

## LGU CREDIT RATING

06.09.2019

### RATING

Long-term international rating

**A-**

Outlook

**stable**

### SELECTED BUDGETARY INDICATORS

	2018	2019 P
$\frac{\text{Operating funds}^*}{\text{Total income}}$	18,08%	9,80%
$\frac{\text{Own income}}{\text{Total income}}$	70,73%	70,47%
$\frac{\text{Capital income}}{\text{Capital expenditures}}$	11,67%	27,05%

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

### BASIC DEBT INDICATORS

	2018	2019 P
$\frac{\text{Interest paid}}{\text{Net operating surplus}^*}$	1,88%	5,93%
$\frac{\text{Total debt}}{\text{Current income}}$	21,37%	24,92%
$\frac{\text{Direct debt service}}{\text{Own income}}$	5,66%	5,61%

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

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Tarnowo Podgórne, Municipality of

## Tarnowo Podgórne – rating A-, Outlook stable



### Main factors affecting the rating

The rating reflects the operating results of the Municipality of Tarnowo Podgórne, 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 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 2014-2019 increased from PLN 135.54 million in 2014 to PLN 228.80 million in 2019, which implies a cumulative annual growth rate (CAGR) at the level of 11.04%. Part of this increase, however, is related to grants related to the government program to support families bringing up children (the "Family 500+" program). The tax revenue of the commune ranged from 64.18% to 71.07% of current revenue. On average, 49,64% of tax revenues were local taxes.

The average cost of the municipality's debt is 2.75%, while the average debt repayment period - that is, the time period in which the municipality would repay its liabilities assuming that it would allocate its entire operating surplus in accordance with the plan for 2019 at 2.47. However, if we expand the analysis and take the average surplus from the years 2014-2019, the value of this indicator will decrease to just 1 year.

### The main factors of the rating change

The municipality has a stable budget base. The level of operating surplus remained high throughout the analyzed period. A relatively low surplus in 2019 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 implementation of the planned revenue and budget expenditure plan. Analysis of the commune's budgets in the last 11 years suggests that approx. 20% of the revenue item generates approx. 85% of the budget (similarly in the expenditure of 20% of the largest items, it generates 70% of all expenditure). Despite the narrowing down of the source of these revenues, they are based on a significant extent (on average 75% in 2014-2019) on the commune's own revenues.

Despite the completion of investment projects in the last 5 years exceeding PLN 223 million, the level of debt is higher than at the beginning of this period by only PLN 3.9 million. The debt planned by the entity in subsequent periods should not significantly affect its ability to settle long-term liabilities.

Factors determining the upgrade of the rating: according to the methodology adopted by INC Rating, Polish local government units cannot receive a rating higher than the rating of Poland, assigned as the country's average rating issued by the rating agencies Moody's, S&P and Fitch

Factors determining the lowering of the rating: an over-plan increase in the level of debt, with a lower operating margin below 15% and an upsetting 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**

