

Municipality of Burgas

Denitsa Nikolaeva, lead financial analyst
d.nikolaeva@bcra-bg.com
Vesela Velichkova, financial analyst
v.velichkova@bcra-bg.com

	Initial rating 07/2008	Update 09/2009	Update 30.08.2010
Credit rating of Municipality of Burgas			
Long-term rating:	BBB	BBB	BBB+
Outlook:	stable	stable	stable
Short-term rating:	A-2	A-2	A-2

Bulgarian Credit Rating Agency is the only Bulgarian agency listed as eligible by Financial Supervision Commission and its credit ratings are acknowledged for its aims equally with these of the international agencies Moody's, Standard & Poor's and Fitch. Up to now BCRA has assigned credit ratings to most of all leading insurance companies. In 2004 BCRA adapted the credit rating methodology of municipalities by ICRA (An associate of Moody's Investors Service).

Bulgarian Credit Rating Agency (BCRA) upgrades a long-term credit rating to municipality of Burgas to BBB+, outlook: stable and short-term rating A-2. The officially adopted methodology for awarding of credit rating of municipalities by BCRA is used (http://www.bcra-bg.com/files/file_105.pdf).

To elaborate the credit report and to assign the credit rating is used information from the rated municipality, Ministry of Finance, NSI, National Employment Agency, database of BCRA, consultants and other sources of public information.

As a whole the municipalities registered deterioration of reported results in 2009. The global economic crisis reflects upon the tax incomes – drop of 17%. The growth of the investments slow up from 30,6% in 2008 to 28,8% in 2009. The downturn of sales incomes of property continued. It started in 2008, which is considered as an indicator for

decrease of the dependence of the municipalities from this income source, which is not a constant income. The own incomes retain the trend of increase; the growth for 2009 is retained approximately at the levels of the previous year.

Based on the trends in the financial state and legal framework of the municipalities, as well as taking into account the global international crisis which reflects upon the financial state of the municipalities as well, we consider that the overall system risk related to their activity in the country, is kept moderate.

The positive growth of the population of municipality of Burgas was retained during 2009 as well. The municipality keeps the second position by level of unemployment in the country after Sofia.

In 2008 the produced production of the companies located at the territory of the municipality registered growth of 17% on yearly base. The processing industry continued being a leading branch with a share of 74% and annual growth of 15%.

We retain the risk from external factors relatively low.

In 2009 municipality of Burgas registered an overall deficit amounting to BGN 10 886, which was formed mainly in line of the negative result of investment activity. The operating deficit amounts to BGN 975 000 and presents less than 2% of the incomes for local activities of the municipalities. The investment deficit is determined by the major

capital programme – the growth of the investments significantly exceeded this of the sales incomes of municipal property. The main part of the capital expenses are financed with bank loans, which the municipality operates and sales incomes of property; partially the deposit is covered by deposits and resources on accounts.

The own incomes of municipality of Burgas decreased by 3% during the update period; the decrease was mainly in line of the tax incomes, which registered a drop of 26%. Main item is the tax of immovable properties, which registered a growth of 19% in line of enhanced collection. Within the non-tax incomes the sales incomes of property registered the biggest increase in contrast with the total decreasing trend for the country as a whole. We estimate positively the growth of incomes from taxes – 18%, which keep the highest relative share within the non-tax incomes (71%).

The current expenses of municipality of Burgas grew up insignificantly during the update period (1%), keeping lower levels compared to the own incomes. We estimate as a positive factor the double growth of the capital expenses in 2009, which reached BGN 17 707.

The structure of the expenses by functions hasn't occurred any significant changes – function Residential construction, LCE (Living Communal Economy) and environmental protection" remained with the biggest average share (54%). The value of the expenses by this function reached to BGN 38 867, which present a nearly double annual growth as a result of the increased capital expenses. Decline is observed in the maintenance of the educational activities, as well as health care activities. Some of the significant projects of the municipality are as follows: the commenced construction of a hospital in 2010 in the quarter of Meden rudnik, extension and improvement of the channel pipe station in the quarter of Sarafovo, the construction of sewage in the quarter of Pobeda.

The dynamics of the incomes from local activities per capita of the population follows the total downturn, characteristic for the

municipalities (regional centres), as well as for the country as a whole. Expenses for public utilities registered growth for all groups of the comparative analysis; municipality of Burgas has the highest values per capita of population. Only Municipality of Burgas registered growth of educational expenses and along with municipality of Varna occupies a leading position by this indicator in a comparative aspect.

Municipality of Burgas reaches very fair results by applying measures to enhance the collection of the main taxes and charges – 100,81% with tax on immovable properties and 138,6% with tax of household garbage. BCRA estimates positively the active policy and enterprise of the municipality management regarding the infrastructure improvements and sources of their financing, the public announcement of the municipality initiatives in the media, as well as system advertisement policy, directed to attraction of a bigger amount of visitors, however, the municipality lacks a classical tourist profile. *BCRA estimates excellently the municipal management. We decrease the risk from the whole operating activity to relatively low.*

The issued financial forecast shows up the municipality is capable to cover the minimum necessary expenses with resources from its own incomes and total equalizing subsidiaries during the whole forecast period. The municipality realized positive operating result which reached to BGN 13 991 during the last year. BCRA considers that the municipality shall be characterized with a fair profitability in short-term, as well as in a long-term aspect.

Main Financial Indicators in leva:

	2009	2008	2007
Total incomes	137 369 174	132 412 839	104 400 104
Incomes for local activities incl..	61 816 232	64 559 386	59 143 298
Own incomes:	58 686 104	60 605 025	55 920 450
- tax incomes	20 412 143	27 570 779	23 325 663
- non-tax incomes	38 273 961	33 034 246	32 594 787
Subsidiaries and transfers for local activities	3 130 128	3 954 361	3 222 848
Capital expenses	17 707 211	9 106 106	9 000 668



CREDIT RATING
Municipality of Burgas
BBB+/a-2
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95, Evlogi Georgiev, fl. 1
Sofia 1142

phone: (+359-2) 987 6363
www.bcra-bg.com

Operating result	-974 651	3 455 653	-699 460
Operating result before taxation	-741 524	3 812 157	-354 561
Result from investment activity	-9 911 632	-2 394 732	1 442 156
Deficit/surplus for local activities	-10 886 283	1 060 921	742 696