

# City of Kielce

## Update

### Ratings

Long-Term IDR	
Foreign Currency	BBB
Local Currency	BBB
<b>National</b>	
Long-Term Rating	A+(pol)

### Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable
National Long-Term Rating	Stable

### Financial Data

City of Kielce	31 Dec 2016	31 Dec 2015
Operating revenue (PLNm)	1,063.4	961.6
Debt (PLNm)	704.5	665.1
Operating balance/ operating revenue (%)	6.47	7.98
Debt service/ current revenue (%)	7.95	5.3
Debt/current balance(yrs)	13.5	10.8
Operating balance/ interest paid (x)	4.00	4.90
Capital expenditure/ total expenditure (%)	11.39	24.51
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	-3.27	-10.36
Current balance/ capital expenditure (%)	37.49	20.28

### Related Research

[Institutional Framework for Polish Subnationals \(March 2014\)](#)

[Interpreting the Financial Ratios in Local and Regional Government Rating Reports \(October 2015\)](#)

[Fitch: Tax Change Less Severe for Polish LRGs; Impact Will Vary \(December 2016\)](#)

[Polish LRGs Debt Dashboard \(November 2016\)](#)

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### Key Rating Drivers

**Ratings Affirmed:** The City of Kielce's ratings reflect Fitch's base-case scenario of the city's satisfactory operating performance and sound debt ratios for the ratings, supported by robust management and a growing national economy. We expect Kielce to maintain its satisfactory operating performance over the medium term, with an operating margin of around 7% and an operating balance sufficient to cover annual debt service. The debt-to-current balance ratio should remain at around 14-15 years, in line with final debt maturity of 15 years.

**Good Operating Performance:** In 2016, Kielce reported a satisfactory operating balance of PLN69 million, which translates into an operating margin of 6.5% (6.9% after excluding inflating effects of '500+' transfers). Opex grew by 4.6%, above operating revenue growth of 3.4% (after excluding '500+' transfers). Opex growth was mainly driven by the increase in staff expenses due to employment growth for Family 500+ support, legal changes that require employment of assistants for students with special educational needs or one-off retirement benefits.

**Debt Restructuring:** Operating balances reported by Kielce are usually sufficient to meet its annual debt service requirements (both interests and instalments). However, in years when the city is making earlier debt redemption to restructure its debt profile, this relationship can be disrupted. In 2016, Kielce repaid more of its direct debt than budgeted at the beginning of the year: PLN67.5 million versus PLN39 million, respectively. This influenced the debt service to operating balance ratio, which would have been 82% instead of 123%.

**Higher Capex in Medium Term:** In 2016, capex declined to PLN139 million following the completion of major investments from its peak of PLN303 million in 2015. In the medium term, we forecast Kielce's capex to accelerate as the city starts new investments co-financed from the EU funds available for Polish local governments. We expect capex of PLN200 million-220 million per year, half of which will be financed from capital revenue (mainly EU grants), the current balance and new debt.

**Moderate Debt:** Fitch assumes that Kielce's direct debt will gradually grow in 2017-2019 as a result of financing infrastructure investment. However, we expect that although it will increase, debt will remain moderate at around 70% of current revenue. At end-2016, direct debt was PLN705 million or 66% of current revenue.

**Weaker Local Economy:** Kielce is a medium-sized city in Poland with around 200,000 inhabitants. Kielce's economy is diversified, but is weaker than other cities that are also capitals of their respective regions. GDP per capita in 2014 (latest available data) for the Kielecki sub-region, which includes Kielce and surrounding villages, was 79% of the national average. We estimate the city's wealth indicators are on a par with the national average, as Kielce is the strongest area in the sub-region.

### Rating Sensitivities

**Good Performance Maintained:** The ratings could be upgraded if improvements of operating performance are sustained, accompanied by diminishing recourse to debt leading to an improved debt-to-current balance ratio of below 10 years.

**Deterioration of Operating Performance:** The ratings could be downgraded if the city's operating performance deteriorates such that the debt servicing (interest and principal repayment)-to-operating balance materially exceeds 100% for a sustained period.

