

Municipality of Burgas

Vesela Velichkova, lead financial analyst
v.velichkova@bcra-bg.com
Diana Alieva, financial analyst
d.alieva@bcra-bg.com

| | Initial rating 08/2008 | Update 09/2009 | Update 30.08.2010 | Update 13.01.2012 |
|--|---------------------------|-------------------|----------------------|----------------------|
| Credit rating of Municipality of Burgas | | | | |
| Long-term rating: | BBB | BBB | BBB+ | BBB+ |
| Outlook: | stable | stable | stable | positive |
| Short-term rating: | A-2 | A-2 | A-2 | 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 (BCRA) retains the long-term rating to Municipality of Burgas BBB+, short-term A-2 and changes the outlook to positive. The officially adopted methodology for municipality credit rating is used by BCRA (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.

Until 2008 total incomes of municipalities in the state followed an ascending trend as the cumulative growth for the period 2005-2008 is over double. In 2009 the effects of the economic crisis started displaying with the municipal budgets, which was shown by a decline of total incomes by 13,3%, which also continued in next year though by a lower rate (9,6%). Until 2008 many municipalities increased their incomes mainly by a growth of property sales incomes, which was a negative factor having in mind the unstable, "single" character of this incomes source. During financial

crisis and low economic activity, the weight of this resource in the municipal budgets decreased sensitively at the expense of tax incomes and revenues from fees. The state role in support of local budgets also decreased through subsidiaries and transfers.

Shrinkage of municipality incomes also defined the observed drop in current expenses in last two years. Investments decreased sensitively (total decline of 44% for last two years).

In 2010 Municipality of Burgas maintained a positive growth in population, though the growth rate slowed down. The population density registered a new increase, as its level continued being repeatedly higher than the average for the state. Municipality of Burgas continued registering significantly lower unemployment rate than the average for the state.

In 2010 there was an increase of 9% of the produced output by the companies on the municipal territory in line of the processing industry (23% growth). In construction sector negative trend retained (35% annual decline). Investments in FTA also registered a decline (38% compared to 2009).

In 2010 Municipality of Burgas realized a positive result from operating activity in the amount of BGN 869 thousand (1,4% of the incomes for local activities). Total year result was negative in the amount of BGN 2 945 thousand and it was in line of deficit from investment activity. The shortage was covered mainly by bank loans and in a smaller extent by cash on municipality accounts with view of that the incomes from property sales and subsidiaries with capital character covered

| | |
|--|---|
|  | CREDIT RATING Municipality of Burgas BBB+/a-2 (outlook: positive) January 2012 |
| | 95, Evlogi Georgiev, fl. 1 Sofia 1142 |

~64% from the investment programme of the municipality financed by budget resources.

Own incomes of Municipality of Burgas increased by 3% in 2010 compared to the past year, as the growth was mainly due to the increase of the tax incomes. Tax proceedings were dominated by real estate properties (39% share), an increase of 7% compared to the past year. After a considerable decline in 2009, in 2010 the proceedings from the property acquisition registered a growth of 23%, determined mainly by the bigger number of transactions.

Within the non-tax incomes, taxes remained the main item – their growth for 2010 amounted to 3%. Domestic waste taxes retained the highest share (67%), the incomes from them increased by 5%. The incomes from property sales decreased by 10% (with a decline of 22% on average for the state).

The current municipality expenses increased slightly during the update period (2%), no considerable changes observed in their structure. After a mass investment programme realized in 2009 (BGN 17 707 thousand), in 2010 the capital expenses of Municipality of Burgas amounted to BGN 10 675 thousand. (financed by budget resources), which is comparable with the level maintained in 2007-2008, when the investments were about BGN 9,0 – 9,1 millions.

In the first half-year of 2011 own incomes registered a decline of 5% year on year, determined by the decrease of property sales incomes (94%). The dynamics with the taxes was favorable – their registered increase was 7% year on year.

The municipalities ended the year of 2010 without any overdue debts, such debts were not reported as of 09.2011 either.

