

<h2>Municipality of Burgas</h2> <h3>April 2020</h3>	Vessela Velichkova Lead Financial Analyst v.velickova@bcra-bg.com
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Credit Rating of Municipality of Burgas			
Date of Rating Committee:	14.12.2018	17.04.2019	31.03.2020
Date of Publication:	14.12.2018	19.04.2019	03.04.2020
Long-term Credit Rating:	BBB (under review)	BBB	BBB
Outlook:	-	Stable	Stable
Short-term Credit Rating:	A-3 (under review)	A-3	A-3
Long-term National-scale Rating:	AA-(BG) (under review)	AA-(BG)	AA-(BG)
Outlook:	-	Stable	Stable
Short-term National-scale Rating:	A-1+(BG) (under review)	A-1+ (BG)	A-1+ (BG)

***Notes:**

- 1) For the full rating history, please see the chart at the bottom of the document;
- 2) Prior to the present publication, the credit rating and the rating outlook were disclosed to the rated entity. Following those disclosure amendments in the credit rating and the rating outlook have not been executed;
- 3) During the last two years, BCRA Credit Rating Agency AD has not provided ancillary services to the rated entity or a related third party;
- 4) The rating users can find information for each rating category in the published Global rating scale at the BCRA's site: (https://www.bcra-bg.com/files/global_scale_en.pdf), for the Definition of Default in the Methodology for assigning of a credit rating to a municipality (https://www.bcra-bg.com/files/Municipality_Methodology_2018_bg.pdf).

BCRA – CREDIT RATING AGENCY AD (BCRA) is the third fully recognized rating agency in the EU, registered according to Regulation No. 1060/2009 of the European Parliament and the Council. The credit ratings, assigned by the BCRA are valid throughout the EU and are fully equal to those, of the other agencies, recognized by the European Securities and Markets Authorities, without any territorial or other limitations.

At a session held on **March 31, 2020**, the Rating Committee of BCRA discussed the report of the review of the rating of Municipality of **Burgas**. Dr Kiril Grigorov ran the session in his capacity of Chairman of the Rating Committee. The members of the Rating Committee discussed the grades of numerous credit rating factors in the review period and took **the following decision:**

BCRA – Credit Rating Agency affirms the following ratings of **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 has been used:

(https://www.bcra-bg.com/files/Municipality_Methodology_2018_bg.pdf)

The report has been prepared and the rating - assigned, based on information made available by the rated municipality, Bulgarian National Bank, National Statistical Institute, Employment Agency, BCRA' database, consultants and other public information sources.

The economic development of the country in the context of the expected accession of the Bulgarian Lev to the ERM II exchange rate mechanism has been thoroughly analysed by BACR - Credit Rating Agency and thus was assigned the unsolicited sovereign rating of the Republic of Bulgaria. The growth of GDP and GVA by components as well as the dynamics of the external sector indicators were studied. The level and structure of government debt are positively assessed, taking into account the parameters of new debt issued in 2019. The banking sector is assessed as stable.

The Rationale related to the assigned rating of the Republic of Bulgaria can be viewed on the BCRA's official website: https://www.bcra-bg.com/files/rating_republic_of_bulgaria_oct_2019_bg.pdf

At the end of September 2019, the average share of the revenues of municipalities in Bulgaria increases to 38.32% compared to 36.65% at the end of 2018, remaining lower than the corresponding period of the previous year. A similar trend is observed of the average share of coverage of expenditures for local activities by revenues. The national average amount of debt as a percentage of the planned revenues and the planned equalization subsidy decreased to 47.48% (compared to 49.02% at the end of the third quarter of 2018 and 50.25% at the end of the same year).

In the period there was a lower investment activity (share of capital expenditures in total) - 13.6%, compared to the data at the end of 2018 when the average value of the indicator for the country was 14.07%. Compared to the average level of the indicator of 11.33%, reported in the corresponding period of the previous year, an improvement is observed.

In 2017 and August 2018, eleven municipalities signed plans for financial rehabilitation under the Public Finance Act, namely: Pernik, Belovo, Teteven, September, Velingrad, Sliven, Sungurlare, Vidin, Mizia, Simitli and Stambolovo. They agreed on financial recovery goals that include revenue-maximizing and cost-cutting measures in the annual and medium-term, prepared based on an objective analysis of key financial indicators.

