

# RatingsDirect®

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## City of Vasteras

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# City of Vasteras

This report does not constitute a rating action.

## Key Rating Factors

### Issuer Credit Rating

AAA/Negative/A-1+  
*Nordic Regional Scale*  
--/--/K-1

| Credit context and assumptions   | Base-case expectations  |
|--|---|
| <p>Central government support will mitigate the financial impact from the COVID-19 pandemic on the City of Västerås' budgetary performance.</p> <ul style="list-style-type: none"><li>• Extraordinary general and earmarked grants to the sector and compensation for coronavirus-related expenditure will support strong budgetary performance in 2020.</li><li>• S&amp;P Global Ratings expects a gradual deterioration in operating results through 2022, owing to demographic factors, changes to the cost equalization system, and lingering effects from the pandemic.</li><li>• Following a name collection campaign, Västerås will hold a referendum on whether it should keep operating its financially strained airport.</li></ul> | <p>High population growth and demographic pressure translate into considerable investment needs.</p> <ul style="list-style-type: none"><li>• Capital expenditure will remain high through 2022, resulting in a gradual accumulation of debt.</li><li>• We expect management will remain committed to prudent financial policies, supporting the city's strong liquidity position.</li></ul> |

## Outlook

The negative outlook reflects our view that Vasteras' budgetary performance could come under pressure in 2021-2022 if management fails to use its budgetary flexibility to counteract the effects from COVID-19, a gradual decrease in government grants, and demographic-driven expenditure growth. At the same time, the city's high investment needs will result in a steadily growing debt burden.

### Downside scenario

We could lower the rating if management fails to use its fiscal flexibility to mitigate pressure on budgetary

performance, resulting in weaker operating results that are insufficient to maintain a robust financial position. In such a scenario, we could reevaluate our assessment on management and budgetary flexibility. We could also lower the ratings if long-term systemic support to the Swedish local government sector remains insufficient.

### Upside scenario

We could revise the outlook to stable if management uses its budgetary flexibility to improve and stabilize the city's performance metrics.

## Rationale

We expect Västerås' management will remain committed to budgetary discipline despite pressure on operating performance stemming from COVID-19, changes to the cost equalization system, and long-term demographic factors. In our view, the city is well-positioned to take advantage of its fiscal flexibility to, for instance, contain expenditure growth, divest nonstrategic assets, and adjust its tax rate if needed. Furthermore, we expect investment needs to remain high through 2022, resulting in a continued build-up of debt. We also believe management will uphold its conservative and prudent financial policies that underpin the city's strong liquidity position.

### **An experienced management supports Västerås' financial position, but sectorwide challenges could pressure credit quality**

We consider the institutional framework in Sweden as extremely predictable and supportive. In our view, the framework displays a high degree of stability, and the sector's revenue and expenditure management are based on a far-reaching equalization system and autonomy in setting local taxes. Furthermore, the central government's swift response to the COVID-19 pandemic, partly through the distribution of general grants to the sector, supports our view.

However, the sector's budgetary performance has deteriorated due to increasing expenditure, accentuated by central government policymaking, insufficient compensation mechanisms, and inadequate countermeasures by the LRGs. Furthermore, how the central government aims to address the sector's demographic challenges, and to what extent it should provide financial support, is unclear. Therefore, we assess the institutional framework trend as weakening.

In our view, Västerås' financial management is competent, with a track record of strict cost control along with sound debt and liquidity management. As a result, our base-case scenario assumes that management will respond to any further budgetary pressures by using its fiscal flexibility. Also, the communication between civil servants and politicians is efficient and transparent, leading to high flexibility within the organization. Furthermore, we believe there is broad consensus on key priorities among political parties.

One controversial issue concerns the city's fully owned airport. On the initiative of the ruling coalition, the local parliament recently voted to close the airport, pointing to the company's financial challenges. However, following a name collection campaign by a group of citizens, Västerås will hold a nonbinding referendum next spring that will serve as input for the decision. Our view is that the referendum, regardless of outcome, will have a limited impact on Västerås' financial position. The airport's budget and annual deficits are minimal compared to the city's operating revenue. However, a vote against the decision could indicate a reduced ability and flexibility for Västerås to implement similar asset sales.