<b>INDICATOR</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019(plan)</b>	<b>AVERAGE</b>
Net operating surplus/ Net current income	27,52%	31,69%	26,22%	17,24%	18,57%	10,47%	21,95%
Operating surplus / Current income	26,73%	31,41%	26,06%	17,14%	18,27%	9,94%	21,59%
Surplus (deficit) / Total income	6,90%	14,18%	2,26%	-6,90%	-4,25%	-11,29%	0,15%
Budget balance / Total income	7,05%	15,70%	12,24%	7,29%	7,97%	0,00%	8,37%
Operating funds / Total income	26,87%	31,63%	25,93%	16,53%	18,08%	9,75%	21,46%
Operating surplus (% yoy)	56,46%	44,76%	-10,18%	-27,36%	15,31%	-42,39%	6,10%
Own income (% yoy)	8,94%	25,40%	-2,52%	12,42%	6,00%	9,29%	9,92%
Direct debt (% yoy)	-11,75%	-17,49%	-20,97%	26,03%	32,93%	21,68%	5,07%
Total debt (% yoy)	-11,75%	-17,49%	-20,97%	26,03%	32,93%	21,46%	5,03%
Interest / Net operating surplus	3,80%	1,80%	1,54%	1,63%	1,88%	5,88%	2,76%
Direct debt service/ Own income	7,96%	6,42%	6,69%	5,99%	5,66%	5,61%	6,39%
Direct debt service / Current income	6,34%	5,21%	4,89%	4,45%	4,12%	4,22%	4,87%
Direct debt service / Operating funds	22,84%	16,29%	18,48%	25,55%	22,14%	39,99%	24,22%
Direct debt / Current income	31,18%	20,88%	15,24%	17,39%	21,37%	24,55%	21,77%
Total debt / Current income	31,18%	20,88%	15,24%	17,39%	21,37%	24,55%	21,77%
Direct debt / Operating surplus (years)	1,17	0,66	0,58	1,01	1,17	2,47	•
Total debt / Own income	39,12%	25,74%	20,87%	23,39%	29,34%	32,66%	28,52%
Direct debt / Own income	39,12%	25,74%	20,87%	23,39%	29,34%	32,66%	28,52%
Total net debt + indirect liabilities/ Current income	57,80%	43,93%	25,05%	26,62%	33,25%	42,46%	38,19%
Indicator from art. 243 of Public Finance Law	19,65%	23,46%	25,94%	28,53%	25,87%	21,75%	24,20%
Tax income / Current income	70,14%	71,07%	66,06%	64,29%	64,18%	66,66%	67,07%
Local taxes / Total tax income	52,28%	53,12%	50,45%	50,24%	46,53%	45,24%	49,64%
Grants and subsidies / Current income	21,88%	19,89%	27,75%	28,94%	29,03%	26,60%	25,68%
Current income / Total income	96,74%	98,89%	97,97%	94,86%	97,09%	92,37%	96,32%
Own income / Total income	77,09%	80,23%	71,57%	70,53%	70,73%	69,42%	73,26%
Salaries / (Current expenditure - Interest)	41,03%	37,81%	34,60%	30,81%	32,46%	32,65%	34,89%
Grants and subsidies / (Current expenditure - Interest)	30,29%	29,24%	37,74%	35,04%	35,68%	29,74%	32,95%
Capital expenditure / Total expenditure	23,87%	20,97%	25,89%	26,47%	23,88%	25,25%	24,39%
Interest / Average debt	3,14%	2,46%	2,33%	1,79%	1,87%	2,75%	2,39%
Operating surplus / Capital expenditure	116,35%	172,57%	100,93%	57,46%	71,24%	32,66%	91,87%
Capital income / Capital expenditure	14,68%	6,18%	8,02%	18,17%	11,67%	27,15%	14,31%
Change of net debt / Capital expenditure	-18,07%	-24,33%	-15,66%	12,04%	20,64%	14,23%	-1,86%
Surplus (deficit) / Capital expenditure	31,03%	78,75%	8,95%	-24,37%	-17,09%	-40,19%	6,18%
(Operating surplus + Capital income) / Capital expenditure	131,03%	178,75%	108,95%	75,63%	82,91%	59,81%	106,18%
Total debt / Operating surplus (years)	1,17	0,66	0,58	1,01	1,17	2,47	•
Total debt / Operating funds	112,26%	65,30%	57,60%	99,84%	114,78%	232,66%	113,74%
Debt service / (Operating funds + Surpluses from previous years)	19,97%	13,75%	11,89%	15,49%	16,03%	39,99%	19,52%

