

## LGU CREDIT RATING

20.02.2019

### RATING

Long-term international rating

**A-**

Outlook

**stable**

### SELECTED BUDGETARY INDICATORS

	2017	2018 P
<u>Operating funds*</u> Total income	7,52%	6,89%
<u>Own income</u> Total income	65,10%	64,43%
<u>Capital income</u> Capital expenditures	42,54%	32,10%

\* operational funds - operating surplus plus the amount of interest paid

### BASIC DEBT INDICATORS

	2017	2018 P
<u>Interest paid</u> Net operating surplus*	18,52%	28,24%
<u>Total debt</u> Current income	49,20%	52,33%
<u>Direct debt service</u> Own income	7,72%	7,26%

\* net operating surplus - operating surplus plus the amount of interest paid, less financial income

### CONTACT

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## Kraków, City of – rating A-, Outlook stable



### Main factors affecting the rating

The rating reflects the operating results of the city of Kraków, its high ability to finance investments from its own resources, the exemplary liquidity position of the budget and a low level of debt service in relation to operational funds. The rating also takes into account the level of indebtedness of municipal companies. **The publication of new macroeconomic data had a positive impact on the entity's assessment, but it was not strong enough to justify the raising of the rating. The possible change will depend on annual results, which will be published by the entity in the first half of 2019.**

The debt policy is implemented in a safe manner and guarantees its timely repayment in subsequent periods. The debt planned by the entity should not significantly affect its ability to settle long-term liabilities.

The current income of the unit in 2013-2018 increased from PLN 3.5 billion in 2013 to PLN 4.9 billion in 2018, which implies a cumulative annual growth rate (CAGR) of 7.14%. Part of this increase, however, is associated with income related to the government program to support families bringing up children (the "Family 500+" program). The city's tax revenue ranged from 44.43% to 46.95% of current revenue. On average, 31.60% of tax revenues were local taxes.

The average cost of the city's debt is 4.03%, while the average debt repayment period - that is, the time period in which the city would repay its liabilities assuming that it would allocate its entire operating surplus according to the plan for 2018 almost 10 years. However, if we expand the analysis and take the average surplus from 2013-2018, then the value of this indicator will decrease to approximately 8 years.

### The main factors of the rating change

The city has a stable budget base. The level of the operating surplus was maintained at a relatively high level in 2013-2018. A relatively low surplus in 2018 may be related to prudent income and expenditure forecasting. An important factor that may lead to a change in the rating will, therefore, be an analysis of the actual execution of the planned revenue and budget expenditure plan. An analysis of the city's budgets in the last 11 years suggests that approximately 20% of the revenue item generates approx. 75% of the budget (similarly in the expenditure of 20% of the largest items, it generates 70% of all expenditure). Despite the narrowing of the source of these revenues, they are based on a significant scope (on average 67% in 2013-2018) on the city's own revenues.

Despite the completion of investment projects in the last 5 years exceeding PLN 3 billion, the level of debt is higher than at the beginning of this period by only PLN 332.7 million. The debt planned by the entity in subsequent periods should not significantly affect its ability to settle long-term liabilities.

**Factors determining the raise of the rating:** maintaining the ratio of direct debt servicing to operational funds below 60%, with the increase in the operating margin (operating surplus / current income ratio) above 10%.

**Factors determining the lowering of the rating:** an over-plan increase in the level of debt, with the operating margin below 6%, and the trend in the ratio of income and operating expenses, caused by an increase in expenditure on wages.

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District Court Poznań - Nowe Miasto and Wilda, VIII Commercial Division of the National Court Register KRS 0000535140, NIP: 781-19-02-148, REGON: 302860944 Share capital: PLN 2.350.000, paid-up capital: PLN 2.350.000

