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| | Initial Rating 29.08.2013 |
| Credit rating of Municipality of Aksakovo | |
| Long-term rating: | BBB |
| Outlook: | stable |
| Short-term rating: | A-2 |

„BCRA - CREDIT RATING AGENCY (BCRA) is the third qualified rating agency in EU, registered under Regulation 1060/2009 of the European Parliament and of the European Council. The credit ratings, assigned by BCRA, are recognized in the whole EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other restrictions. The rating scale of BCRA coincides with the scale of Standard & Poor's.

„BCRA – CREDIT RATING AGENCY” AD assigns the long-term credit rating BBB to Municipality of Aksakovo, short-term credit rating A-2, outlook: stable. The officially adopted by BCRA methodology for assignment of municipality credit rating is used (http://www.bcra-bg.com/files/file_105.pdf).


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

During the period under review there were no changes in the legal framework, related to the activity of the municipalities, as the most significant are related to the adoption of the Public Finance Act (promulgated on 15.02.2013). The new act arranges the budgetary frame, the general organization and structure of public finance, defining the scope, structure and basic indicators of the consolidated fiscal programme, fiscal rules and restrictions, regime of the accounts for the EU funds, reporting of the budgetary organizations, etc. The Act enters into force since the beginning of 2014 and abolishes the State Budget Act and Municipal Budgets Act.

Until 2008 many municipalities had a practice of increasing their own incomes mainly through a growth of incomes from sale of properties which is a negative factor with view of the inconstant, "single" character of this source of incomes. During a financial crisis and low economic activity, the influence of this resource in the municipal budgets decrease considerably at the expense of the tax income and revenues from taxes. The role of the country gets smaller in supporting the local budgets through subsidiaries and transfers.

In 2011 and 2012 the negative trend of the own incomes of the municipalities is discontinued and they registered an increase year on year, respectively by 9.5% and 1.4%. The incomes from local taxes increased by 13.5% in 2011 and 4.2% in 2012. The incomes from taxes registered an increase in 2011 in the amount of 3.1%, but in 2012 they registered a decline of 4.6% on a yearly basis. The current expense for local activities have a similar trend with the incomes by reporting a decrease in 2009 and 2010, then they increased in past two years by 9.9% and 0.8% year on year. The unfavourable economic environment in the country also influence on the capital expenses considerably. The negative trend of the capital expenses launched in 2009 is maintained: the registered annual decline in the investments for 2012 amounts to 12.6% (compared to 28.8% for 2011, 30.2% for 2010 and 16.9% for 2009).

Municipality of Aksakovo is located in Northeast Bulgaria on the territory of Varna district. Its territory 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 located

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nearby, as well as the international airport Varna and a ferryboat complex.

Until 2010 the population of Municipality of Aksakovo increased slightly, but during the upcoming two years the trend was negative, as the reported decline in 2012 is 0.2%, compared to a decrease of 0.6% in the country. On average for the analyzed period the density of the population in Municipality of Aksakovo is by ~30% lower compared to the average for the country. The part of the active population in the whole period is a little bit lower than the average for the country. A favourable factor for the age structure is the higher share of the habitants in under active age compared to the average level in the country, which increase from 16.2% in 2008 to 17.6% in past two years.

The industry in Municipality of Aksakovo is poorly developed compared to the neighboring municipalities (Varna, Devnya, Beloslav). At the same time it is distinguished with conditions for development of rural, hunting and sport tourism connected to the close located tourist summer resort complexes („St.st. Konstantin and Elena“, „Golden sands“, which is the major road to Albena resort).

Municipality of Aksakovo realized a positive operating result in 2009 and 2012, and during the other three years of the period under review the operating result is negative. The result from investment activity is positive for all years in the period (except 2009). The Municipality registered a total deficit in 2008 and 2011, as it is covered by deposits and resources in accounts.