**Financial data (PLN million)**

	2014	2015	2016	2017	2018	2019 <sup>(plan)</sup>	AVERAGE
<b>Total income (1+4a)</b>	140,11	168,82	184,49	210,45	222,45	247,70	195,67
<b>Total expenditure (2+4b)</b>	130,45	144,89	180,31	224,96	231,91	275,67	198,03
<b>1. Current income (1a+1b+1c+1d)</b>	135,54	166,94	180,74	199,63	215,98	228,80	187,94
a. Tax income:	95,07	118,64	119,39	128,35	138,63	152,51	125,43
- PIT	37,79	44,23	46,39	49,34	59,61	69,52	51,15
- CIT	7,57	11,38	12,76	14,53	14,51	14,00	12,46
- Local taxes	49,70	63,03	60,24	64,48	64,50	69,00	61,82
b. Grants and subsidies	29,65	33,20	50,16	57,77	62,71	60,87	49,06
c. Fees and other operating income	10,34	14,39	10,60	13,07	14,52	15,21	13,02
d. Financial income	0,48	0,71	0,60	0,45	0,13	0,21	0,43
<b>2. Current expenditure (2a+2b+2c+2d)</b>	99,32	114,50	133,64	165,41	176,53	206,07	149,24
a. Salaries	40,17	42,94	45,99	50,80	57,05	66,83	50,63
b. Guarantees	0,00	0,00	0,00	0,00	0,00	0,00	0,00
c. Interest	1,41	0,95	0,73	0,56	0,76	1,41	0,97
d. Other	57,73	70,62	86,92	114,06	118,72	137,84	97,65
<b>3. Operating surplus (1-2)</b>	36,23	52,44	47,11	34,22	39,46	22,73	38,70
<b>4. Capital balance (4a-4b)</b>	-26,57	-28,51	-42,93	-48,73	-48,92	-50,71	-41,06
a. Capital income:	4,57	1,88	3,74	10,82	6,46	18,89	7,73
- subsidies for investments	2,45	0,18	2,29	4,25	2,40	14,87	4,41
b. Capital expenditure	31,14	30,39	46,67	59,55	55,39	69,60	48,79
<b>5. Surplus / deficit (3+4)</b>	9,66	23,93	4,18	-14,51	-9,46	-27,98	-2,36
<b>6. Net debt change (6a-6b)</b>	-5,18	-7,30	-8,11	7,27	11,85	10,26	1,46
a. New debt	2,00	0,45	0,00	15,60	20,00	18,50	9,43
b. Principal payments	7,18	7,75	8,11	8,33	8,15	8,24	7,96
6.1. Other revenues	5,40	9,88	26,51	22,58	15,33	17,72	16,24
6.2. Other expenditures	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>7. Budget result (5+6+6.1-6.2)</b>	9,88	26,51	22,58	15,33	17,72	0,00	15,34

