

City of Kielce

Update

Ratings

Foreign-Currency Long-Term IDR	BBB
Foreign-Currency Long-Term IDR	BBB
National 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

Kielce, City of

	31 Dec 2017	31 Dec 2016
Operating revenue (PLNm)	1,124.2	1,063.4
Debt (PLNm)	765.4	704.5
Operating balance/operating revenue (%)	5.50	6.47
Debt service/ current revenue (%)	6.67	7.95
Debt/current balance(yrs)	17.4	13.6
Operating balance/ interest paid (x)	3.40	4.00
Capital expenditure/ total expenditure (%)	14.19	11.39
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	-3.41	-3.27
Current balance/ capital expenditure (%)	23.39	37.49

Related Research

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

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

[Polish LRGs Debt Dashboard September 2017 \(September 2017\)](#)

[Poland – Ratings Navigator \(September 2017\)](#)

[Prospects for Polish Cities \(October 2017\)](#)

Analysts

Magdalena Mikolajczak
+48 22 338 62 85
magdalena.mikolajczak@fitchratings.com

Renata Dobrzynska
+48 22 338 62 82
renata.dobrzynska@fitchratings.com

Anna Drewnowska-Sus
+48 22 338 6284
anna.drewnowska-sus@fitchratings.com

Key Rating Drivers

Ratings Affirmed: The City of Kielce's ratings reflect Fitch's unchanged view that the city will maintain its satisfactory operating performance, with an operating margin of 5%-7% and an operating balance sufficient to cover annual debt service.

Opex Pressure Continues: In 2017, Kielce reported a satisfactory operating balance of about PLN62 million (2016: PLN68 million). Operating expenditure grew by 4.7% above operating revenue growth of 3.7% (after excluding '500+' transfers). We expect Kielce's 2018 operating results to remain at the 2017 level due to ongoing opex pressure, especially on education and on salaries. Due to local elections scheduled for 2018 it is unlikely that city will implement permanent spending cuts or significantly increase local taxes and fees.

As a result, we assume a temporary deterioration in the payback ratio (debt to current balance) in 2018 to around 18 years (2017: 17.4 years), which should strengthen to below 15 years by 2020. We expect that Kielce's operating results may improve from 2019, reflecting stronger tax revenue amid growing national and local economies. We believe that the city has some ability to increase its revenue, as local tax rates are below the maximum legal limit.

Growing Debt: Fitch assumes that Kielce's direct debt will gradually grow in 2018-2020 as a result of financing infrastructure investment while remaining below 75% of current revenue. At end-2017, direct debt was PLN765 million or 68% of current revenue (2016: PLN705 million or 66%).

Increasing capex: Capital expenditure rose to PLN188 million in 2017 from PLN139 million in 2016. We expect capex of PLN230 million-PLN250 million per year in 2018-2020 (or 16%-17% of total expenditure), as the city is conducting investments co-financed from the EU funds. The city's main investment areas are: local infrastructure, including local roads; the technological park; public transport; and housing. We expect that half of capex will be financed from capital revenue (mainly EU grants), while the rest will be from the current balance and new debt.

Sound Management Practices: The city's authorities present a safe approach to budgeting. The city's operating revenue budgeting is prudent and actual revenue is usually higher than originally planned at the beginning of the year. We believe that the city has some ability to increase its revenue, as local tax rates are below the maximum legal limit. We also note that sustained control over operating spending will be key to maintaining the current ratings.

Moderate Economy: Kielce is a medium-sized city in Poland (ca. 200.000 inhabitant) with a diversified economy, but weaker than other cities that are also capitals of their respective regions. GDP per capita in 2015 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. Fitch projects that Poland's real GDP will grow by 3.4% annually in the medium term.

Rating Sensitivities

Deterioration of Debt Matrix: A failure to re-strengthen the debt-to-current balance ratio below 15 years on a sustained basis or a significant increase in net overall risk to above 100% of current revenue could lead to a downgrade.

Improvement of Operating Results: The ratings could be upgraded if the city improves its operating margin toward 10% and maintains a moderate debt level.