Appendix A<sup>1</sup>

<b>City of Kielce</b>					
<b>(PLNm)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Taxes	317.6	328.1	344.4	357.9	380.8
Transfers received	392.4	416.4	417.0	408.7	490.2
Fees, Fines and other Operating revenue	152.4	164.5	180.1	195.0	192.4
<b>Operating Revenue</b>	<b>862.4</b>	<b>909.0</b>	<b>941.5</b>	<b>961.6</b>	<b>1,063.4</b>
Operating expenditure	-815.9	-832.7	-872.7	-884.9	-994.6
<b>Operating Balance</b>	<b>46.5</b>	<b>76.3</b>	<b>68.8</b>	<b>76.7</b>	<b>68.8</b>
Financial revenue	0.7	1.0	0.5	0.5	0.3
Interest paid	-18.9	-16.3	-16.7	-15.6	-17.1
<b>Current Balance</b>	<b>28.3</b>	<b>61.0</b>	<b>52.6</b>	<b>61.6</b>	<b>52.0</b>
Capital revenue	118.4	115.5	114.3	129.1	50.3
Capital expenditure	-259.2	-213.8	-219.1	-303.8	-138.7
<i>Capital Balance</i>	<i>-140.8</i>	<i>-98.3</i>	<i>-104.8</i>	<i>-174.7</i>	<i>-88.4</i>
<b>Surplus (Deficit) before Debt Variation</b>	<b>-112.5</b>	<b>-37.3</b>	<b>-52.2</b>	<b>-113.1</b>	<b>-36.4</b>
New borrowing	154.5	76.6	76.0	131.6	107.4
Debt repayment	-20.5	-55.2	-47.8	-35.4	-67.5
<i>Net Debt Movement</i>	<i>134.0</i>	<i>21.4</i>	<i>28.2</i>	<i>96.2</i>	<i>39.9</i>
<b>Overall results</b>	<b>21.5</b>	<b>-15.9</b>	<b>-24.0</b>	<b>-16.9</b>	<b>3.5</b>
<b>DEBT</b>					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	520.0	541.1	569.2	665.1	704.5
<b>Direct debt</b>	<b>520.0</b>	<b>541.1</b>	<b>569.2</b>	<b>665.1</b>	<b>704.5</b>
+ Other Fitch classified debt - Pre-financing	0.0	0.0	0.0	0.0	-
<b>Direct risk</b>	<b>520.0</b>	<b>541.1</b>	<b>569.2</b>	<b>665.1</b>	<b>704.5</b>
- Cash, Liquid Deposits, Sinking Fund	82.0	66.8	42.8	25.8	29.4
<b>Net direct risk</b>	<b>438.0</b>	<b>474.3</b>	<b>526.4</b>	<b>639.3</b>	<b>675.1</b>
Guarantees and other Contingent Liabilities	0.0	0.0	0.0	0.0	0.0
Net Indirect debt (Public Sector Entities exc. gteed amount)	59.8	55.8	96.5	121.8	114.6
<b>Net overall risk</b>	<b>497.8</b>	<b>530.1</b>	<b>622.9</b>	<b>761.1</b>	<b>789.7</b>
<b>Memo for direct debt:</b>					
% in foreign currency	0.0	0.0	0.0	0.0	0.0
% issued debt	16.6	15.9	15.0	12.6	11.6
% fixed interest rate debt	0.5	0.7	0.5	0.4	1.0

Source: Issuer and Fitch calculations

<sup>1</sup> Like other municipalities in Poland, Kielce launched the "Family 500+" programme in April 2016, which pays out a cash benefit of PLN500 per month per child to families with more than one child. The local government disburses the benefit made by the central government through transfers. As a result, the programme is neutral to the city's operating balance, but operating and current margins, as well as debt-to-current revenue ratios between 2016 and 2015, are not directly comparable.

Appendix B

City of Kielce

	2012	2013	2014	2015	2016
<b>Fiscal Performance Ratios</b>					
Operating balance/Operating revenue (%)	5.39	8.39	7.31	7.98	6.47
Current balance/Current revenue <sup>a</sup> (%)	3.28	6.7	5.58	6.4	4.89
Surplus (Deficit) before debt variation/Total revenue <sup>b</sup> (%)	-11.46	-3.64	-4.94	-10.36	-3.27
Overall results/Total revenue (%)	2.19	-1.55	-2.27	-1.55	0.31
Operating revenue growth (annual % change)	3.53	5.4	3.58	2.13	10.59
Operating expenditure growth (annual % change)	3.16	2.06	4.8	1.4	12.4
Current balance growth (annual % change)	-6.60	115.55	-13.77	17.11	-15.58
<b>Debt Ratios</b>					
Direct debt growth (annual % change)	34.61	4.06	5.19	16.85	5.92
Interest paid/Operating revenue (%)	2.19	1.79	1.77	1.62	1.61
Operating balance/Interest paid (x)	2.5	4.7	4.1	4.9	4
Direct Debt servicing/Current revenue (%)	4.56	7.86	6.85	5.3	7.95
Direct Debt servicing/Operating balance (%)	84.73	93.71	93.75	66.49	122.97
Direct debt/Current revenue (%)	60.25	59.46	60.42	69.13	66.23
Direct risk/Current revenue (%)	60.25	59.46	60.42	69.13	66.23
Direct debt/Current balance (yrs)	18.4	8.9	10.8	10.8	13.5
Net overall risk/Current revenue (%)	57.68	58.25	66.13	79.11	74.24
Direct risk/Current balance (yrs)	18.4	8.9	10.8	10.8	13.5
Direct Debt/GDP (%)	7.4	7.7	7.9	-	-
Direct Debt per capita (local currency)	2,574	2,679	2,818	3,293	3,558
<b>Revenue Ratios</b>					
Operating revenue/Budget operating revenue (%)	100.33	104.88	105.64	104.31	111.06
Tax revenue/Operating revenue (%)	36.83	36.09	36.58	37.22	35.81
Modifiable tax revenue/Total tax revenue (%)	34.1	34.47	32.81	33	34.09
Current transfers received/Operating revenue (%)	45.5	45.81	44.29	42.5	46.1
Operating revenue/Total revenue <sup>b</sup> (%)	87.87	88.64	89.13	88.12	95.46
Total revenue <sup>b</sup> per capita (local currency)	4,859	5,077	5,229	5,402	5,626
<b>Expenditure Ratios</b>					
Operating expenditure/Budget operating expenditure (%)	100.78	103.38	104.54	102.64	110.3
Staff expenditure/Operating expenditure (%)	47.09	46.78	46.03	46.17	43.13
Current transfer made/Operating expenditure (%)	10.09	9.56	8.91	8.81	8.47
Capital expenditure/Budget capital expenditure (%)	55.25	78.09	69.75	130.61	76.59
Capital expenditure/Total expenditure (%)	23.26	19.12	18.95	24.51	11.39
Capital expenditure/Local GDP (%)	3.7	3.1	3.0	-	-
Total expenditure per capita (local currency)	5,517	5,535	5,724	6,137	6,151
<b>Capital expenditure financing</b>					
Current balance/Capital expenditure (%)	10.92	28.53	24.01	20.28	37.49
Capital revenue/Capital expenditure (%)	45.68	54.02	52.17	42.5	36.27
Net debt movement/Capital expenditure (%)	51.7	10.01	12.87	31.67	28.77

