



LGU CREDIT RATING

20.02.2019

RATING

Long-term international rating

A-

Outlook

stable

SELECTED BUDGETARY INDICATORS

	2017	2018 P
$\frac{\text{Operating funds*}}{\text{Total income}}$	11,57%	5,09%
$\frac{\text{Own income}}{\text{Total income}}$	75,04%	75,45%
$\frac{\text{Capital income}}{\text{Capital expenditures}}$	29,96%	25,27%

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

BASIC DEBT INDICATORS

	2017	2018 P
$\frac{\text{Interest paid}}{\text{Net operating surplus*}}$	13,54%	36,66%
$\frac{\text{Total debt}}{\text{Current income}}$	34,41%	29,59%
$\frac{\text{Direct debt service}}{\text{Own income}}$	6,62%	6,64%

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

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Warszawa, City of – rating A-, Outlook stable

The main factors affecting the rating

The rating reflects the operating results of the Capital City of Warsaw, its high ability to finance investments from its own resources, an 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 raising 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 11.1 billion in 2013 to PLN 15.4 billion in 2018, which implies a cumulative annual growth rate (CAGR) of 6.76%. Part of this increase, however, is associated with grants related to the government program to support families bringing up children (the "Family 500+" program). The city's tax revenue ranged from 49.11% to 51.54% of current revenue. On average, 24.36% of tax revenues were local taxes.

The average cost of the city's debt is 4.54%, while the average debt repayment period - that is, the time period in which the city would repay its liabilities assuming that it would devote its entire operating surplus according to the plan for 2018 to 8 years. However, if we expand the analysis and take the average surplus from 2013-2018, then the value of this indicator will decrease to less than 4 years.

The main factors of the rating change

The city has a stable budget base. The level of operating surplus grew in the years 2013-2017. A relatively low surplus in 2018 may be related to prudent forecasting of income and expenses. 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 approximately 85% of the budget (similarly in the expenditure of 20% of the largest positions, it generates 83% of all expenditure). Despite the narrowing down of the source of these revenues, they are based on a significant extent (on average 76% in 2013-2018) on the city's own revenues. According to the consolidated balance sheet, as at December 31, 2017, the city had cash in the amount of PLN 6.1 billion (134% of the value of direct debt planned at the end of 2018).

Despite the completion of investment projects in the last 5 years exceeding PLN 8 billion, the level of debt is lower than at the beginning of this period by PLN 799.1 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: stabilization of the operating surplus at the level exceeding 12% of current income and maintaining a decreasing share of expenditure on remuneration in current expenditure.

Factors determining the rating downgrade: an over-plan increase in the level of debt, with a permanent reduction in the operating margin below 10% and an upward trend in the relation of operating income and expenses, caused by an increase in expenditure on remuneration.

INC Rating is a rating agency specializing in the credit risk assessment of Local Government Units. Description of the methodology applied by INC Rating as well as all restrictions and reservations to which credit ratings issued by INC Rating are subject can be found on the official website of the agency <http://www.incrating.pl>.