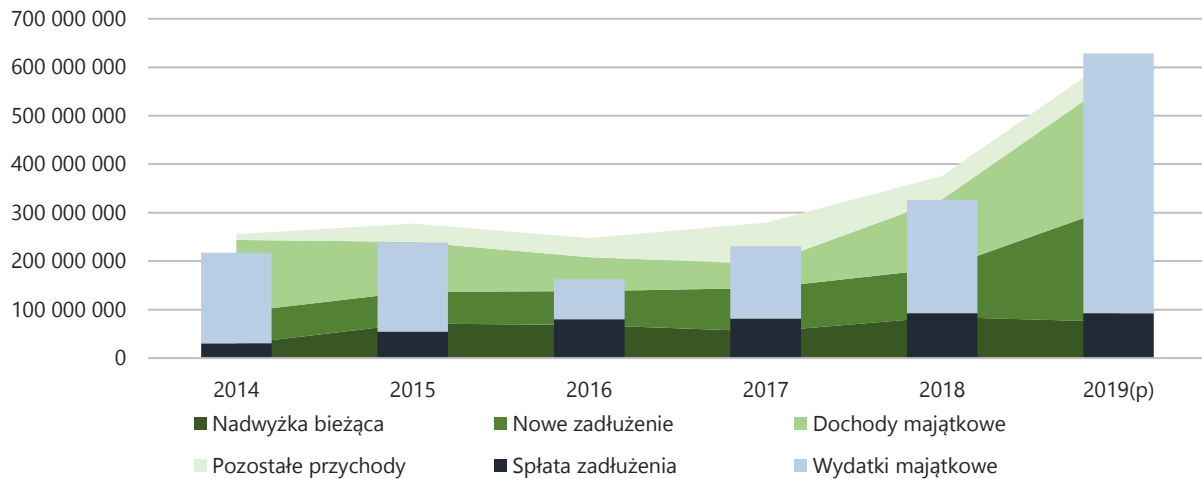
**Debt (PLN million)**

DEBT	2014	2015	2016	2017	2018	2019 <sup>(plan)</sup>	AVERAGE
Long-term debt	42,26	34,86	27,55	34,72	46,16	56,16	40,29
<b>Direct debt</b>	42,26	34,86	27,55	34,72	46,16	56,16	40,29
+ Other liabilities	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>Total debt</b>	42,26	34,86	27,55	34,72	46,16	56,16	40,29
- Surpluses from previous years	5,40	9,88	26,51	22,58	15,33	0,00	13,28
<b>Total net debt</b>	36,85	24,98	1,04	12,15	30,82	56,16	27,00
+ Guarantees (paid)	0,00	0,00	0,00	0,00	0,00	0,00	0,00
+ Municipal debt acquired	41,48	48,36	44,23	41,00	41,00	41,00 <sup>1</sup>	42,84
<b>Total net debt and indirect liabilities</b>	78,34	73,35	45,27	53,15	71,82	97,16	69,85

<sup>1</sup> Przyjęto stan zobowiązań na dzień 31.12.2018 r.

## Financial flows in the budget of the Municipality

The graph below illustrates the financial situation of the LGU 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 LGU 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.

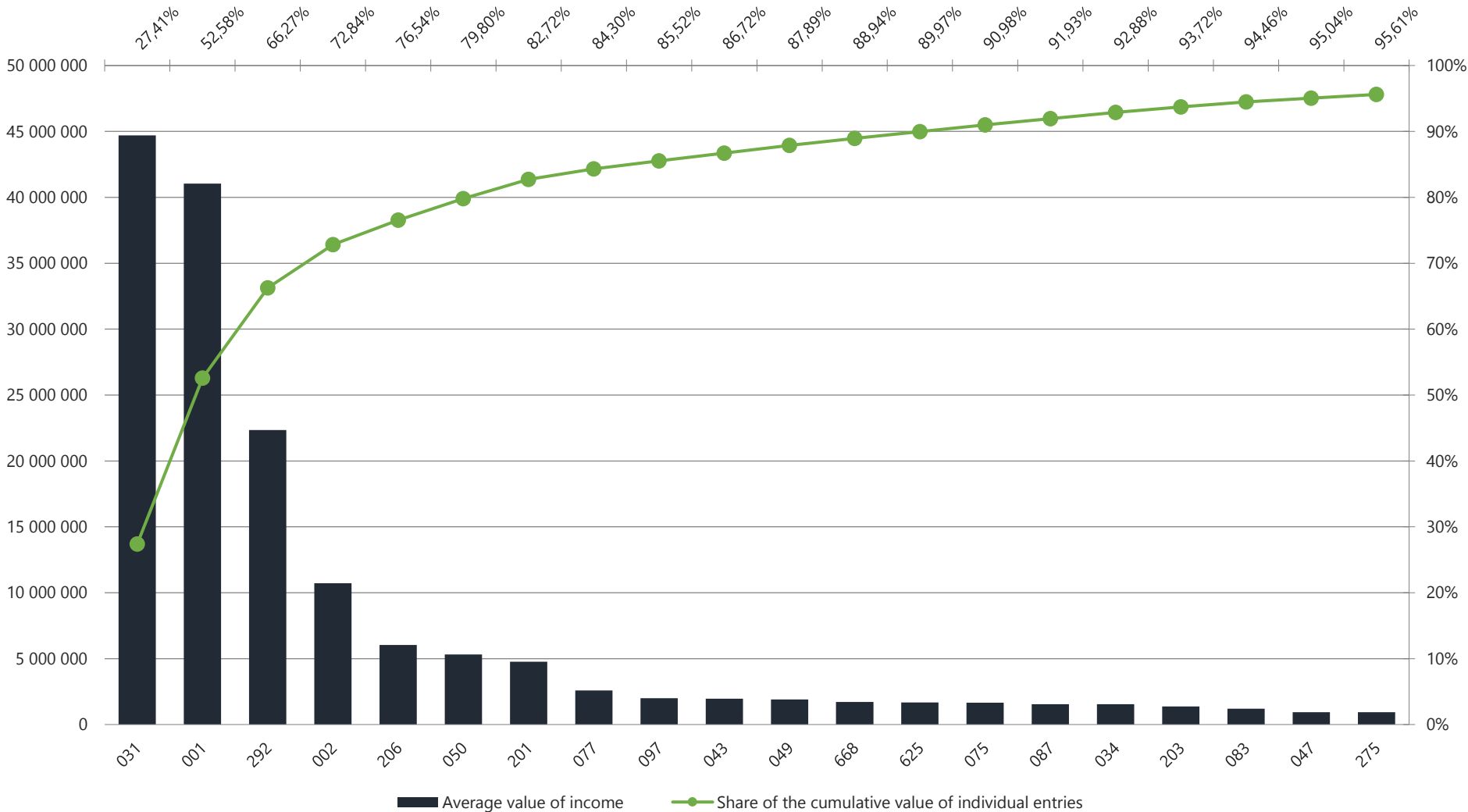
**Analysis of income in 2009-2019 (PLN million)**

