

## Municipality of Burgas

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	Initial Rating 08.2008	Update 09.2009	Update 30.08.2010	Update 13.01.2012	Update 25.02.2013
<b>Credit Rating of Municipality of Burgas</b>					
<b>Long-term rating:</b>	<b>BBB</b>	<b>BBB</b>	<b>BBB+</b>	<b>BBB+</b>	<b>A-</b>
<b>Outlook:</b>	<b>stable</b>	<b>stable</b>	<b>stable</b>	<b>positive</b>	<b>positive</b>
<b>Short-term rating:</b>	<b>A-2</b>	<b>A-2</b>	<b>A-2</b>	<b>A-2</b>	<b>A-1</b>

„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 (BCRA) upgrades the long-term credit rating of Municipality of Burgas to A-, short-term A-1 and retains the positive outlook. BCRA applies the methodology, which is officially adopted, for assignment of municipality credit rating ([http://www.bcra-bg.com/files/file\\_105.pdf](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.

In 2011 the total revenues of the municipalities in Bulgaria continued decreasing by a slower rate (2.2% compared to 9.6% for 2010, and 13.3% for 2009). Unlike the past two years, in 2011 the own incomes registered an increase (9.5%). The tax revenues increased considerably (13.5%) in line of the legal change related to the calculation basis of the estate tax for legal entities, as well as as a result of the measures of the municipal authorities to increase the collection. The other income items registered a positive change incl. the revenues from the sale of municipal property (2.5%), which increased for the first time since 2007.

Insofar as much the collected revenue determine the current costs, in 2011 the downward trend is discontinued and they registered a growth of 3.2%. The capital expenses continue having a strong negative trend. The decline in 2011 (28.8%) is close to the reported in the past year (30.2%).

In 2011 the growth rate of the population in Municipality of Burgas increased considerably, while the population of Bulgaria on average decreased faster compared to the past years. The age structure of the population of Municipality of Burgas remains more favorable than the average for the country.

The output of the enterprises on the municipality territory increased for second consecutive year in 2011 (15.7%); manufacturing remains the major industry (share of 76.7%). After a considerable decline in 2010, in 2011 the expenses for investment of the companies reported a growth of 8.7%. By this indicator the manufacturing also remains the major industry.

In 2011 Municipality of Burgas reported a positive operating result and its value is the highest since 2004 by now and presents 6.1% of revenues for local activities. The result from investing activities is negative, formed in the line of the considerable excess of capital expenses over the incomes which have a character of capital. The negative result is covered by the bank finance, interim free of interest loans and cash on accounts.

The own revenues of Burgas in 2011 increased by 5.7%. Their share in the revenues for local activities remains high (94%). The tax revenues registered an annual growth of 11.6% mostly in line of the real estate tax, where the increase

amounted to 29.2%. The tax on vehicles registered a positive change (16.0%), while the tax on the acquisition of the property registered a decrease (16.1%). Within the non-tax revenues the income from taxes remains a major item, which reported an annual increase of 13.5% and increased their share in non-tax revenue by 75% (66% in 2010). The revenues from the sale of municipal property recorded a considerable decrease (65.1%), reducing its share in non-tax revenues from 13% to 4%.

In 2011 the current expenses of the Municipality decreased by 6.2% year on year as considerable changes in their structure were not observed. The capital expenses increased by 60.1%, exceeding 17 million leva<sup>1</sup>.

The upward trend of the own incomes is kept in the first half of 2012 (a growth of 12.9% per annum). The tax revenues increased by 9.5% mainly in line of the tax on vehicles. The increase of non-tax incomes is 15.1%, determined mainly from the revenues from the sale of property. The fees have the biggest weight of non-tax revenues which registered an insignificant growth (1.6%). The domestic waste tax is the major item which registered an increase of 3.5%. During this period Municipality of Burgas reported lower current expenses by 11.0% compared to the same period of the past year. The capital expenses are considerably smaller by size (compared to 06.2011). They are characterized with irregular distribution throughout the year.

As of the end of 2012 (as well as of 12.2011) Municipality of Burgas has no overdue liabilities.