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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 ^(plan)	AVERAGE
Net operating surplus/ Net current income	9,71%	11,30%	12,69%	10,53%	11,34%	4,53%	10,01%
Operating surplus / Current income	7,88%	9,69%	11,59%	9,59%	10,50%	3,70%	8,83%
Surplus (deficit) / Total income	0,61%	2,38%	9,92%	6,33%	1,32%	-10,29%	1,71%
Budget balance / Total income	10,38%	13,57%	10,81%	11,95%	8,26%	0,00%	9,16%
Operating funds / Total income	9,63%	10,68%	12,21%	10,57%	11,57%	5,09%	9,96%
Operating surplus (% yoy)	965,20%	35,41%	27,45%	-12,56%	18,09%	-63,48%	161,69%
Own income (% yoy)	7,65%	8,26%	7,15%	-0,11%	5,48%	5,23%	5,61%
Direct debt (% yoy)	4,03%	1,90%	-2,97%	-3,09%	-9,71%	-10,87%	-3,45%
Total debt (% yoy)	4,03%	1,90%	-2,97%	-3,09%	-9,71%	-10,87%	-3,45%
Interest / Net operating surplus	27,92%	20,58%	14,18%	16,08%	13,54%	36,66%	21,49%
Direct debt service/ Own income	6,18%	10,88%	3,69%	3,71%	6,62%	6,64%	6,28%
Direct debt service / Current income	5,27%	9,12%	3,11%	2,95%	5,16%	5,25%	5,15%
Direct debt service / Operating funds	49,88%	76,03%	23,26%	26,21%	42,94%	98,29%	52,77%
Direct debt / Current income	53,21%	49,23%	44,84%	41,09%	34,41%	29,59%	42,06%
Total debt / Current income	53,21%	49,23%	44,84%	41,09%	34,41%	29,59%	42,06%
Direct debt / Operating surplus (years)	6,75	5,08	3,87	4,29	3,28	8,00	.
Total debt / Own income	62,36%	58,70%	53,15%	51,56%	44,14%	37,39%	51,22%
Direct debt / Own income	62,36%	58,70%	53,15%	51,56%	44,14%	37,39%	51,21%
Total net debt + indirect liabilities/ Current income	75,88%	68,63%	60,36%	50,60%	43,09%	46,19%	57,46%
Indicator from art. 243 of Public Finance Law	3,78%	5,46%	7,67%	11,26%	11,44%	11,62%	8,54%
Tax income / Current income	50,64%	49,51%	49,11%	50,49%	51,54%	50,63%	50,32%
Local taxes / Total tax income	26,47%	26,03%	24,19%	24,66%	24,90%	21,36%	24,60%
Grants and subsidies / Current income	18,34%	18,64%	19,11%	22,02%	22,76%	22,38%	20,54%
Current income / Total income	91,10%	89,00%	91,28%	93,85%	96,24%	95,33%	92,80%
Own income / Total income	77,74%	74,64%	77,00%	74,79%	75,04%	75,45%	75,78%
Salaries / (Current expenditure - Interest)	33,03%	31,85%	32,94%	32,43%	32,57%	31,65%	32,41%
Grants and subsidies / (Current expenditure - Interest)	20,51%	21,18%	22,06%	24,81%	25,87%	23,64%	23,01%
Capital expenditure / Total expenditure	15,56%	17,66%	10,42%	9,41%	12,71%	16,76%	13,75%
Interest / Average debt	5,14%	4,73%	3,92%	4,02%	4,20%	5,24%	4,54%
Operating surplus / Capital expenditure	46,42%	50,04%	112,71%	102,11%	80,61%	19,08%	68,49%
Capital income / Capital expenditure	57,53%	63,80%	92,90%	69,77%	29,96%	25,27%	56,54%
Change of net debt / Capital expenditure	12,14%	4,74%	-13,36%	-13,95%	-28,40%	-18,61%	-9,57%
Surplus (deficit) / Capital expenditure	3,95%	13,83%	105,61%	71,88%	10,57%	-55,65%	25,03%
(Operating surplus + Capital income) / Capital expenditure	103,95%	113,83%	205,61%	171,88%	110,57%	44,35%	125,03%
Total debt / Operating surplus (years)	6,75	5,08	3,87	4,29	3,28	8,00	.
Total debt / Operating funds	503,6%	410,4%	335,1%	364,7%	286,2%	553,6%	408,94%
Debt service / (Operating funds + Surpluses from previous years)	24,00%	33,48%	12,34%	12,30%	25,05%	98,29%	34,25%

Financial data (PLN million)