**Selected budgetary indicators**

INDICATOR	2013	2014	2015	2016	2017	2018 <sup>(plan)</sup>	AVERAGE
Net operating surplus/ Net current income	10,97%	12,58%	8,22%	7,81%	7,62%	7,10%	9,05%
Operating surplus / Current income	8,74%	10,99%	6,72%	6,71%	6,54%	5,38%	7,51%
Surplus (deficit) / Total income	2,57%	-0,65%	-1,88%	-0,38%	-1,10%	-9,19%	-1,77%
Budget balance / Total income	2,34%	1,64%	0,64%	4,64%	5,04%	0,00%	2,38%
Operating funds / Total income	10,51%	11,98%	7,80%	7,55%	7,52%	6,89%	8,71%
Operating surplus (% yoy)	29,52%	35,32%	-37,10%	12,76%	5,12%	-13,83%	5,30%
Own income (% yoy)	8,04%	8,24%	3,63%	6,09%	6,37%	5,04%	6,24%
Direct debt (% yoy)	-3,41%	-0,08%	1,93%	10,42%	3,89%	11,30%	4,01%
Total debt (% yoy)	-3,41%	-0,08%	1,93%	10,42%	3,89%	11,30%	4,01%
Interest / Net operating surplus	23,26%	15,71%	20,23%	17,48%	18,52%	28,24%	20,57%
Direct debt service/ Own income	16,69%	11,22%	8,79%	8,45%	7,72%	7,26%	10,02%
Direct debt service / Current income	12,24%	8,27%	6,53%	5,89%	5,31%	5,02%	7,21%
Direct debt service / Operating funds	108,47%	63,84%	77,93%	73,05%	66,88%	67,94%	76,35%
Direct debt / Current income	56,81%	52,73%	52,27%	51,08%	49,20%	52,33%	52,40%
Total debt / Current income	56,81%	52,84%	52,27%	51,08%	49,20%	52,33%	52,42%
Direct debt / Operating surplus (years)	6,50	4,80	7,78	7,62	7,53	9,72	.
Total debt / Own income	77,47%	71,66%	70,35%	73,22%	71,51%	75,77%	73,33%
Direct debt / Own income	77,47%	71,52%	70,35%	73,22%	71,51%	75,77%	73,30%
Total net debt + indirect liabilities/ Current income	84,30%	84,94%	89,89%	80,26%	72,77%	79,96%	82,02%
Indicator from art. 243 of Public Finance Law	10,36%	11,55%	11,62%	11,09%	9,96%	8,39%	10,49%
Tax income / Current income	44,96%	45,13%	46,06%	44,43%	45,46%	46,95%	45,50%
Local taxes / Total tax income	33,91%	33,44%	32,11%	31,34%	30,29%	28,53%	31,60%
Grants and subsidies / Current income	30,81%	29,24%	28,63%	32,72%	33,23%	32,50%	31,19%
Current income / Total income	93,12%	92,51%	93,10%	93,57%	94,61%	93,28%	93,36%
Own income / Total income	68,29%	68,21%	69,18%	65,28%	65,10%	64,43%	66,75%
Salaries / (Current expenditure - Interest)	39,08%	38,28%	37,55%	34,58%	34,08%	33,83%	36,23%
Grants and subsidies / (Current expenditure - Interest)	34,73%	33,59%	31,25%	35,59%	36,10%	35,09%	34,39%
Capital expenditure / Total expenditure	12,78%	18,19%	14,77%	13,04%	12,53%	19,17%	15,08%
Interest / Average debt	4,40%	3,73%	3,21%	2,80%	2,91%	4,03%	3,51%
Operating surplus / Capital expenditure	65,38%	55,52%	41,60%	47,95%	48,81%	23,99%	47,21%
Capital income / Capital expenditure	55,23%	40,94%	45,87%	49,14%	42,54%	32,10%	44,30%
Change of net debt / Capital expenditure	-14,99%	-0,20%	6,12%	34,46%	13,75%	23,68%	10,47%
Surplus (deficit) / Capital expenditure	20,61%	-3,53%	-12,53%	-2,91%	-8,65%	-43,91%	-8,49%
(Operating surplus + Capital income) / Capital expenditure	120,61%	96,47%	87,47%	97,09%	91,35%	56,09%	91,51%
Total debt / Operating surplus (years)	6,50	4,81	7,78	7,62	7,53	9,72	.
Total debt / Operating funds	503,5%	407,9%	623,7%	633,0%	619,4%	708,8%	582,69%
Debt service / (Operating funds + Surpluses from previous years)	88,71%	56,15%	72,06%	45,24%	40,02%	67,94%	61,69%