In the structure of the expenses on functions no sensitive changes observed. After a slight decline in the share of the expenses for utilities in 2010, in 2011 it increased by 56.3%, as it is its highest value within the last 7 years. Next in weight are the expenses for state services, though the decline by 2.4 pp reaching 16.3%.

The education expenses made by Municipality of Burgas in 2011 are by 2.1% lower compared to the past year entirely in line of the current expenses. The investments on the function realized an annual growth of 9.3%, the majority is invested in major repairs and refurbishment costs and introduction of energy efficiency measures at schools. In 2011 municipal programme was made for sports halls at

schools. In accordance with the programme the sport facilities are improved in 30 out of 48 buildings. According to the management accounts the whole educational infrastructure will be renovated until 2014.

The downward trend of health care costs was retained, but the decline (5.9%) is significantly less than the reported in 2010 (22.6%). The capital expenses on the function amounted to BGN 365 thousand (398 thousand in the past year), the major part of them (BGN 309 thousand) are capital transfers through which the municipality provides extra funds on its own to various hospitals: Medical Center in "Meden rudnik", MBAL Burgas, Center for Mental Health, Oncology Dispensary. In September 2012 a Medical center was opened in "Meden rudnik" incl. MBAL "Chernomorska" and Municipal Medical Center 3. The hospital is built on public-private partnership.

The capital costs of utilities registered a climax in several years (BGN 12 276 thousand) as this value presents 71.8% of total capital expenses with budgetary resources for the year. The main part of them continues to be focused on improving road network. They continue working actively on water and sewer infrastructure: already implemented or in different stages of implementation are the water projects in Dolno Ezerovo, Banevo, Vetren, Mineral Bani, Gorno Ezerovo, Sarafovo. "Meden Rudnik", Bulgarovo, as well as Rudnik and Cherno more.

In summer of 2012 contracts were concluded with contractors on project for construction of regional system for management of domestic waste. The project includes a regional depot "Bratovo - Zapad" and two transfer stations - in Nesebar and Karnobat. The overall budget amounts to BGN 43 231 thousand.

The implementation of the project for integrated urban transport in Burgas on programmes JASPERS and Regional Development in the amount of BGN 131 181 thousand continues. The deadline is November 2013.

The total sum of the capital programme of Municipality of Burgas for 2011 amounts to BGN 27 632 thousand.<sup>2</sup> Nearly 40% of them are financed on European programmes, and ~ 37% on bank loans.

<sup>1</sup> Capital costs with budgetary funds for local activities and extra financing of the state activities.

<sup>2</sup> Local activities and extra financing, budgetary and extrabudget funds.

The comparative analysis (by main indicators calculated per capita) shows that the Municipality of Burgas occupies markedly favorable position compared to the municipalities which are districts, as well as compared to the average in Bulgaria. The indicators of the municipality are close to these of Municipality of Varna.

During the update period local elections were held. Dimitar Nikolov was elected as a mayor of Burgas with 70.86 % of the votes on the first round, which sets the beginning of his second term.

The prepared financial forecast shows a favorable development of Municipality of Burgas in financial reference. According to the results the municipality shall realize a positive operating result and positive free cash flow and positive free cash flow during the whole forecast period.

**Main financial indicators in BGN**

	2011	2010	2009
Total incomes	138 692 678	135 133 126	137 369 174
Incomes for local activities incl.	67 793 704	63 458 960	61 816 232
Own incomes:	64 009 918	60 567 169	58 686 104
- Tax incomes	24 905 169	22 320 225	20 412 143
- non-tax incomes	39 104 749	38 246 944	38 273 961
Subsidiaries and transfers for local activities	3 783 786	2 891 791	3 130 128
Equity expenses	17 089 455	10 675 271	17 707 211
Operating Result	4 105 023	868 572	-974 651
Operating Result before Taxation	4 896 278	1 428 638	-741 524
Result from investment activity	-12 596 090	-3 813 934	-9 911 632
Deficit/Surplus for local activities	-8 491 067	-2 945 362	-10 886 283