	2013	2014	2015	2016	2017	2018 ^(plan)	AVERAGE
Total income (1+4a)	12 222,73	13 780,75	14 313,68	14 722,23	15 476,72	16 198,33	14 452,41
Total expenditure (2+4b)	12 147,98	13 452,19	12 894,31	13 789,83	15 271,68	17 864,96	14 236,82
1. Current income (1a+1b+1c+1d)	11 134,86	12 265,42	13 065,09	13 817,25	14 895,44	15 441,54	13 436,60
a. Tax income:	5 638,68	6 073,08	6 416,20	6 976,62	7 676,62	7 818,53	6 766,62
- PIT	3 678,16	3 968,25	4 276,72	4 639,05	5 040,92	5 408,22	4 501,89
- CIT	467,76	524,23	587,25	617,29	724,39	740,00	610,15
- Local taxes	1 492,75	1 580,60	1 552,24	1 720,28	1 911,31	1 670,30	1 654,58
b. Grants and subsidies	2 041,97	2 285,80	2 496,77	3 041,93	3 390,24	3 455,28	2 785,33
c. Fees and other operating income	3 348,05	3 809,66	4 048,77	3 685,35	3 713,09	4 035,28	3 773,36
d. Financial income	106,17	96,89	103,35	113,35	115,50	132,46	111,28
2. Current expenditure (2a+2b+2c+2d)	10 257,14	11 076,90	11 550,28	12 492,72	13 331,29	14 870,29	12 263,11
a. Salaries	3 289,36	3 438,23	3 727,60	3 975,88	4 267,81	4 626,63	3 887,58
b. Guarantees	8,10	2,01	1,98	0,00	0,00	0,00	2,01
c. Interest	298,90	282,82	233,22	232,11	226,92	253,99	254,66
d. Other	6 660,78	7 353,84	7 587,48	8 284,73	8 836,56	9 989,67	8 118,84
3. Operating surplus (1-2)	877,72	1 188,52	1 514,81	1 324,52	1 564,15	571,25	1 173,50
4. Capital balance (4a-4b)	-802,96	-859,96	-95,44	-392,12	-1 359,11	-2 237,88	-957,91
a. Capital income:	1 087,87	1 515,33	1 248,59	904,98	581,28	756,79	1 015,81
- subsidies for investments	679,42	1 208,45	794,76	669,82	472,35	521,99	724,46
b. Capital expenditure	1 890,83	2 375,29	1 344,03	1 297,10	1 940,38	2 994,67	1 973,72
5. Surplus / deficit (3+4)	74,76	328,56	1 419,38	932,40	205,04	-1 666,63	215,59
6. Net debt change (6a-6b)	191,98	114,14	-173,42	-175,84	-542,24	-557,17	-190,43
a. New debt	480,00	950,00	0,00	0,00	0,00	0,00	238,33
b. Principal payments	288,02	835,86	173,42	175,84	542,24	557,17	428,76
6.1. Other revenues	1 501,98	1 777,68	2 220,54	3 466,26	4 216,12	2 223,80	2 567,73
6.2. Other expenditures	500,00	350,00	1 919,00	2 464,00	2 600,00	0,00	1 305,50
7. Budget result (5+6+6.1-6.2)	1 268,72	1 870,38	1 547,50	1 758,82	1 278,92	0,00	1 287,39