**Financial data (PLN million)**

	2013	2014	2015	2016	2017	2018 <sup>(plan)</sup>	AVERAGE
<b>Total income (1+4a)</b>	3 735,66	4 048,34	4 135,99	4 650,43	4 960,48	5 264,29	4 465,86
<b>Total expenditure (2+4b)</b>	3 639,80	4 074,52	4 213,94	4 668,15	5 014,85	5 748,12	4 559,90
<b>1. Current income (1a+1b+1c+1d)</b>	3 478,81	3 744,95	3 850,56	4 351,35	4 693,15	4 910,55	4 171,56
a. Tax income:	1 564,00	1 690,25	1 773,73	1 933,30	2 133,31	2 305,61	1 900,03
- PIT	957,70	1 038,22	1 115,68	1 224,44	1 379,95	1 517,89	1 205,65
- CIT	75,95	86,74	88,49	102,99	107,10	130,00	98,55
- Local taxes	530,35	565,29	569,56	605,87	646,26	657,72	595,84
b. Grants and subsidies	1 071,83	1 094,85	1 102,46	1 423,84	1 559,57	1 595,86	1 308,07
c. Fees and other operating income	830,79	943,91	967,58	982,18	983,86	994,30	950,44
d. Financial income	12,18	15,93	6,79	12,03	16,41	14,78	13,02
<b>2. Current expenditure (2a+2b+2c+2d)</b>	3 174,76	3 333,50	3 591,74	4 059,50	4 386,37	4 646,19	3 865,34
a. Salaries	1 206,09	1 247,86	1 324,72	1 383,14	1 472,27	1 538,54	1 362,10
b. Guarantees	0,00	0,00	0,00	0,00	0,00	0,00	0,00
c. Interest	88,48	73,71	63,92	59,27	66,01	98,23	74,94
d. Other	1 880,18	2 011,93	2 203,10	2 617,09	2 848,09	3 009,42	2 428,30
<b>3. Operating surplus (1-2)</b>	304,05	411,45	258,82	291,85	306,78	264,36	306,22
<b>4. Capital balance (4a-4b)</b>	-208,19	-437,64	-336,77	-309,57	-361,15	-748,20	-400,25
a. Capital income:	256,85	303,39	285,42	299,08	267,33	353,74	294,30
- subsidies for investments	112,86	192,30	172,23	190,98	171,86	276,59	186,14
b. Capital expenditure	465,04	741,03	622,20	608,65	628,48	1 101,93	694,56
<b>5. Surplus / deficit (3+4)</b>	95,86	-26,19	-77,95	-17,72	-54,37	-483,84	-94,03
<b>6. Net debt change (6a-6b)</b>	-33,32	4,46	37,42	207,13	88,63	252,89	92,87
a. New debt	303,96	240,47	225,00	404,35	271,93	401,00	307,79
b. Principal payments	337,28	236,01	187,58	197,22	183,30	148,11	214,92
6.1. Other revenues	24,87	88,15	66,81	26,47	217,45	230,94	109,11
6.2. Other expenditures	0,00	0,00	0,00	0,00	1,50	0,00	0,25
<b>7. Budget result (5+6+6.1-6.2)</b>	87,41	66,42	26,27	215,87	250,21	0,00	107,70

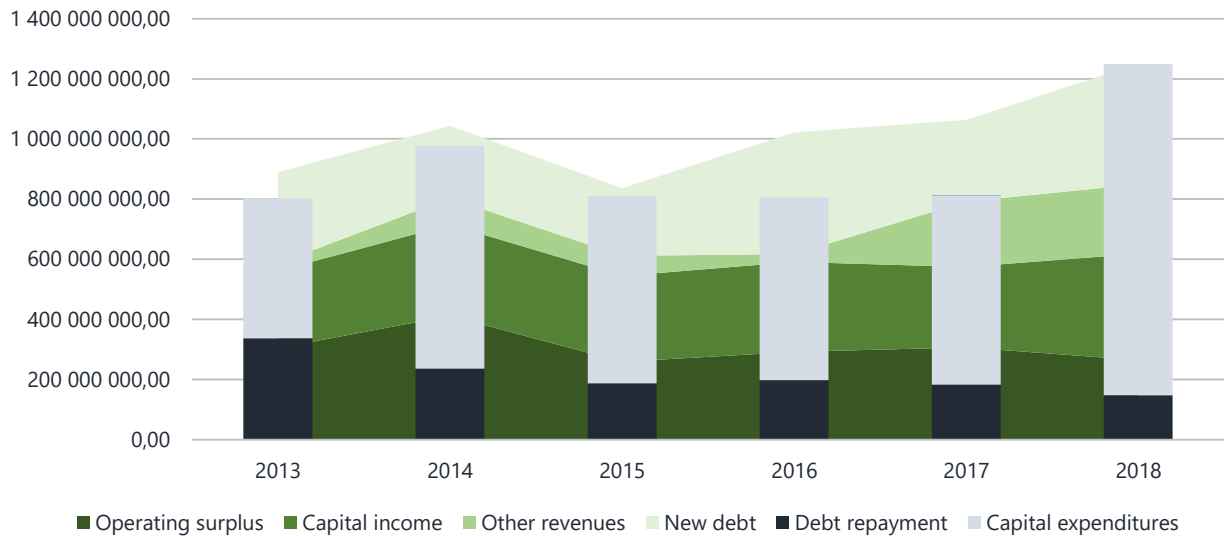
**Debt (PLN million)**

DEBT	2013	2014	2015	2016	2017	2018 <sup>(plan)</sup>	AVERAGE
Long-term debt	1 976,26	1 974,76	2 012,84	2 222,57	2 308,97	2 569,91	2 177,55
<b>Direct debt</b>	1 976,26	1 974,76	2 012,84	2 222,57	2 308,97	2 569,91	2 177,55
+ Other liabilities	0,00	3,98	0,00	0,01	0,01	0,00	0,67
<b>Total debt</b>	1 976,26	1 978,74	2 012,84	2 222,58	2 308,99	2 569,91	2 178,22
- Surpluses from previous years	87,41	66,42	26,27	215,87	250,21	0,00	107,70
<b>Total net debt</b>	1 888,85	1 912,31	1 986,57	2 006,71	2 058,77	2 569,91	2 070,52
+ Guarantees (paid)	6,09	394,67	457,94	424,06	387,63	373,57	340,66
+ Municipal debt acquired	1 037,80	873,83	1 016,63	1 061,57	968,85	982,90 <sup>1</sup>	990,26
<b>Total net debt and indirect liabilities</b>	2932,75	3180,81	3461,14	3492,33	3415,25	3926,39	3 401,44

<sup>1</sup> Due to the lack of data on the planned indebtedness of municipal companies, the state of liabilities was adopted as at 31.12.2017, adjusted for the information held.

