the average for the country, the average for a group of municipalities that are regional centres, and with Varna as a municipality with a similar profile. According to the analysis, Burgas occupies a significantly better position compared to the two groups of municipalities, as well as Varna, except for the per capita income, where Varna performs better in a comparative aspect.

During the period of updating mayor of the Municipality of Burgas is Dimitar Nikolov (PP GERB), elected in the local elections in the autumn of 2015, and this is his third mandate. In its activities, five deputy mayors assist the mayor, where there were no personnel changes during the period.

The reported collection for 2017 by main income sources is at good levels, as follow: property tax is 80.8%, the domestic waste fee is 78.1% and motor vehicle tax is 74.5%.

BCRA prepares the financial forecast for the period 2018-2020. The received results show that in development similar to the forecast, Municipality of Burgas will achieve a positive operating result for the three years. The free-cash-flow is negative in the first year but is covered entirely by the funds on accounts.

As far as the rating of the Municipality of Burgas is limited by the rating of Bulgaria, favourable influence on it could have a possible rise in sovereign rating.

Negative impact on the rating might cause the accumulated overdue liabilities, the formation of the negative operating result and unfavourable position in a comparative aspect.

Main Financial Indicators:

	(BGN)	2017	2016	2015
Income for local activities, incl.		103 936 623	104 946 817	65 425 065
Own revenues:		89 002 231	79 554 022	71 206 973
- tax revenues		38 883 294	33 993 017	30 229 941
- non-tax revenues		50 118 937	45 561 005	40 977 032
Subsidies and transfers for local activities		14 934 392	25 392 795	-5 781 908
Capital Expenditures		17 479 631	32 033 101	21 518 608
Operating Result		15 507 214	7 546 830	13 588 468
Operating Result before Interest payment		16 345 111	8 560 951	14 473 088
Result from investment activity		832 843	-6 929 700	-24 869 699
Deficit/Surplus for local activities		16 340 057	617 130	-11 281 231

Resume of the Minutes of the Rating Committee:

The members of the Rating Committee reviewed the credit rating report of Municipality of Burgas and discussed the significant amount of operating result, the lack of overdue liabilities, the investments made during the period under review and the favourable position of the municipality in a comparative aspect.

Taking into account the specific risk profile of the municipality, as well as the condition of the overall legal regulation of the municipalities in Bulgaria, the base rating¹ was assigned at level A-

The sovereign risk rating and its level of influence on the Municipality of Burgas limited the assigned long-term credit rating to BBB- and short-term credit rating A-3.

The long-term national-scale rating AA- (BG) and the short-term national-scale rating A-1+ (BG) were assigned based on the position of the rating characteristics of the municipality in a comparative aspect for Bulgaria.

¹ The base rating is an intermediate step in assigning credit rating to the municipality according to the adopted methodology.