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Credit Rating of Municipality of Burgas				
Date of Rating Committee:	14.12.2018	17.04.2019	31.03.2020	01.10.2020
Date of Publication:	14.12.2018	19.04.2019	03.04.2020	02.10.2020
Long-term credit rating:	BBB (under review)	BBB	BBB	BBB
Outlook:	-	stable	stable	stable
Short-term credit rating:	A-3 (under review)	A-3	A-3	A-3
Long-term national-scale rating:	AA-(BG) (under review)	AA-(BG)	AA-(BG)	AA-(BG)
Outlook:	-	stable	stable	stable
Short-term national-scale rating:	A-1+(BG) (under review)	A-1+ (BG)	A-1+ (BG)	A-1+ (BG)

1) Prior to the present publication the credit rating and rating outlook was disclosed to the rated entity or related third party. Following that disclosure amendments in the credit rating and rating outlook have not been executed;

2) During the last 2 years, BCRA Credit Rating Agency AD has not provided ancillary services to the rated entity or a related third party.

3) To become familiar with the full rating history, please see the table at the bottom of the document.

BCRA – CREDIT RATING AGENCY (BCRA) is the third qualified rating agency in the EU, registered under the 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 fully equal with the other ratings, recognized by the European Securities and Markets Authority (ESMA), without any territorial or other restrictions.

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

Long-term credit rating: **BBB**

Outlook: **stable**

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 of a credit rating to a municipality. The public version of the Methodology (including the definition for default) can be found at the following address:

https://www.bcra-bg.com/files/Municipality_Methodology_2018_en.pdf

The rating users can find information about each rating category in the Global Scale, published at the site of BCRA:

https://www.bcra-bg.com/files/global_scale_en.pdf

The report has been prepared and the rating – assigned, based on information, made available by the rated municipality, Ministry of Finance, the National Statistical Institute, the Employment Agency, BCRA's database, consultants and other public sources.

Overview of the Rating Factors

The year (2020) started positively for **Bulgaria** in political perspective, with the composition of the local authorities having renewed, progress in the preparation of the country for membership in the Banking Union and the respective inclusion of the Bulgarian Lev in the Exchange Rate Mechanism II (ERM II). The emergence of the COVID-19 pandemic worldwide has turned into a major issue to address in early 2020. Bulgaria was in a state of emergency from March 13 to May 13, 2020, due to the unprecedented crisis, with the government taking a number of legislative measures to limit the negative economic consequences.

The halt of the economic processes in a number of activities has affected both the real and the financial sectors in the country. A significant slowdown has been observed in the dynamics of household consumption, lending, the external sector indicators, as well as in the inflation processes. The unemployment trend turned its direction upwards, as the registered unemployment in June was 8.3% in the age group of 15-64, according to Employment Agency data. This was a decrease of 0.7 pp. on a monthly basis and an increase by 3.1 pp. per annum.

Bulgaria has entered the current crisis with a stable fiscal position and a low government debt level. At the end of June (after the extraordinary revision of 2020 state budget) the consolidated cash balance remained positive, amounting to 1.4% of the projected GDP. There was a contraction in tax revenues (3.6% on an annual basis) and non-tax revenues (18.7%), with an increase in grants and donations of 36.4%. The estimated balance under the Consolidated Fiscal Program for 2020 is a deficit of BGN 3,5 billion or 3% of GDP.

Against this background, the **municipalities in Bulgaria** expectedly face serious financial and organizational challenges.

The government's anti-crisis legislation from end-March 2020 did not provide for a change in the deadlines for payment and declaration of local taxes and fees but extended until June 30, 2020, the deadline for the 5% discount on prepayment of annual real estate and vehicles taxes. The municipalities were financed with BGN 20 million to support social patronage used by nearly 43 000 people before the crisis. At a later stage, it was decided to exempt taxi drivers from paying local taxes in 2020, as well as the state to cover the deficiencies in municipal budgets.

The Council of Ministers also approved transfers to municipal budgets of BGN 24.6 million to cover the increase of the standards for the activities delegated by the state for school and children's health care, health offices and to increase the salaries of employees in the social sphere. The funds are provided through a restructuring of expenditures and/or the central budget transfers for 2020.