## Financial flows in the budget of the City

The graph below illustrates the financial situation of the City in an aggregated way. Budget receipts are shown in the form of a cumulative layered chart, while expenditures and expenses are presented in the form of a cumulated bar chart.



### Operating surplus

Operating surplus is the difference between current income and current expenditures. Pursuant to the Act on Public Finances, the current expenditure of the city must be financed entirely from current income, free funds and budget surplus from previous years. As the value of flows performed during the year is often different from the plan, local government units are thus obliged to maintain a positive operating surplus, acting as a security bugger. Operating surplus is the least rigorous category of budget funds in terms of spending, as there is no predetermined purpose for which it must be allocated.

### Capital income

The second category regarding revenues to the budget of local government unit is capital income, and therefore all income related to subsidies not related to the current expenditure, and income related to the property owned by the local government unit.

### New debt

The third category of budget inflows presented is the new debt. According to the article 89 of the Public Finance Act, units of the public finance sector can take out loans and borrowings, and also issue securities for the following purposes:

1. Covering the budget deficit of the local government unit that occurs during the year;
2. Financing the planned budget deficit of a local government unit;
3. Repayment of previously contracted obligations arising from the issue of securities and loans taken;
4. Prefinancing of activities financed with the funds from the European Union.

### Other revenues

The last category of inflows is other revenues, which include, for example, surplus from previous years or revenues related to the privatization of LGU assets.

### Capital expenditure, principal payments

The chart presents budget categories, covered by the City from its funds. The largest is definitely capital expenditures (most often these are investments). The second category presented on the chart is funds allocated for repayment of the unit's debt.

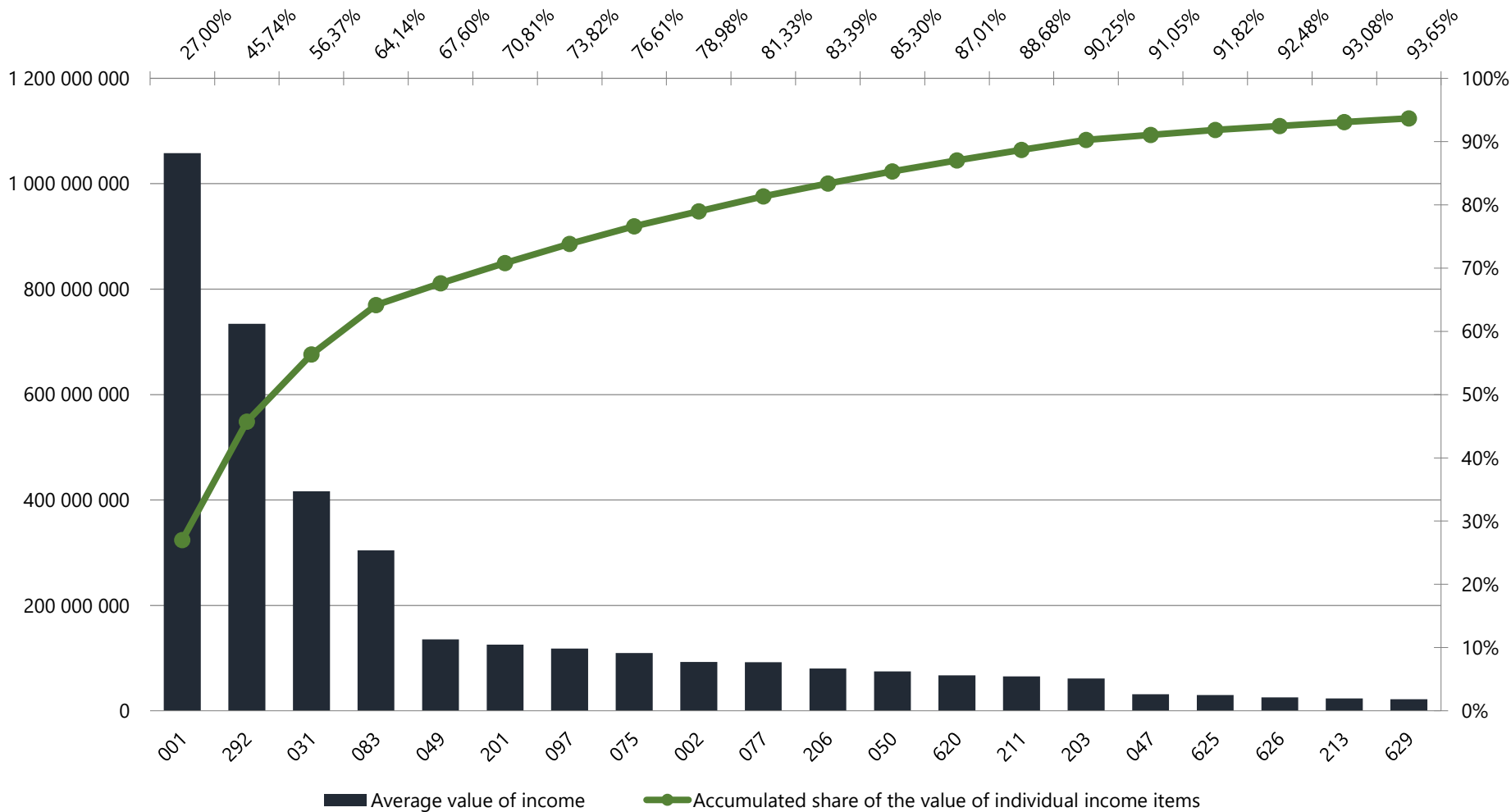
**Analysis of income in 2008-2018 (PLN million)**