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 <sup>(plan)</sup>
1	031	Property tax	44,70	27,41%	27,41%	30,35	30,86	34,24	38,43	40,21	42,02	47,05	52,98	56,87	57,06	56,87
2	001	Personal Income Tax	41,03	25,17%	52,58%	25,87	26,41	29,55	30,13	32,53	37,79	44,23	46,39	49,34	59,61	49,34
3	292	General subsidies from the state budget	22,34	13,70%	66,27%	13,12	14,47	16,21	17,88	19,21	21,44	24,15	26,67	27,72	30,37	27,72
4	002	Corporate Income Tax	10,71	6,57%	72,84%	8,73	12,31	10,97	3,60	7,45	7,57	11,38	12,76	14,53	14,51	14,53
5	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	6,03	3,70%	76,54%	0,00	0,00	0,00	0,00	0,00	0,00	0,00	13,24	18,44	18,34	4,80
6	050	Tax on civil law transactions	5,31	3,26%	79,80%	4,93	5,43	2,66	3,30	4,12	5,16	13,53	4,59	4,80	4,89	18,44
7	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	4,76	2,92%	82,72%	3,52	3,96	3,96	3,97	4,16	4,23	4,84	5,55	5,92	7,34	5,92
8	077	Payments for the acquisition of the right of ownership and the right of perpetual usufruct of the real estate	2,58	1,58%	84,30%	0,58	3,55	1,29	2,11	1,52	2,11	1,44	1,45	6,31	4,06	6,31
9	097	Proceeds from various income sources	1,99	1,22%	85,52%	6,49	1,31	2,97	0,98	1,31	1,29	5,59	0,94	0,46	0,43	1,66

10	043	Proceeds from the market fee	1,95	1,20%	86,72%	2,50	2,31	2,46	2,18	2,13	1,95	1,79	1,85	1,66	1,51	0,46
11	049	Proceeds from other local fees charged by local government units on the basis of separate acts	1,91	1,17%	87,89%	0,46	0,86	0,96	0,67	0,85	0,92	0,89	1,08	3,91	3,92	3,91
12	668	Payment of funds from expenditures not used on time that does not expire at the end of the budget year	1,70	1,05%	88,94%	0,00	7,24	3,48	1,79	1,79	1,41	0,03	0,43	1,40	1,19	1,58
13	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	1,68	1,03%	89,97%	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	2,77	0,99	1,77
14	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	1,65	1,01%	90,98%	0,91	1,17	1,31	1,69	1,81	1,99	1,83	2,09	1,77	1,95	1,40
15	087	Proceeds from the sale of property components	1,55	0,95%	91,93%	0,00	0,00	0,00	17,03	0,00	0,00	0,00	0,00	0,01	0,00	2,32
16	034	Tax on the transporting vehicles.	1,54	0,95%	92,88%	1,18	1,37	1,57	1,62	1,76	1,65	1,63	1,65	1,58	1,48	2,77
17	203	Targeted subsidies received from the state budget for the implementation of own tasks of current municipalities (municipal associations)	1,37	0,84%	93,72%	0,40	0,43	0,39	0,51	1,22	2,24	2,36	2,37	2,32	2,42	0,01
18	083	Proceeds from services	1,21	0,74%	94,46%	0,43	0,52	1,59	1,59	1,40	1,34	1,50	0,68	0,91	1,43	0,91
19	047	Proceeds from fees for management, use and perpetual usufruct of real estate	0,94	0,57%	95,04%	1,11	2,39	1,20	1,17	1,21	1,43	1,34	0,09	0,09	0,12	0,09
20	275	Funds for supplementing municipal income	0,94	0,57%	95,61%	0,32	0,00	0,00	1,04	1,51	0,96	1,18	1,24	1,56	2,48	1,13