The overdue liabilities of the municipalities stood at BGN 125.2 million in 2019 (As of the end of 2018 they amounted at BGN 122.2 million, which is an increase of 2.4%. One hundred and thirty municipalities had overdue liabilities, while a hundred thirty-five end with no arrears.

In 2018, the population in the municipality of Burgas decreased by 0.14% on an annual basis. The rate marks a

faster decrease compared to the previous year. However, it remains more favourable than the national average. The population density in the municipality of Burgas decreases slightly and remains several times higher than the national average.

In terms of the age structure in 2018, the share of the working-age population in the municipality of Burgas declined slightly to 61.5%, which is a little higher than the national average (60.0%). A favourable factor is the preservation of the higher share of the working-age population in Burgas compared to the national average. The difference in 2018 amounts to 1.3 pp (1.2 pp in 2017).

According to the data of the Employment Agency, at the end of February 2020, the unemployment rate in the region stood at 5.7%, compared to the national average of 6.2%. According to the data of NSI, in 2019, the unemployment rate in the region is 3.6% compared to 4.2% for the country.

Within two years' time-frame several industrial zones are planned for construction located in Meden Rudnik, Dolno Ezerovo, Ravnets, Ninth kilometre, Black Sea quarter. An expansion of the Industrial Zone - North is planned. A detailed development plan and a plan for street regulation for the industrial zone "Dolno Ezerovo" have been prepared, having developed infrastructure and an area of 120 decares for logistics activities.

In 2019, the municipality of Burgas achieved a positive operating result at the amount of BGN 4 905 thousand, by 41.2% lower compared to the one registered in the previous year. The result of investment activity is again negative as in 2018 but significantly lower in absolute value compared to the reported in 2018 (BGN -1,986 thousand compared to -BGN 12,140 thousand). As a result, the net cash flow for the analysed period (2019) is positive and amounts to BGN 2,919 thousand (BGN -3 797 thousand for 2018).

In 2019, the own revenues of the municipality of Burgas marked a slight decrease of 3.1% on an annual basis, mainly due to the decrease in revenues from fines, sanctions and penalty interest, real estate sales and revenues from concessions.

In 2019, the tax revenues are at the amount of BGN 40 453 thousand, registering a slight growth of 1.4%. The increase results from vehicle tax (7.4%), which is a key item, accounting for a share of 31.0% in 2019. Revenues from real estate tax have the highest weight (34.4%), rising slightly (below 1%).

In non-tax revenues, the fees remain dominant, nearly unchanged (a decline of less than 1%). On the other hand, the municipal waste tax is most weighty, accounting for a share of 66.8% and are at the amount of BGN 19 694 thousand, a slight change compared to the previous year.

The real estate taxes decline for a second sequential year at a rate of 11.5% for 2019. We should note that the high value of the revenues under this item is not assessed positively given that this source of revenue is volatile.

In 2019, according to the changes in the Methodology for distribution of the total equalisation subsidy, the municipality of Burgas did not receive such due to the good financial condition.

The current expenditures of the municipality of Burgas amount to BGN 82 692 thousand, close to the reported value in 2018 (BGN 82 869 thousand). The costs for wages and social security (3.7%) grew slightly and account for 17.9% of the current expenditures for 2019 and 17.2% for 2018. Maintenance remains the main item for current expenses, with a slight decrease of 1.3% on an annual basis amounting to BGN 57,800 thousand.

In terms of cost for interests, following the annual decline of 11.4% in 2018, in the next year, they increased by 2.5%. One should note that costs for interests account for a relatively slight share in the current costs (0.9% both for 2019 and 2018).

For 2019, the ratio of debt payments to the average annual amount of own revenues for the last three years and the total equalization subsidy under the Public Finance Act is 4.90%, with a maximum limit of 15%. In the previous year, it reached 4.56%. Positively assessed is the fact that for another year the municipality of Burgas does not register overdue liabilities. The same applies to the end of January 2020.