The income of local government units is divided into two types - current income and property income. Property income includes subsidies and funds allocated for investments, income from the sale of assets and income from transformation of the right of perpetual usufruct into ownership, while current income is all other income obtained by the local government. Current income entries were analysed in detail, their size shapes the budget structure of the LGU, so their analysis allows to capture the trend of individual budget items. This is the basis for forecasting the evolution of individual items of local government units' revenues in the future, which is performed by local government units in the document: Multi-Year Financial Forecast (Wieloletnia Prognoza Finansowa, WPF), and INC Rating Analysts decide on the rating outlook based on their independent analysis based on it.

No.	§	DESCRIPTION	Average value of income	Share in the income	Accumulated share	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 <sup>(plan)</sup>
1	001	Personal Income Tax	1 058,23	27,00%	27,00%	865,1	860,6	848,5	912,7	919,7	957,7	1 038,2	1 115,7	1 224,4	1 379,9	1 517,9
2	292	General subsidies from the state budget	734,02	18,73%	45,74%	575,8	632,8	675,0	698,3	741,9	754,7	751,3	761,3	800,4	822,9	859,8
3	031	Property tax	416,72	10,63%	56,37%	324,3	325,4	328,5	358,0	389,1	421,4	457,9	470,0	489,1	505,9	514,3
4	083	Proceeds from services	304,36	7,77%	64,14%	260,4	270,2	265,2	295,0	316,3	332,5	324,3	330,5	316,3	313,6	323,6
5	049	Proceeds from other local fees charged by local government units on the basis of separate acts	135,78	3,46%	67,60%	27,4	25,0	27,4	26,2	41,3	140,1	217,2	233,5	240,2	263,6	251,7
6	201	Targeted subsidies received from the state budget for the implementation of current tasks in the field of government administration and other tasks commissioned to the municipality (associations of municipalities) by other acts	125,58	3,20%	70,81%	114,5	112,4	117,9	113,5	110,6	108,5	115,4	121,8	139,1	149,2	178,5
7	097	Proceeds from various income sources	118,04	3,01%	73,82%	81,1	137,3	131,9	132,2	115,3	110,0	123,6	129,9	124,8	103,3	109,0
8	075	Income from lease of property components of the Treasury, local government units or other units included in the public finance sector and other agreements of a similar nature	109,51	2,79%	76,61%	102,8	114,4	112,5	113,3	109,5	105,2	108,2	110,5	108,3	107,5	112,4
9	002	Corporate Income Tax	92,71	2,37%	78,98%	119,6	93,2	69,2	77,9	68,6	76,0	86,7	88,5	103,0	107,1	130,0
10	077	Payments for the acquisition of the right of ownership and the right of perpetual usufruct of the real estate	92,28	2,35%	81,33%	57,6	57,2	87,4	85,8	120,9	138,4	102,3	102,6	100,4	87,3	75,0
11	206	Targeted subsidies transferred from the state budget to current tasks in the field of government administration commissioned to municipalities (associations of municipalities, county and community associations), related to the implementation of an educational service constituting state aid in raising children	80,42	2,05%	83,39%	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	244,6	339,1	300,9