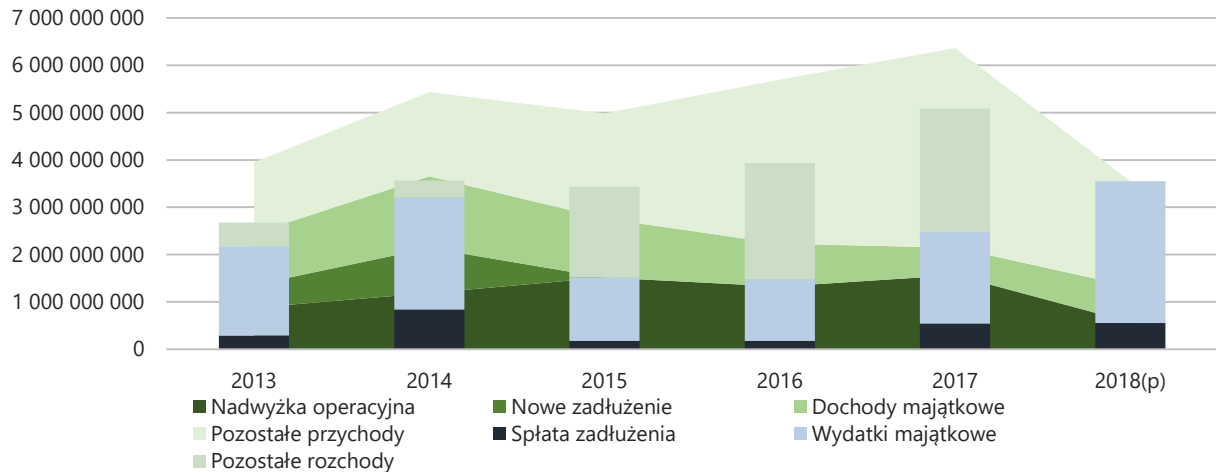
Debt (PLN million)

DEBT	2013	2014	2015	2016	2017	2018 ^(plan)	AVERAGE
Direct debt	5 925,05	6 037,70	5 858,19	5 677,26	5 126,10	4 568,93	5 532,20
+ Other liabilities	0,15	0,00	0,00	0,00	0,01	0,00	0,03
Total debt	5 925,20	6 037,70	5 858,19	5 677,26	5 126,11	4 568,93	5 532,23
- Surpluses from previous years	1 268,72	1 870,38	1 547,50	1 758,82	1 278,92	0,00	1 287,39
Total net debt	4 656,48	4 167,31	4 310,69	3 918,44	3 847,19	4 568,93	4 244,84
+ Guarantees (paid)	16,63	13,90	11,17	9,31	8,00	0,00	9,84
+ Municipal debt acquired	3 776,28	4 236,17	3 564,58	3 063,79	2 563,20	2 563,20 ¹	3 294,54
Total net debt and indirect liabilities	8 449,38	8 417,38	7 886,43	6 991,55	6 418,39	7 132,13	7 549,21

¹ The liabilities were assumed as at 31.12.2017

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 buffer. 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.