In 2019, the total expenditures for local activities and co-financing declined at a rate of 7.1%, as the current costs are nearly unchanged, while the capital ones decrease by 30.2

In terms of the distribution of costs by function in 2019, the value suggests that during this period, for a second consecutive year, the share of costs for development increases, which is usually leading item. It reached 46.8%, compared to 44.8% in the previous year. There is also a slight increase in the weight of education expenditures (0.6 percentage points) to 9.4%. A decrease is observed in the share of expenditures for general civil services - from 14.1% for 2018 up to 13.2% for 2019. A significant decrease was also registered in the capital expenditures for waste management (45.3%). In general, investments in the function account for 69.3% of the total capital expenditures for the year. The amount of investment for construction of

water supply and sewage network in Rosenets Forest Park is BGN 3,501 thousand. The amount of BGN 1,097 thousand is spent on the water supply network for mineral water in the Mineralni Bani district.

In September 2019, the installation of underground waste containers has launched. The cleaning equipment is available. The project for this collection method began in 2017. The efficiency of the method is associated not only with the separate waste collection but also with the fact that avoids odours and infections.

In the period of the update, the procedure for expansion of the regional landfill for municipal waste near the village of Bratovo was launched. A new waste cell is planned to be built but two will be designed. As of the commented period, the cell is one and collects 400 thousand tons of garbage, and its filling according to the plan takes about five years. In practice, after three years of operation, it is filled to capacity, due to the fact that garbage is not collected separately. With a separate waste collection, one cell can work for up to 10 years. It should be noted that the landfill serves 9 municipalities (Burgas, Sredets, Kameno, Ruen, Sungurlare, Karnobat, Aitos, Nessebar and Pomorie). The treatment plant at the landfill also needs to be expanded.

The comparative analysis examines the position of the Municipality of Burgas by a number of financial indicators compared to the average value for the country, for the municipalities - regional centres, as well as compared to the Municipality of Varna as a municipality with a similar economic profile. According to the analysis, the municipality of Burgas performs better compared to both the country average and the municipalities - regional centres. According to most indicators, the municipality of Burgas has a better and favourable position compared to the municipality of Varna.

In 2018, the average collection rate of the real estate tax and vehicle tax amounted at 78.1%, a slight decrease compared to the previous year (79.2%). However, the municipality is positioned more favourably than the national average rate for 2018 (71.4%).

During the update period, Dimitar Nikolov (GERB), was re-elected in the local elections in the autumn of 2019 in the first round by 65.83% and remains mayor of Burgas. This is his fourth term of office as a mayor.

BCRA produces a financial forecast of the municipality for the period 2017-2019. The results show that in similar development with the forecast,

Varna will realize a positive operating result during the entire forecast period. The free cash flow is also positive.

As far as the rating of the Municipality of Varna is limited by the rating of Bulgaria, the rating of the municipality would be affected **favourably** by a possible upgrade of the sovereign rating.

The rating of the municipality could be **negatively affected** by an increase in indebtedness, accumulation of overdue debts, a significant decline in own revenues or excessive growth of current expenditures.

The crisis caused by the COVID-19 pandemic and its possible impact on the activities and financial condition of municipalities were also discussed. The members of the Rating Committee agreed that the emergency is unlikely to significantly affect the functioning of municipalities in the country.

Main Financial Indicators: 2017 – 2019

	000' BGN	2019	2018	2017
Revenues for local activities, incl.	102,895	103 830	108 866	
Own income:	93,349	96 349	93 931	
- tax revenues	40,453	39 891	38 883	
- non-tax revenues	52,896	56 458	55 048	
Subsidies and transfers	9,546	7 481	14 934	
Capital Expenditures	17,284	24 758	17 480	
Current Costs	82,692	82 869	70 117	
- Interest costs	761	742	838	
Operating result	4,905	8 343	15 507	
Result from investment activity	-1,986	-12 140	833	
Deficit / Surplus for local activities	2,919	-3 797	16 340	

Summary of the Minutes of the Rating Committee:

The members of the Rating Committee examined the Credit Rating Report and discussed the grades of numerous credit rating factors.

The stable financial performance, the dynamics of own revenues, the low indebtedness, as well as the lack of overdue liabilities for another year were noted. Attention was paid to the large-scale capital program of the municipality, as well as the significant share of own funding. Last but not least, the favourable positioning of the municipality in comparative terms was pointed out.

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*

RATIONALE