Tax incomes registered a decline in 2009 and 2010, as the registered decline is entirely in line of the tax related to acquisition of property. Its share in the tax incomes is 36.9% as of the end of 2010. In 2011 and 2012 the incomes on this item registered a growth year on year, respectively with 21.9% and 6.3% and as of the end of 2012 its share in total tax incomes reached to 37.3%. The incomes from real estate tax registered a growth in the entire analyzed period, their highest growth is in the past 2012 – 31.5% year on year. The vehicles tax also registered a cumulative growth for the analyzed period (62.0%). The positive trend in the tax incomes is also kept in the first term of the year of 2013.

The non-tax incomes have a trend which is similar with this of tax incomes. Since 2009 the tax incomes are a major item, as their share increased

from 40% in 2008 to 79% at the end of 2012. During the period from 2008 to 2010 incl. the main income item in taxes is the household waste taxes, as their share as of the end of 2010 reached to 53.1% during the past two years of the analyzed period – 2011 and 2012 – leading by share are the incomes on item „other municipal taxes“, as their share at the end of 2012 reached to 44.8%. Their increase is due to the reported deductions on article 71e of the Law for waste management.

The data shows a decline of the current expenses of Municipality of Aksakovo for the whole analyzed period, except 2011, when a growth of 30.1% is reported year on year. The dynamics of the current expenses to a great expense is defined by the maintenance expenses. Their share varies from 64% to 83% of the current expenses. The salary expenses form on average about 20.3% of the current expenses. Municipality of Aksakovo has made the largest in size investment expenses during the past year of the analyzed period 2012 – 3 951 thousand BGN. Overdue liabilities are not reported as of the middle of 2013.

The most expenses during the analyzed period are realized on the function „Residential construction, public utilities and environmental protection“ – on average 47.5% (65.2% in 2012). The current expenses on this item are the highest during the past two years, as they are dominated by cleanness maintenance – on average 47.6%. During the past year they report a decrease (28.6% year on year), which is due to redirection of the expenses to the activity „Waste management“. Municipality of Aksakovo takes the collected waste to the Vaglen`s depot; at the same time the construction of a household waste system is under way in the district. The depot`s project amounts to total 34.4 mln. BGN. The system is considered to operate at the beginning of 2015 and will serve Municipality of Varna and Beloslav except Municipality of Aksakovo which is the beneficiary of the project. During the past three years in the group of current expenses after the cleanness expenses second in significance are the construction, repair and maintenance expenses of the street network. The major part of the investments on the function are directed to the depot. The Municipality also realized projects for construction of playgrounds, improvement of water supply network of Kichevo, additional construction of public sewage branches and a change of water supply network in Ignatievo, repairs and rehabilitation of the municipal roads, etc.

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

The Mayor of Municipality of Aksakovo during the analyzed period is Mr. Atanas Stoilov. He has been occupying the position since 1999 as he was elected for his fourth mandate at the local elections in October 2011 in the first round with 72.4% of the votes. The reported collection of real estate tax for 2012 is 57.4%, whereas household waste tax is – 63.2%. The realistic approach in planning the municipal budget is considered to be a positive factor. The Municipality has implemented the one-desk service.

BCRA makes a financial forecast of the Municipality for the period 2013-2017. The obtained results indicate that in case of similar development with the forecast, Municipality of Aksakovo shall realize a positive operating result, as well as positive free cash flow during the entire forecast period except 2015.

Major financial indicators in BGN

| (BGN) | 2012 | 2011 | 2010 |
|---|-----------|-----------|-----------|
| Incomes for local activities incl. | 9 268 000 | 5 551 127 | 4 403 318 |
| Own incomes | 4 316 306 | 3 893 576 | 3 399 871 |
| - tax income | 1 405 881 | 1 160 869 | 1 097 761 |
| - non-tax income | 2 910 425 | 2 732 707 | 2 302 110 |
| Subsidiaries and transfers for local activities | 4 951 694 | 1 657 551 | 1 003 447 |
| Capital expenses | | | |
| Operating result | 825 990 | -417 700 | -133 181 |
| Operating result before interests | 825 990 | -417 700 | 49 026 |
| Result from investment activity | 646 685 | 388 357 | 298 676 |
| Deficit/surplus for local activities | 1 472 675 | -29 343 | 165 495 |