<sup>a</sup> includes financial revenue

<sup>b</sup> excluding new borrowing

n.a.: not available

Source: Issuer and Fitch calculations

Related Criteria

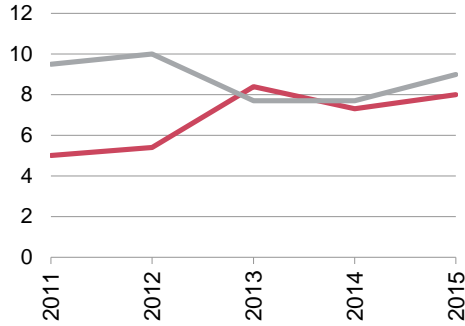
[International Local and Regional Governments Rating Criteria – Outside the United States \(April 2016\)](#)

[National Scale Ratings Criteria \(March 2017\)](#)

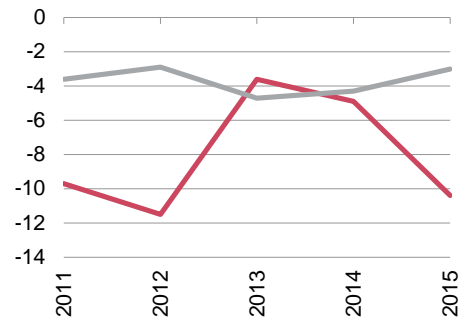
Appendix C  
City of Kielce

Peer Comparison

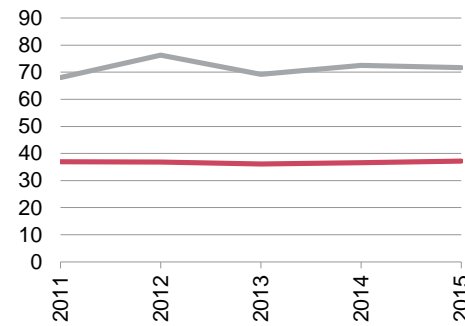
**Operating Balance**  
% Operating Revenue



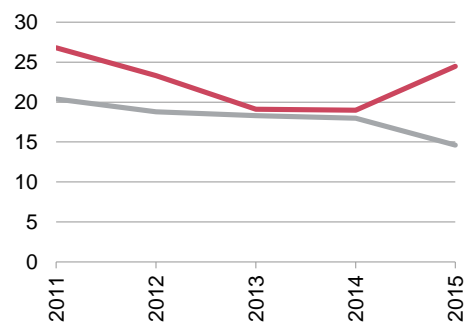
**Surplus (Deficit)**  
% Total Revenue



**Taxes**  
% Operating Revenue



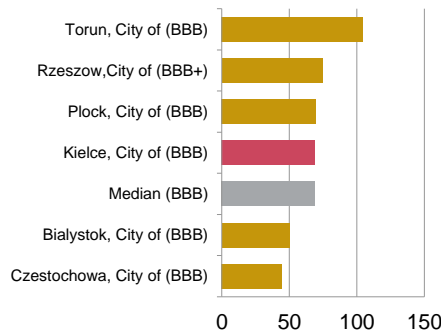
**Capital Expenditure**  
% Total Expenditure



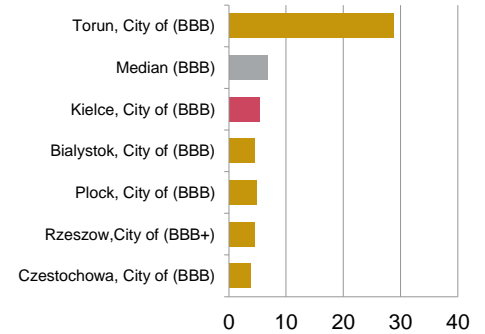
— City of Kielce

— BBB Peer Group Median

**Debt To Current Revenue (%) 2015**



**Debt Servicing To Current Revenue (%) 2015**



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