In the structure of expenses on functions there were no changes occurred: the public utilities expenses remained the highest share though 3 % decline, they were followed by these for total state services, whose share increased from 15,9% in 2009 to 18,7%.

Despite the decline of 14,0% in 2010 Municipality of Burgas continued spending for second consecutive year a significant share of its budget resources for public utilities (50,3%, 53,6% in 2009). The current expenses retained its ascending trend, as the annual growth in 2010 amounted to 3,6%. Repair expenses and expenses for

maintenance of street network (36,6%, 6,8% growth) and for cleanliness (40,6%, 12,7% growth).

At the end of 2010 a project was started „Integrated urban transport for Burgas” on the JASPERS programme and financed on OP „Regional development”. The value of the project is BGN 131 181 thousand with a deadline of November 2013.

In August 2011 a contract was signed to finance a project „Construction of regional system for Burgas waste management” on OP „Environment” with the following municipalities as partners: Burgas, Aytos, Kameno, Karnobat, Nesebar, Pomorie, Ruen, Sredets, Sungurlare and Burgas Waste Management Association. The total budget of the project is BGN 43 231 thousand. Burgas regional system of waste management shall serve 210 localities, inhabited by nearly 400 thousand people.

The equity programme of the municipality in total amounts to BGN 28 728 thousand in 2010, from which the share of own resources is 17,3%, bank financing – 23,3% and extra budget resources (operating programmes) – 57,7%.

The comparative analysis shows that Municipality of Burgas occupied a close position to this of Municipality of Varna by almost all indicators, excl. the equity expenses per capita (however, the high share of the investments with resources on European programmes in Municipality of Burgas should be taken into consideration). The two Black Sea municipalities registered markedly better values of indicators in comparison with the group of municipalities – region centres, as well as compared to the state as a whole. Municipality of Varna is positioned most favorably in a comparative aspect.

During the update period Dimitar Nikolov continued being a mayor of Municipality of Burgas. He was elected for the second mandate on local elections in October 2011 by 70,86% of the votes for the first round. The system applications for implementation of on-line services in the municipality expanded. The management kept applying measures to improve the collection of tax debts. Positive factor was the maintenance of an active policy of the municipality management in relation with the infrastructure improvements and sources for their financing.

The prepared financial forecast shows that during the whole forecasted period (2011 – 2017) the municipality will be able to cover the minimum

| | |
|--|---|
|  | CREDIT RATING Municipality of Burgas BBB+/a-2 (outlook: positive) January 2012 |
| | 95, Evlogi Georgiev, fl. 1 Sofia 1142 |

needed expenses with recourses from its own incomes and Total Equalized Subsidiary. The received results show in case of a similar development with the forecasted, Municipality of Burgas shall realize a positive operating result during the whole forecasted period. This surplus shall be enough to cover the debt payments in all years excl. 2016, when, however, there shall be enough available cash on accounts to cover the payments.

Main Financial Indicators in leva:

| | 2010 | 2009 | 2008 |
|---|-------------|-------------|-------------|
| Total incomes | 135 133 126 | 137 369 174 | 132 412 839 |
| Incomes for local activities incl.. | 63 458 960 | 61 816 232 | 64 559 386 |
| Own incomes: | 60 567 169 | 58 686 104 | 60 605 025 |
| - tax incomes | 22 320 225 | 20 412 143 | 27 570 779 |
| - non-tax incomes | 38 246 944 | 38 273 961 | 33 034 246 |
| Subsidiaries and transfers for local activities | 2 891 791 | 3 130 128 | 3 954 361 |
| Capital expenses | 10 675 271 | 17 707 211 | 9 106 106 |
| Operating result | 868 572 | -974 651 | 3 455 653 |
| Operating result before taxation | 1 428 638 | -741 524 | 3 812 157 |
| Result form investment activity | -3 813 934 | -9 911 632 | -2 394 732 |
| Deficit/surplus for local activities | -2 945 362 | -10 886 283 | 1 060 921 |