In the first half of 2020, the municipalities in Bulgaria demonstrated divergent changes in the main parameters of financial conditions compared to the same period of 2019 as well as a weaker investment activity. The aggregate budget balance was positive. The amount of overdue liabilities has increased (by BGN 36.1 million on an annual basis), and also did the liabilities of the municipalities in financial difficulties (by BGN 9.8 million). Concurrently, the commitments made decreased by BGN 5.1 million.

A survey of the National Association of Municipalities in the Republic of Bulgaria (NAMRB), conducted by using data provided by 217 out of the 265 municipalities for the period January-April 2020, summarised the trends and the impact of the crisis with COVID-19 on municipal budgets. The results of the study can be defined as highly disturbing.

Non-tax revenues have been negatively affected by restrictions imposed on certain activities; the measures taken to support local households and businesses including the exemption or deferral of some local taxes as well as of the rents due on the use of municipality property for the period of the state of emergency.

In general, the opportunities for a reduction of the expenditures in the municipal budgets are extremely limited in the current conditions. In the first months of 2020, municipalities reduced the maintenance expenditures, interest payments, subsidies, and investments, at the expense of the increase of social expenditures. The reported extraordinary and unforeseen expenses in March-April 2020 slightly exceeded BGN 6 million, and to a large extent were related to the obligations of the municipalities for the implementation of the anti-epidemic measures.

The NAMRB concludes that the sharp decline in own-source revenues, in addition to the extraordinary costs for anti-epidemic measures, put at risk the financing for basic municipal services, not only during the year but also in the medium term.

In 2019, the population of the **Municipality of Burgas** declined at a slightly higher rate than in the previous year but significantly lower compared to the country's average. The population density, both locally and

nationally, continued decreasing as in the municipality of Burgas it was several times higher than the national average. The registered unemployment rate, according to the Employment Agency, fell to 5.6% (for the age group 15-64 years) on average for the country and to only 2.7% for the municipality of Burgas in 2019.

In the first half of 2020, the Municipality of Burgas registered an operating result of BGN 2 254 thousand. There has been a significant decrease of 78.1% on an annual basis, reflecting both the reduction in current revenues and the increase of current expenditures. The result from investment activity for the period was negative (BGN 4 606 thousand) and higher in absolute terms, compared to the corresponding period of the previous year (BGN 3 002 thousand). These dynamics resulted in a negative net cash flow of BGN 2 352 thousand as of June 2020, compared to the positive, amounting to BGN 7 275 thousand, in the same period of 2019. The negative net cash flow was covered mainly by funds in accounts.

In the first half of 2020, the own-source revenues of Burgas municipality registered a decline (9.6%) compared to the corresponding period of the previous year, and amounted to BGN 47 893 thousand. The revenues from a property sale which fell to BGN 516 thousand from BGN 2 448 thousand on an annual basis were the main driver of the change.

Revenues from fees also declined (by 8.4%), where the receipts from kindergartens and nurseries represented the largest share. The main item - the revenues from the municipal waste fee with a share of 79.6% - had a slight decrease of 1.6% on an annual basis. In general, the revenues for local activities over the first half of 2020 were 8.0% lower compared to the same period of the previous year.

The current expenditures annually grew by 12.1% to the value of BGN 45 124 thousand. The maintenance was the key item in their dynamics with a share of 68.7% and a growth rate of 14.2%.

The Municipality of Burgas' capital expenditures amounted to BGN 7 436 thousand in H1 2020, which was close to their value in the corresponding period of the previous year (a growth of 5.3%).

At the end of June 2020, the debt size reached BGN 40 504 thousand, almost unchanged compared to the end of 2019, and slightly decreasing as a percentage of planned revenues.

It should be noted that the municipality of Burgas again does not report arrears.

Like in the previous periods, the structure of expenditures by function has been dominated by the costs for public works (44.6% share, 45.8% for the period January-June 2019). A more significant change was observed in the share of defence and security expenditures (which is low, however), as well as in the share of expenditures for education.