No.	§	DESCRIPTION	Average value of income	Share in the income	Accumulated share	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 <sup>(plan)</sup>
12	050	Tax on civil law transactions	74,86	1,91%	85,30%	85,6	62,4	64,8	68,1	60,8	68,5	69,7	65,7	77,9	99,9	99,9
13	620	Specific subsidies under programs financed with the participation of European funds and funds referred to in art. 5 par. 1 point 3 and par. 3 points 5 and 6 of the Act, or payments under the budget of European funds	67,34	1,72%	87,01%	0,0	46,6	189,8	67,0	37,8	43,1	160,3	110,2	82,8	3,3	0,0
14	211	Targeted subsidies received from the state budget for current tasks in the field of government administration and other tasks commissioned by laws implemented by the county	65,39	1,67%	88,68%	49,0	54,6	57,4	57,5	64,7	67,4	70,9	71,7	70,3	82,2	73,7
15	203	Targeted subsidies received from the state budget for the implementation of own tasks of current municipalities (municipal associations)	61,41	1,57%	90,25%	32,5	33,6	41,4	35,0	43,1	62,6	83,9	83,8	106,4	80,8	72,4
16	047	Proceeds from fees for management, use and perpetual usufruct of real estate	31,52	0,80%	91,05%	24,0	25,5	28,0	28,9	48,5	42,6	53,4	53,5	15,0	10,1	17,1
17	625	Specific subsidies under programs financed with the participation of European funds and funds referred to in art. 5 par. 3 point 5 lit. a and b of the Act, or payments within the budget of European funds, implemented by local government units	30,02	0,77%	91,82%	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	18,5	77,3	234,4
18	626	Subsidies received from state earmarked funds for financing or co-financing the costs of investment implementation and investment purchases of public finance sector entities	25,75	0,66%	92,48%	17,1	20,7	72,5	0,0	4,4	11,7	16,5	48,0	73,6	17,1	1,6
19	213	Targeted subsidies received from the state budget for the implementation of the current county's own tasks	23,69	0,60%	93,08%	30,4	24,1	27,7	24,7	28,1	26,7	21,0	17,6	19,6	20,9	20,0
20	629	Funds for co-financing own investments of municipalities (associations of communes), counties (county unions), voivodship self-governments, obtained from other sources	22,26	0,57%	93,65%	40,4	89,8	5,2	9,0	1,3	57,4	6,2	10,6	11,4	7,2	6,3

The most important item among the city's income is income from personal income tax (001), while the second is the general subvention from the state budget (292). These two categories of income corresponded on average to 45.74% of all city revenues in the analysed period. The next largest items of income are real estate tax (031), proceeds from services (083), and proceeds from other local fees charged by local government units on the basis of separate acts (049). These five items correspond to an average of 67.60% of the city budget. It is worth to focus the most attention on them when analysing the city budget revenues because they have the greatest impact on its financial situation.



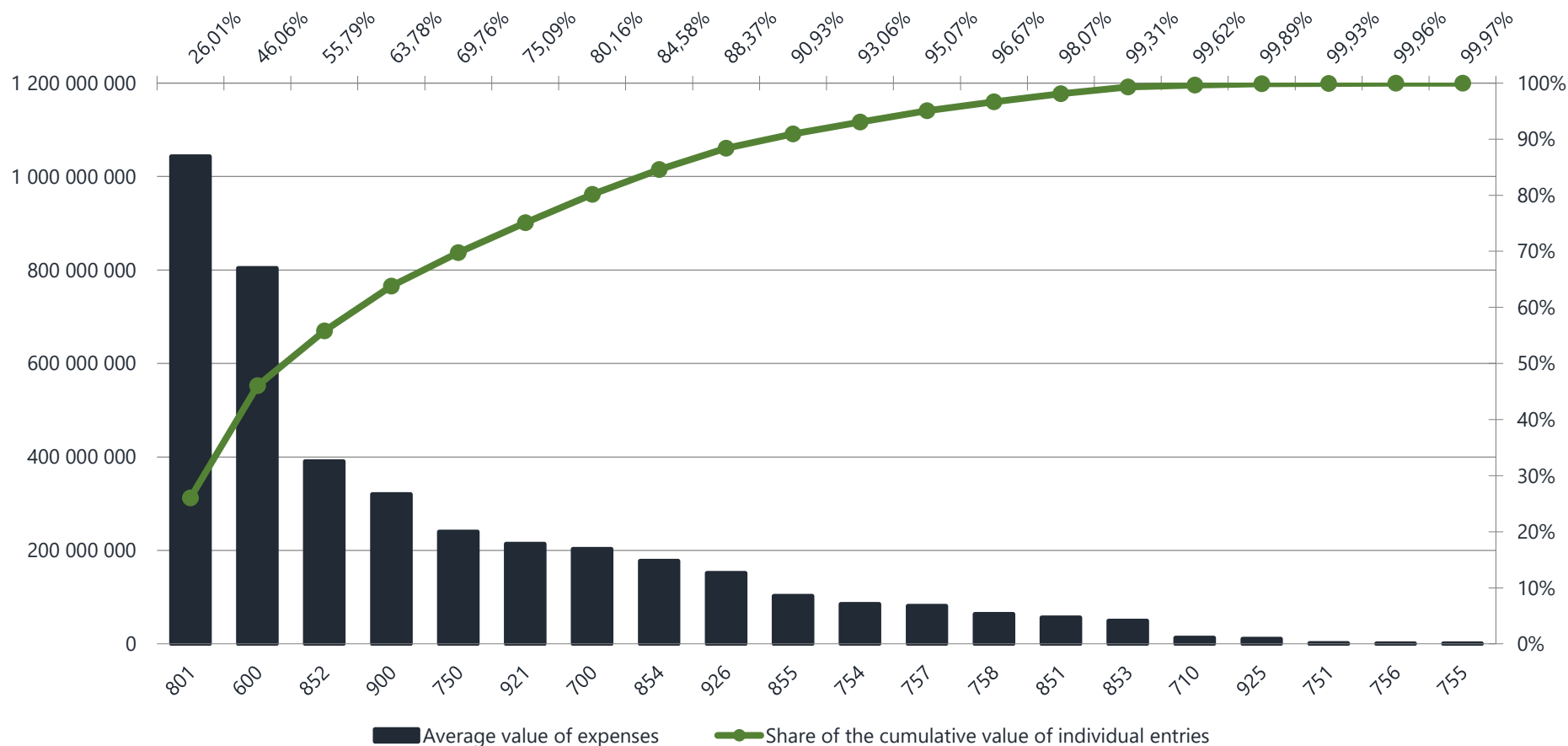
**Expenditure analysis in 2008-2018 (PLN million)**