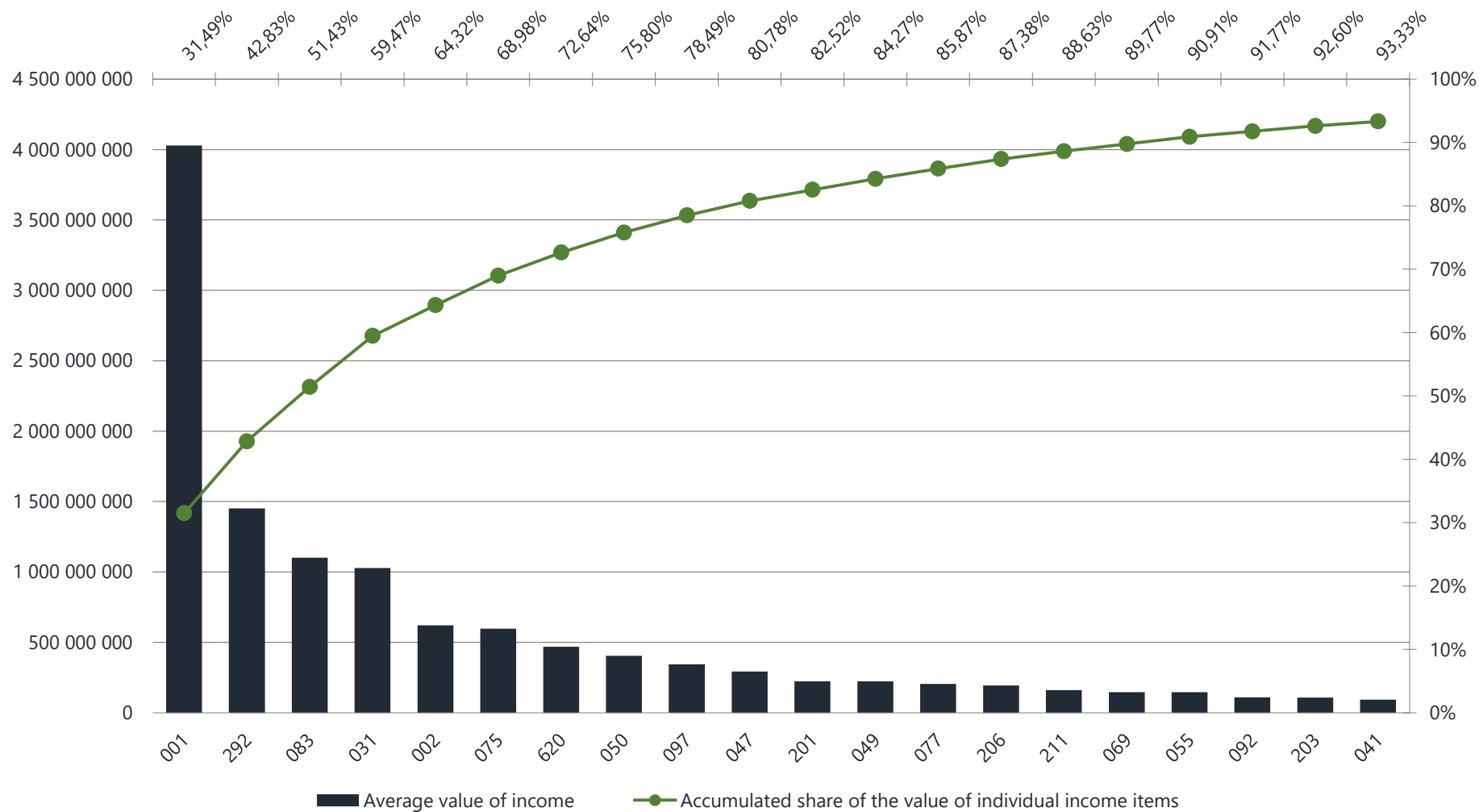
Analysis of income in 2008-2018 (PLN million)

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 ^(plan)
1	001	Personal Income Tax	4,03	31,49%	31,49%	3,51	3,47	337	3,43	3,52	3,68	3,97	4,28	4,64	5,04	5,41
2	292	General subsidies from the state budget	1,45	11,34%	42,83%	1,06	1,20	1,26	1,30	1,36	1,40	1,45	1,52	1,67	1,80	1,94
3	083	Proceeds from services	1,10	8,60%	51,43%	0,89	0,94	0,94	1,09	1,13	1,13	1,14	1,20	1,17	1,20	1,29
4	031	Property tax	1,03	8,04%	59,47%	0,77	0,81	0,90	0,94	1,01	1,08	1,13	1,14	1,16	1,18	1,21
5	002	Corporate Income Tax	0,62	4,85%	64,32%	0,81	0,69	0,54	0,58	0,54	0,47	0,52	0,59	0,62	0,72	0,74
6	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	0,60	4,67%	68,98%	0,45	0,52	0,57	0,60	0,61	0,62	0,64	0,65	0,63	0,62	0,66
7	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	0,47	3,66%	72,64%	0,00	0,00	0,37	0,66	1,08	0,63	1,16	0,71	0,53	0,00	0,00
8	050	Tax on civil law transactions	0,40	3,16%	75,80%	0,51	0,41	0,45	0,39	0,23	0,32	0,36	0,32	0,46	0,64	0,36
9	097	Proceeds from various income sources	0,34	2,69%	78,49%	0,19	0,16	0,26	0,29	0,29	0,42	0,38	0,68	0,40	0,21	0,51
10	047	Proceeds from fees for management, use and perpetual usufruct of real estate	0,29	2,29%	80,78%	0,31	0,33	0,36	0,41	0,40	0,43	0,46	0,50	0,00	0,00	0,00
11	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	0,22	1,75%	82,52%	0,18	0,18	0,18	0,18	0,18	0,19	0,21	0,24	0,28	0,30	0,34