Appendix A

City of Kielce (PLNm)	2013	2014	2015	2016	2017
Taxes	328.1	344.4	357.9	380.8	405.5
Transfers received	416.4	417.0	408.7	490.2	532.4
Fees, Fines and other Operating revenue	164.5	180.1	195.0	192.4	186.3
Operating Revenue	909.0	941.5	961.6	1,063.4	1,124.2
Operating expenditure	-832.7	-872.7	-884.9	-994.6	-1,062.4
Operating Balance	76.3	68.8	76.7	68.8	61.8
Financial revenue	1.0	0.5	0.5	0.3	0.2
Interest paid	-16.3	-16.7	-15.6	-17.1	-18.0
Current Balance	61.0	52.6	61.6	52.0	44.0
Capital revenue	115.5	114.3	129.1	50.3	102.3
Capital expenditure	-213.8	-219.1	-303.8	-138.7	-188.1
<i>Capital Balance</i>	<i>-98.3</i>	<i>-104.8</i>	<i>-174.7</i>	<i>-88.4</i>	<i>-85.8</i>
Surplus (Deficit) before Debt Variation	-37.3	-52.2	-113.1	-36.4	-41.8
New borrowing	76.6	76.0	131.6	107.4	118.2
Debt repayment	-55.2	-47.8	-35.4	-67.5	-57.0
<i>Net Debt Movement</i>	<i>21.4</i>	<i>28.2</i>	<i>96.2</i>	<i>39.9</i>	<i>61.2</i>
Overall results	-15.9	-24.0	-16.9	3.5	19.4
DEBT					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	541.1	569.2	665.1	704.5	765.4
Direct debt	541.1	569.2	665.1	704.5	765.4
+ Other Fitch classified debt - Pre-financing	0.0	0.0	0.0	-	-
Direct risk	541.1	569.2	665.1	704.5	765.4
- Cash, Liquid Deposits, Sinking Fund	66.8	42.8	25.8	29.4	48.8
Net direct risk	474.3	526.4	639.3	675.1	716.6
Guarantees and other Contingent Liabilities	0.0	0.0	0.0	0.0	0.0
Net Indirect debt (Public Sector Entities exc. gteed amount)	55.8	96.5	121.8	108.4	99.5
Net overall risk	530.1	622.9	761.1	783.5	816.1
Memo for direct debt:					
% in foreign currency	0.0	0.0	0.0	0.0	0.0
% issued debt	15.9	15.0	12.6	11.6	10.5
% fixed interest rate debt	0.7	0.5	0.4	1.0	0.8

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 B

City of Kielce

	2013	2014	2015	2016	2017
Fiscal Performance Ratios					
Operating balance/Operating revenue (%)	8.39	7.31	7.98	6.47	5.5
Current balance/Current revenue ^a (%)	6.7	5.58	6.4	4.89	3.91
Surplus (Deficit) before debt variation/Total revenue ^b (%)	-3.64	-4.94	-10.36	-3.27	-3.41
Overall results/Total revenue (%)	-1.55	-2.27	-1.55	0.31	1.58
Operating revenue growth (annual % change)	n.a.	3.58	2.13	10.59	5.72
Operating expenditure growth (annual % change)	n.a.	4.8	1.4	12.4	6.82
Current balance growth (annual % change)	n.a.	-13.77	17.11	-15.58	-15.38
Debt Ratios					
Direct debt growth (annual % change)	n.a.	5.19	16.85	5.92	8.64
Interest paid/Operating revenue (%)	1.79	1.77	1.62	1.61	1.6
Operating balance/Interest paid (x)	4.7	4.1	4.9	4	3.4
Direct Debt servicing/Current revenue (%)	7.86	6.85	5.3	7.95	6.67
Direct Debt servicing/Operating balance (%)	93.71	93.75	66.49	122.97	121.36
Direct debt/Current revenue (%)	59.46	60.42	69.13	66.23	68.07
Direct risk/Current revenue (%)	59.46	60.42	69.13	66.23	68.07
Direct debt/Current balance (yrs)	8.87	10.82	10.8	13.55	17.4
Net overall risk/Current revenue (%)	58.25	66.13	79.11	73.66	72.58
Direct risk/Current balance (yrs)	8.87	10.82	10.8	13.55	17.4
Direct Debt/GDP (%)	7.88	8.07	9.1	-	-
Direct Debt per capita (local currency)	2,706	2,860	3,359	3,558	3,866
Revenue Ratios					
Operating revenue/Budget operating revenue (%)	104.88	105.64	104.31	111.06	103.48
Tax revenue/Operating revenue (%)	36.09	36.58	37.22	35.81	36.07
Modifiable tax revenue/Total tax revenue (%)	34.47	32.81	33	34.09	32.01
Current transfers received/Operating revenue (%)	45.81	44.29	42.5	46.1	47.36
Operating revenue/Total revenue ^b (%)	88.64	89.13	88.12	95.46	91.64
Total revenue ^b per capita (local currency)	5,128	5,308	5,511	5,626	6,196
Expenditure Ratios					
Operating expenditure/Budget operating expenditure (%)	103.38	104.54	102.64	110.3	102.66
Staff expenditure/Operating expenditure (%)	46.78	46.03	46.17	43.13	40.28
Current transfer made/Operating expenditure (%)	9.56	8.91	8.81	8.47	8.75
Capital expenditure/Budget capital expenditure (%)	78.09	69.75	130.61	76.59	64.22
Capital expenditure/Total expenditure (%)	19.12	18.95	24.51	11.39	14.19
Capital expenditure/Local GDP (%)	3.11	3.1	4.16	-	-
Total expenditure per capita (local currency)	5,590	5,811	6,261	6,151	6,694
Capital expenditure financing					
Current balance/Capital expenditure (%)	28.53	24.01	20.28	37.49	23.39
Capital revenue/Capital expenditure (%)	54.02	52.17	42.5	36.27	54.39
Net debt movement/Capital expenditure (%)	10.01	12.87	31.67	28.77	32.54