The most important item among the commune's income is taken from property tax (paragraph 031), while the second is taken from income tax on natural persons (paragraph 001). These two categories of income corresponded on average to more than half (52.60%) of all commune income in the analyzed period. The next largest revenue item is the general subsidy from the state budget (paragraph 292), corporate income tax (paragraph 002), and targeted subsidies transferred from the state budget (paragraph 206). These five items correspond to an average of 76.54% of the commune's budget. It is therefore worth focusing on them on the budget income analysis of the municipality because they have the greatest impact on its financial situation.



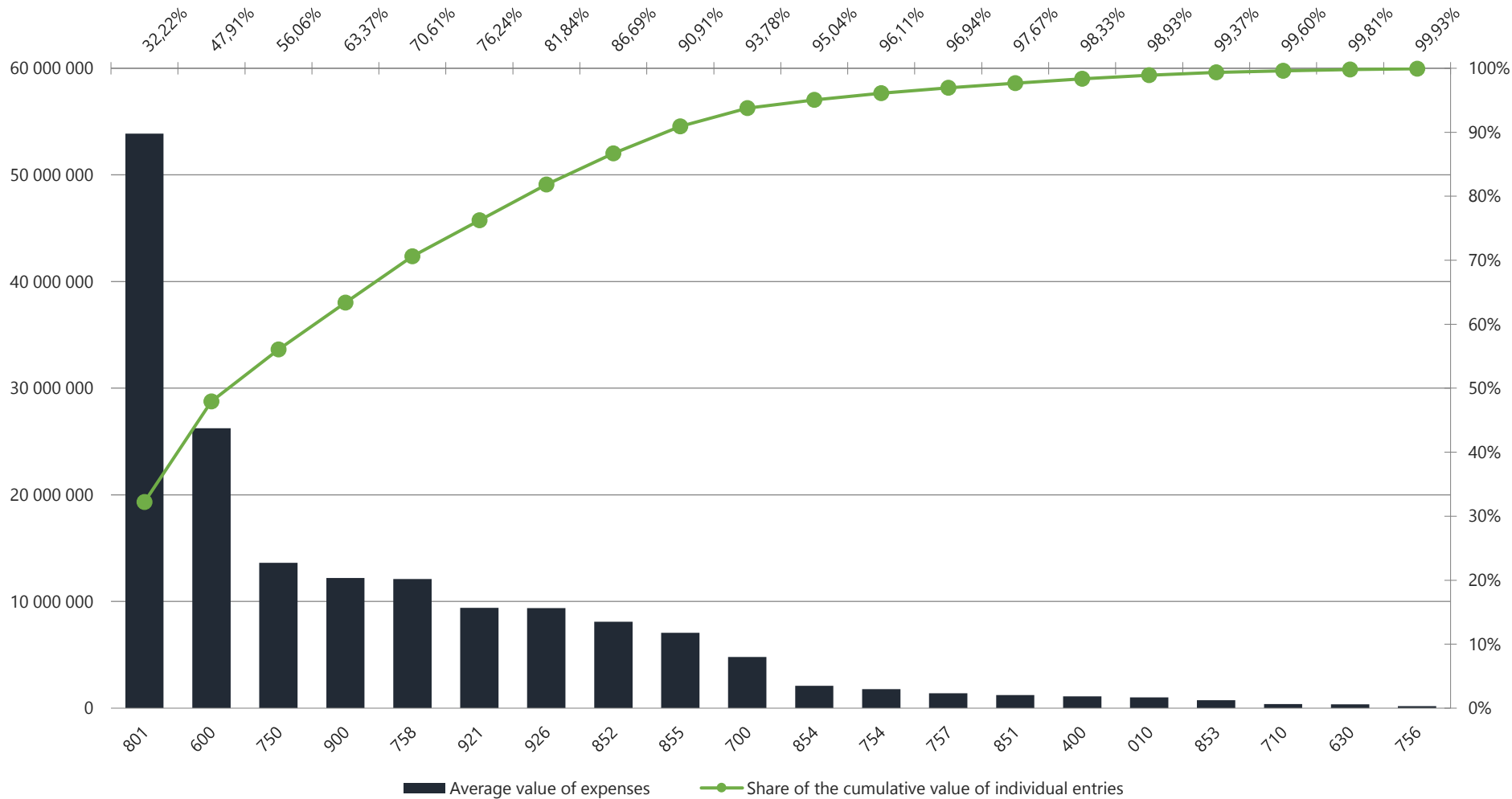
**Expenditure analysis in 2009-2019 (PLN million)**