No.	§	DESCRIPTION	Average value of income	Share in the income	Accumulated share	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 ^(plan)
12	049	Proceeds from other local fees charged by local government units on the basis of separate acts	0,22	1,74%	84,27%	0,06	0,05	0,07	0,07	0,08	0,20	0,37	0,37	0,37	0,39	0,42
13	077	Payments for the acquisition of the right of ownership and the right of perpetual usufruct of the real estate	0,20	1,60%	85,87%	0,24	0,18	0,18	0,18	0,26	0,11	0,16	0,43	0,21	0,10	0,22
14	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	0,19	1,51%	87,38%	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,57	0,80	0,75
15	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	0,16	1,25%	88,63%	0,09	0,12	0,12	0,20	0,20	0,15	0,16	0,19	0,21	0,18	0,13
16	069	Receipts from various fees	0,15	1,14%	89,77%	0,06	0,09	0,13	0,17	0,14	0,16	0,16	0,17	0,19	0,17	0,16
17	055	Proceeds from fees for perpetual usufruct of real estate	0,15	1,14%	90,91%	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,52	0,55	0,54
18	092	Other interest	0,11	0,86%	91,77%	0,13	0,12	0,10	0,13	0,13	0,09	0,08	0,09	0,10	0,10	0,13
19	203	Targeted subsidies received from the state budget for the implementation of own tasks of current municipalities (municipal associations)	0,11	0,84%	92,60%	0,02	0,04	0,05	0,05	0,07	0,13	0,15	0,21	0,17	0,15	0,14
20	041	Proceeds from stamp duty	0,09	0,73%	93,33%	0,12	0,09	0,09	0,08	0,10	0,10	0,10	0,09	0,09	0,09	0,09

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 42.83% of all city revenues in the analysed period. The next largest items of income are proceeds from services (083), real estate tax (031) and corporate income tax (002). These five items correspond to an average of 64.32% 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.