^a includes financial revenue

^b excluding new borrowing

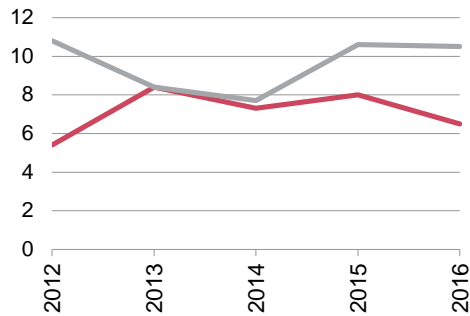
n.a.: not available

Source: Issuer and Fitch calculations

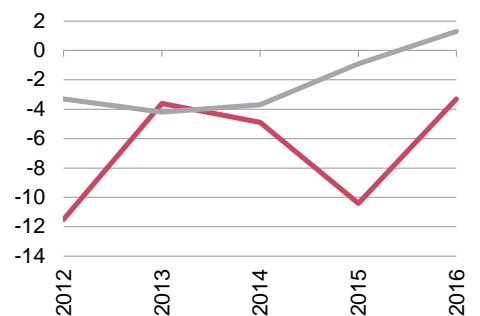
Appendix C City of Kielce

Peer Comparison

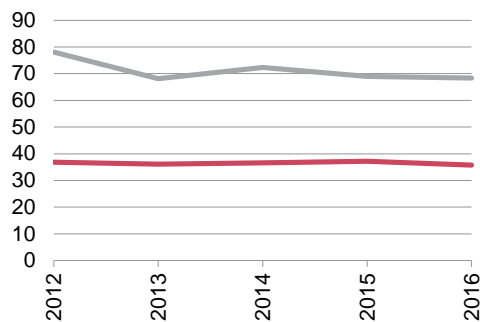
Operating Balance
% Operating Revenue



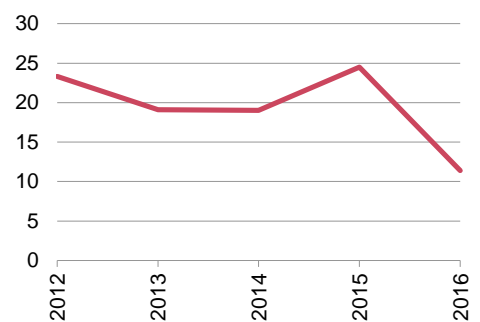
Surplus (Deficit)
% Total Revenue



Taxes
% Operating Revenue



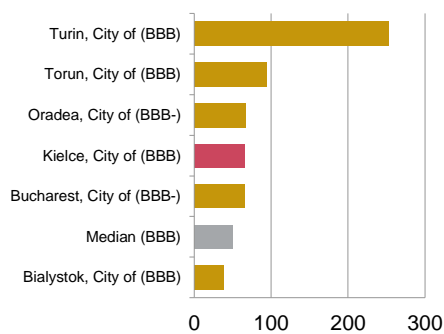
Capital Expenditure
% Total Expenditure



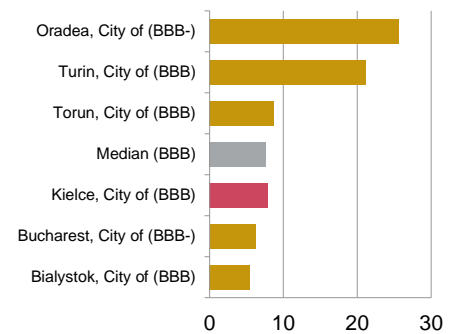
— Kielce, City of

— BBB Peer Group Median

Debt
To Current Revenue (%) 2016



Debt Servicing
To Current Revenue (%) 2016



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