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 <sup>(plan)</sup>
1	801	Education and upbringing	53,88	32,22%	32,22%	36,04	44,67	39,16	37,08	39,01	42,02	50,90	56,23	69,34	71,51	69,34
2	600	Transport and communication	26,24	15,69%	47,91%	30,98	35,79	16,89	16,46	28,00	17,67	17,04	24,30	23,71	41,55	23,71
3	750	Public administration	13,64	8,15%	56,06%	10,02	10,08	9,66	10,12	10,74	10,70	18,26	14,85	15,85	18,80	15,85
4	758	Different settlements	12,22	7,30%	63,37%	11,04	10,88	13,25	12,33	9,26	9,21	7,11	8,94	17,83	18,99	17,83
5	900	Municipal management and environmental protection	12,12	7,25%	70,61%	10,21	10,01	9,10	10,32	10,41	8,89	14,08	11,88	17,07	15,00	17,07
6	926	Physical culture and sport	9,41	5,63%	76,24%	4,64	4,47	4,59	4,75	7,11	9,34	8,30	16,97	22,07	8,61	8,14
7	921	Culture and protection of national heritage	9,37	5,61%	81,84%	9,08	8,42	4,43	20,74	6,04	12,33	7,11	7,85	8,14	9,61	22,07
8	852	Social spending	8,11	4,85%	86,69%	5,52	6,34	7,02	7,38	8,13	8,37	8,89	22,98	4,35	4,75	4,35
9	855	Family	7,06	4,22%	90,91%	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	25,11	27,43	25,11
10	700	Public housing	4,80	2,87%	93,78%	4,12	2,32	3,39	2,25	5,25	2,47	4,36	4,43	12,27	4,01	12,27
11	854	Educational care	2,10	1,26%	95,04%	1,02	1,18	1,36	1,63	1,74	1,91	2,32	2,43	2,40	2,70	1,47
12	754	Public safety and fire protection	1,79	1,07%	96,11%	2,11	1,42	1,48	1,35	1,68	2,27	1,33	1,75	1,47	1,90	2,40
13	757	Public debt service	1,39	0,83%	96,94%	0,77	1,59	2,61	2,68	1,87	1,41	0,95	0,73	0,56	0,76	1,00
14	851	Healthcare	1,22	0,73%	97,67%	1,25	1,03	0,74	0,71	0,65	0,97	0,93	3,08	1,00	1,20	0,91
15	400	Production and supply of electricity, gas and water	1,10	0,66%	98,33%	1,45	1,18	1,37	1,30	1,39	0,81	0,79	0,88	0,91	1,00	0,56
16	010	Agriculture and hunting	1,00	0,60%	98,93%	0,84	1,08	0,75	0,84	0,86	1,04	1,00	1,03	1,54	1,01	1,54
17	853	Other tasks in the field of social policy	0,73	0,44%	99,37%	0,05	0,05	0,07	0,11	0,17	0,32	0,64	0,77	1,00	2,51	1,00
18	710	Public service activities	0,39	0,23%	99,60%	0,42	0,54	0,28	0,36	0,27	0,46	0,29	0,48	0,27	0,37	0,27
19	630	Tourism	0,35	0,21%	99,81%	0,52	1,66	0,06	0,41	0,02	0,08	0,40	0,68	0,00	0,00	0,00
20	756	Income from legal entities, from individuals and from other entities without legal personality, and expenses related to their collection	0,19	0,12%	99,93%	0,74	0,70	0,67	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00