The expenditures of the local government units can be divided into current and capital. Current expenditure includes various types of costs related to the functioning of the local government, including remuneration and emoluments of persons employed in self-government budgetary units and contributions calculated on these remuneration and emoluments, purchases of goods and services or maintenance costs of budgetary units.

No.	§	DESCRIPTION	Average value of expenses	Share in the expenses	Accumulated share	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 <sup>(plan)</sup>
1	801	Education and upbringing	1042,85	26,01%	26,01%	790,0	854,9	914,8	972,5	1017,0	1052,8	1060,7	1113,9	1199,2	1225,0	1270,7
2	600	Transport and communication	804,00	20,05%	46,06%	798,6	732,4	617,3	609,6	737,0	744,3	896,8	903,3	838,9	849,7	1116,1
3	852	Social spending	390,31	9,73%	55,79%	334,6	342,9	362,2	351,3	361,6	362,8	373,6	406,4	714,7	334,7	348,5
4	900	Municipal management and environmental protection	320,27	7,99%	63,78%	171,5	212,7	207,9	121,6	129,0	217,7	340,3	425,5	514,2	539,3	643,3
5	750	Public administration	239,74	5,98%	69,76%	212,8	216,0	205,1	198,0	192,3	202,8	223,9	240,8	266,7	317,5	361,2
6	921	Culture and protection of national heritage	213,83	5,33%	75,09%	140,2	191,9	218,2	185,5	175,0	220,8	315,4	191,0	206,9	235,4	271,9
7	700	Public housing	203,00	5,06%	80,16%	190,6	195,6	189,0	167,9	194,5	190,5	204,3	242,1	205,6	217,1	235,7
8	854	Educational care	177,54	4,43%	84,58%	134,1	142,8	155,2	161,3	165,3	173,5	189,0	200,3	204,8	208,6	218,1
9	926	Physical culture and sport	151,78	3,79%	88,37%	82,8	221,0	170,1	194,4	162,6	126,7	121,4	119,8	133,5	151,8	185,3
10	855	Family	102,71	2,56%	90,93%	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	561,0	568,8
11	754	Public safety and fire protection	85,20	2,12%	93,06%	83,5	82,2	74,8	76,0	73,3	77,2	78,4	91,0	91,2	94,5	115,2
12	757	Public debt service	80,88	2,02%	95,07%	75,8	70,3	76,8	85,4	108,4	88,8	74,0	64,0	59,3	66,0	121,0
13	758	Different settlements	64,03	1,60%	96,67%	41,2	52,7	64,5	67,1	64,0	64,9	58,5	60,2	68,7	69,2	93,2
14	851	Healthcare	56,27	1,40%	98,07%	40,5	44,2	46,6	48,3	34,5	48,7	57,1	62,2	65,1	73,2	98,6
15	853	Other tasks in the field of social policy	49,49	1,23%	99,31%	35,1	34,8	38,7	50,6	50,2	50,7	59,3	67,6	68,6	39,4	49,3
16	710	Public service activities	12,68	0,32%	99,62%	9,3	9,9	6,7	12,9	13,2	8,9	6,7	8,8	15,9	15,9	31,4
17	925	Botanical and zoological gardens as well as natural areas and objects of protected nature	10,77	0,27%	99,89%	11,4	9,9	9,9	10,0	9,8	8,2	10,2	12,4	11,3	12,8	12,6
18	751	Offices of the supreme state authorities, control and protection of law and the judiciary	1,62	0,04%	99,93%	0,1	1,1	3,8	1,2	0,1	0,1	4,6	4,5	0,6	0,1	1,6
19	756	Income from legal persons, from individuals and from other entities without legal personality, and expenses related to their collection	1,01	0,03%	99,96%	2,6	3,0	2,4	3,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
20	755	Justice	0,52	0,01%	99,97%	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,8	1,9	2,0