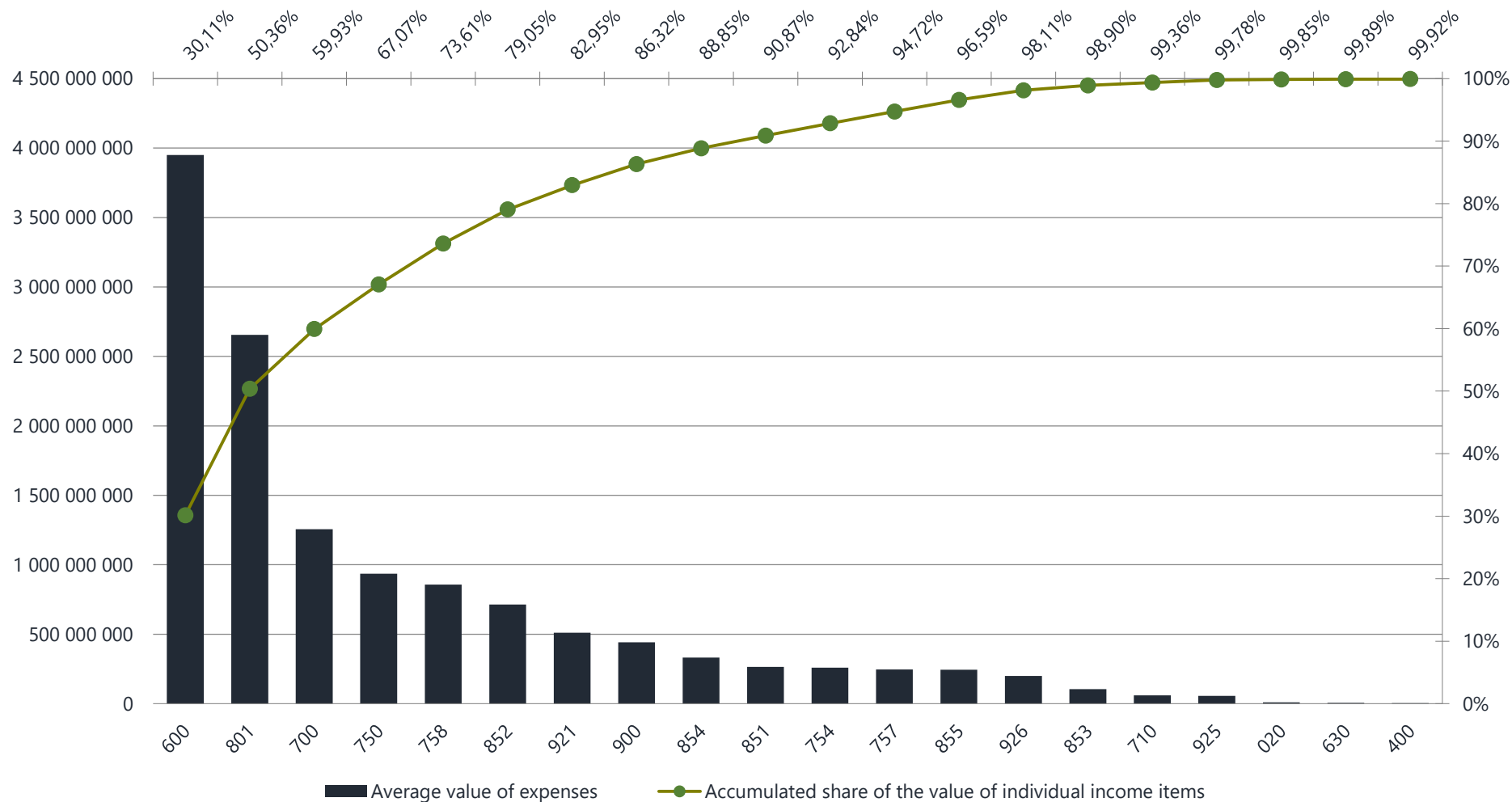


Expenditure analysis in 2008-2018 (PLN million)

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.