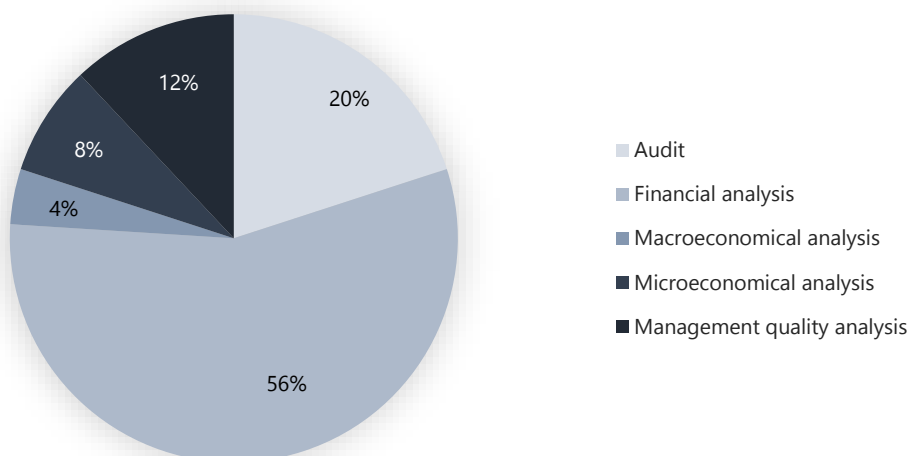
The most important item in the expenditure of the municipality is spending on education and upbringing (section 801), significantly exceeding the financing that the municipality receives from the state budget in order to achieve this task. The second biggest category in terms of total value is expenses related to transport and communication (600) - these two sections of expenditure corresponded on average to nearly half (47.82%) of all budget expenditures in the analyzed period. It is therefore worth focusing on them when analysing expenses in the municipality because they have the greatest impact on its budget situation. The next expenditure sections are public administration (750), various settlements (758) and municipal and environmental management (900). Together with the previous two sections, it makes a total of 70.69% of the commune's expenses, and it is on them that the greatest attention should be paid while 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:

**Fields of the analysis**



**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+		
A	Low risk	
A-		
BBB+		
BBB	Moderate risk	
BBB-		
BB+		Speculative grade
BB	Speculative level	
BB-		
B+		
B	Highly speculative level	
B-		
CCC		
CC	Significant risk	
C	Very high risk	
D	In default with low improvement chance	
	Defaulted	

CREDIT RATINGS PUBLISHED BY INC RATING SP. Z O.O. REPRESENT ONLY THE AGENCY'S OPINION ON THE CREDIT RISK ASSESSMENT OF THE ENTITY. ALL CREDIT RATINGS ISSUED BY INC RATING SP. Z O.O. ARE SUBJECT TO CERTAIN CONSTRAINTS WHICH ARE DESCRIBED IN DETAIL ON THE WEBSITE OF THE AGENCY (WWW.INCRATING.PL). PRESENTED RATING IS AN ORDERED RATING BASED ON HISTORICAL DATA AND LGU BUDGETARY REPORTS FOR THE YEARS 2009 - 2018 (EXECUTION) FINANCIAL DATA FOR YEAR 2019 (PLAN DATED FOR 31/06/2019) WITH A FORECAST FOR THE FUTURE (LONG-YEAR FINANCIAL FORECAST).