The capital expenditures for public works amounted to BGN 4 983 thousand, an 8.5% annual rise. Investments for water supply and sewage dominated with a size of BGN 3 111 thousand and were composed entirely of expenses for the construction of water supply and sewage network in the Rosenets Forest Park. In the first half of 2020, other implemented significant projects included the construction of a pre-separation plant for treatment of mixed household waste (BGN 560 thousand own funds); the design and construction of an anaerobic plant for biodegradable waste (BGN 2 603 thousand European funds); and an integrated model for urban mobility management (BGN 1 393 thousand European funds).

The comparative analysis examines the position of Burgas Municipality by a number of financial indicators compared to: the national average value; the average for municipalities which are district centres; as well as compared to the Municipality of Varna indicators because of its similar economic profile. Based on this analysis, the municipality of Burgas performs better compared to both the national average and the municipalities - district centres. It could be concluded that the municipalities of Burgas and Varna continued to position markedly favourable in a comparative aspect showing similar levels of most of the indicators.

Dimitar Nikolov was re-elected mayor of the municipality in the local elections in the fall of 2019. He took 65.83% in the first round of the vote, thus securing his fourth terms in office.

The average collection rate of the property tax and vehicle tax increased on an annual basis and reached 79.1% at the end of 2019. The municipality positioned favourably compared to the national average rate (72.9%).

Outlook

The **stable outlook** of the Credit Rating of the Municipality of Burgas reflects the opinion of BCRA that despite the unfavourable macroeconomic situation, the municipality will maintain a stable financial position.

The credit rating of the municipality of Burgas could be **positively** affected by:

- a significant increase in own-source revenues;
- a rise in the operating result;
- decrease in indebtedness.

The rating could be **negatively** affected by:

- accumulation of arrears;
- utmost increase in indebtedness;
- significant contraction of own-source revenues.

Main Financial Indicators of the Municipality of Burgas

	<i>BGN'000</i>	<i>VI 2020</i>	<i>VI 2019</i>	<i>2019</i>	<i>2018</i>	<i>2017</i>
Revenues for local activities, incl.		50 208	54 590	102 895	103 830	108 866
Own-source revenues:		47 893	52 982	93 349	96 349	93 931
- tax revenues		23 043	24 342	40 453	39 891	38 883
- non-tax revenues		24 850	28 640	52 896	56 458	55 048
Subsidies and transfers		2 315	1 609	9 546	7 481	14 934
Capital Expenditures		7 436	7 060	17 284	24 758	17 480
Current Expenditures		45 124	40 256	82 692	82 869	70 117
- Interest expenses		241	373	761	742	838
Operating result		2 254	10 277	4 905	8 343	15 507
Result from investment activity		-4 606	-3 002	-1 986	-12 140	833
Deficit / Surplus for local activities		-2 352	7 275	2 919	-3 797	16 340

Summary of the Minutes of the Rating Committee

At a session, held on 01.10.2020, the Rating Committee of the BCRA – Credit Rating Agency, discussed the affirmation of the credit rating of Municipality of Burgas. D.Sc. (Econ.) Kiril Grigorov, Chairman of the Rating Committee, headed the session. The members of the Rating Committee discussed the grades of numerous credit rating factors included in the **Rating Model** and analysed in the **Credit Rating Report** according to the **Methodology for assigning credit ratings to municipalities**.

Major financial parameters of the municipality were discussed, taking into account the COVID-19 crisis effects. The Members of the Committee noted that the municipality succeeded to achieve a positive operating result, albeit lower compared to the first half of 2019. The decrease in municipal own-source revenues, which was mainly due to the shrinking revenues from the sale of real estate property, was considered.

The municipality has no arrears and the level of municipal debt hardly changed. The size of municipal debt as a percentage of planned revenues slightly declined compared to the end of 2019.

Rating History

Credit Rating of Municipality of Burgas				
Date of Rating Committee:	17.04.2015	03.05.2017	25.04.2018	15.05.2018
Date of Publication:	24.04.2015	05.05.2017	27.04.2018	18.05.2018
Long-term credit rating:	BBB-*	BBB-	BBB-	BBB
Outlook:	stable	stable	positive	stable
Short-term credit rating:	A-3	A-3	A-3	A-3
Long-term national-scale rating:	AAA (BG)	AA (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)

*Initial rating