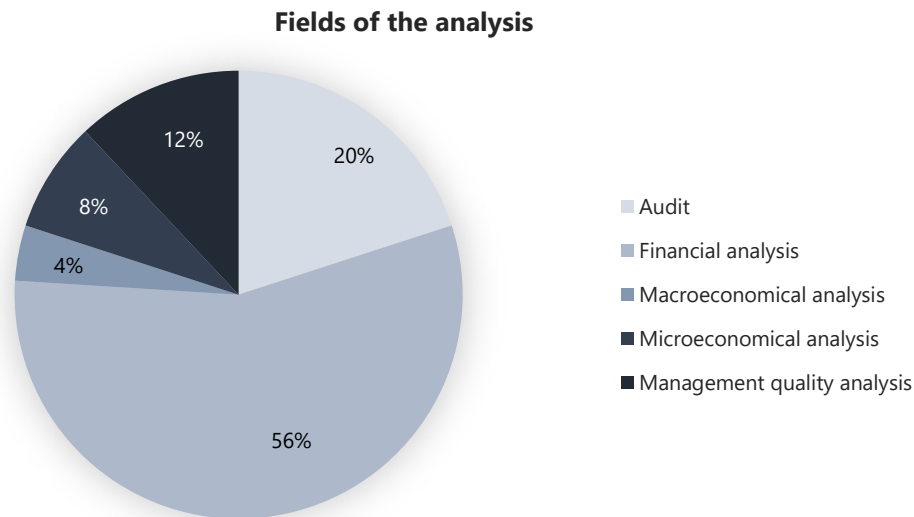
No.	§	DESCRIPTION	Average value of expenses	Share in the expenses	Accumulated share	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 ^(plan)
1	600	Transport and communication	3,95	30,11%	30,11%	2,91	2,93	3,72	4,04	4,47	4,12	4,91	3,65	3,65	4,11	4,94
2	801	Education and upbringing	2,66	20,25%	50,36%	2,12	2,25	2,21	2,26	2,38	2,43	2,58	2,75	3,13	3,41	3,69
3	700	Public housing	1,26	9,58%	59,93%	1,10	1,19	1,12	1,33	1,28	1,06	1,27	1,59	1,18	1,19	1,51
4	750	Public administration	0,94	7,13%	67,07%	0,89	0,84	0,86	0,82	0,89	0,83	0,82	0,93	0,99	1,12	1,29
5	758	Different settlements	0,86	6,54%	73,61%	0,78	1,02	0,98	0,92	0,83	0,80	0,72	0,73	0,80	0,85	1,02
6	852	Social spending	0,71	5,44%	79,05%	0,59	0,67	0,67	0,65	0,68	0,68	0,70	0,74	1,40	0,52	0,55
7	921	Culture and protection of national heritage	0,51	3,90%	82,95%	0,53	0,64	0,65	0,46	0,38	0,38	0,41	0,44	0,50	0,55	0,68
8	900	Municipal management and environmental protection	0,44	3,37%	86,32%	0,26	0,33	0,27	0,27	0,28	0,37	,050	0,52	0,56	0,60	0,89
9	854	Educational care	0,33	2,54%	88,85%	0,23	0,26	0,28	0,28	0,30	0,31	0,34	0,37	0,41	0,43	0,46
10	851	Healthcare	0,26	2,01%	90,87%	0,25	0,23	0,28	0,26	0,19	0,28	0,27	0,25	0,21	0,31	0,35
11	754	Public safety and fire protection	0,26	1,97%	92,84%	0,26	0,26	0,27	0,25	0,25	0,23	0,25	0,26	0,26	0,26	0,31
12	757	Public debt service	0,25	1,88%	94,72%	0,13	0,13	0,22	0,32	0,35	0,31	0,29	0,24	0,23	0,23	0,26
13	855	Family	0,25	1,87%	96,59%	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1,32	1,38
14	926	Physical culture and sport	0,20	1,52%	98,11%	0,25	0,39	0,37	0,19	0,12	0,10	0,11	0,12	0,14	0,15	0,24
15	853	Other tasks in the field of social policy	0,10	0,79%	98,90%	0,09	0,09	0,09	0,10	0,11	0,13	0,14	0,13	0,15	0,04	0,07
16	710	Public service activities	0,06	0,45%	99,36%	0,06	0,05	0,05	0,05	0,05	0,04	0,05	0,08	0,06	0,07	0,09
17	925	Botanical and zoological gardens as well as natural areas and objects of protected nature	0,06	0,43%	99,78%	0,05	0,04	0,04	0,04	0,04	0,05	0,06	0,05	0,08	0,09	0,08
18	020	Forestry	0,01	0,07%	99,85%	0,01	0,00	0,01	0,01	0,01	0,00	0,01	0,01	0,01	0,01	0,02
19	630	Tourism	0,01	0,04%	99,89%	0,00	0,01	0,01	0,01	0,01	0,00	0,00	0,01	0,01	0,01	0,01
20	400	Production and supply of electricity, gas and water	0,00	0,03%	99,92%	0,01	0,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,01

The most important entry in the city's expenditure list is transport and communication expenses (600). The second largest category in terms of total value 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 - these two entries corresponded on average to 50.36% 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 housing management (700), public administration (750) and different settlements (758). Together with the previous two entries, it constitutes to 73.61% 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		
AA-		
A+	Very low risk	
A		
A-		
BBB+	Low risk	
BBB		
BBB-		
BB+	Moderate risk	Speculative grade
BB		
BB-		
B+	Speculative level	
B		
B-		
CCC	Highly speculative level	
CC		
C		
CC	Significant risk	
C		
C	Very high risk	
D		
C	In default with low improvement chance	
D		
D	Defaulted	

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