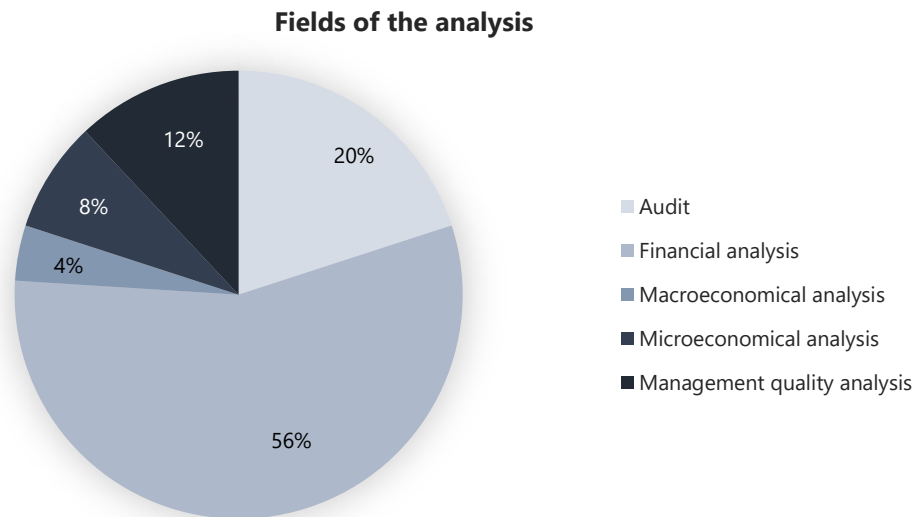


The most important entry in the city's expenditure list is the education and upbringing (801), significantly exceeding the co-financing that the city receives from the state budget in order to achieve this task. The second largest category in terms of total value is transport and communication expenses (600) - these two entries corresponded on average to 46.06% of all budget expenditure in the analysed period. It is worth to focus the most attention on these entries when analysing spending in the city because it has the biggest impact on its budgetary situation. The next expenditure entries are social spending (852), municipal management and environmental protection (700) and public administration (750). Together with the previous two entries, it constitutes to 69.76% of the city's expenditure and it is on them that the greatest attention should be focused on when looking for potential savings.



## The methodology used by INC Rating

The methodology used by INC Rating focuses mainly on five areas or five perspectives, from which the analysts of the agency, by means of expert analysis, evaluate the analyzed entity. These areas are presented in a concise manner below:



**1. The audit** of the local government unit is one of the first steps in the credit rating process. It involves meeting employees of the analytical department with representatives of the Unit - thanks to the information obtained during such a meeting, it is possible to reliably assess the state in which the municipality's economy is actually located. The results of this meeting are presented in the further part of the report..

**2. The analysis from the macroeconomic perspective** is another step in the rating process. There are two levels of macroeconomic impact on subregions and communes - regional (voivodships) and national. In the case of voivodships, we take into account only one level of macroeconomic impact - the national level.

**3. The analysis from the microeconomic perspective** consists in making an accurate, multidimensional review of the situation of the selected entity based on data from its immediate environment.

**4. The analysis of the quality of management** consists of making an unbiased assessment of the efficiency and effectiveness of the entity being evaluated based on the adopted indicators.

**5. The financial analysis** of the rated entity is the most important element in the rating process. It is the result of an assessment of both the macro and micro economic potential of the entity based on his administrative decisions (Management analysis). Hence, the awarded rating depends largely on the results of the financial analysis of the local government budget.

## The rating scale

The rating scale implemented by INC Rating includes two levels of credit quality:

**I. Investment grade credit rating** – is a credit rating that falls within the range from AAA to BBB- and it is characterized by a relatively low risk associated with investing in instruments issued by the entity being evaluated. The probability of default or debt restructuring of such entity is minimal, and the risk concerns primarily the timely payment of liabilities.

**II. Speculative grade credit rating** – is a credit rating that falls within the range from BB+ to D and it is characterized by a relatively higher risk associated with investing in instruments issued by the entity being evaluated.

The methodology presented above is a description of the main components of the rating. The final rating is the result of the analysis of nearly two hundred different ratios, areas and trends observed in the budgets and the general situation of the entities assessed

Rating	Risk description	
AAA	The lowest risk	Investment grade
AA+		
AA	Very low risk	
AA-		
A+	Low risk	
A		
A-		
BBB+	Moderate risk	
BBB		
BBB-		
BB+	Speculative level	Speculative grade
BB		
BB-		
B+	Highly speculative level	
B		
B-		
CCC	Significant risk	
CC	Very high risk	
C	In default with low improvement chance	
D	Defaulted	

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