We consider the local economy moderately strong in a national comparison. The city's labor market is dominated by a large share of engineering and technology-focused industries, leading to higher income levels than the national average. Furthermore, Västerås is expanding quickly, leading to high investment needs in the coming years. In our view, the city's higher-than-national-average unemployment reflects an influx of jobseekers, rather than socioeconomic vulnerability. In addition, Västerås' economic position is supported by Sweden's stable and wealthy economy, demonstrated by an estimated GDP per capita of about \$52,000 in 2020.

### **Government support will offset budgetary COVID-19-related repercussions, but structural long-term demographic issues remain**

We forecast a gradual deterioration in Västerås' budgetary performance through 2022, driven partly by demographic factors, changes to the cost equalization system, and increased social welfare spending in light of lingering effects from the pandemic. However, throughout 2020, the central government implemented unprecedented support to the sector in the form of earmarked and general grants as well as compensation for corona-related expenditure. Furthermore, the central government has provided support to the labor market through furlough schemes, which, combined with Sweden's robust unemployment benefit system, has mitigated the impact on tax revenue growth. Consequently, we expect a strong operating balance for Västerås, and the sector as a whole, in 2020. However, as it stands, the announced government grants will gradually decrease through 2022, pressuring the city's performance metrics. We do not rule out additional support to the sector, but our base-case scenario only includes support packages already announced by the government.

We forecast Västerås' capital expenditure will remain high throughout the forecast period, averaging Swedish krona (SEK) 1.3 billion. The substantial investment needs reflect the city's growing population and the changing demographic structure, characterized by a larger share of children and elderly citizens. Consequently, a considerable portion of upcoming investment relates to the construction and refurbishment of schools and nursing homes.

In our view, Västerås has above-average flexibility to counteract pressure on its budgetary performance. The city benefits from its strong per capita tax base and comparably low tax rate, which sits below both the national and regional averages. Furthermore, Västerås has a track record and declared willingness to divest nonstrategic assets, the proceeds from which can and have been used to repay debt. Consequently, we believe the city enjoys considerable headroom to boost revenue if needed.

Västerås operates a centralized in-house bank and on-lends the majority of debt to its company sector, the largest recipient of funding being housing company Bostads AB Mimer. In our view, Bostads AB Mimer is strong financially, supported by a low-risk business profile and high demand for housing in the city of Västerås. As a result, we believe the company will service its debt in a timely manner, and not require financial support from the city. Consequently, we consider the on-lending to the housing company as a mitigating factor to our assessment of Västerås' debt burden.

The city's liquidity position remains very strong, supported by a healthy mix of liquidity sources including cash, checking accounts, contracted facilities, and financial assets. Due to the turbulence on the global stock markets caused by COVID-19, management reallocated funds in the investment portfolio toward less risky assets. Furthermore, Västerås recently increased one of its checking accounts to SEK400 million from SEK50 million. Overall, the estimated debt service coverage ratio improves to 175% compared with 171% in our previous base-case scenario. The city

treasury has a strong track record of maintaining ample liquidity buffers and keeping the coverage ratio comfortably over 120%.

Furthermore, in line with other LRGs we rate in Sweden, we believe Västerås benefits from strong and reliable access to external liquidity, even in times of financial stress. Despite the capital market turbulence precipitated by the pandemic, the rated Swedish LRGs has enjoyed reliable access to external funding, further supporting our view.

## Key Statistics

**Table 1**

| City of Vasteras--Selected Indicators                     |                               |         |         |        |        |        |
|---|-------------------------------|---------|---------|--------|--------|--------|
|   | --Fiscal year ended Dec. 31-- |         |         |        |        |        |
| (Mil. SEK)  | 2017                          | 2018    | 2019    | 2020bc | 2021bc | 2022bc |
| Operating revenues  | 10,031                        | 10,424  | 10,854  | 10,912 | 11,128 | 11,366 |
| Operating expenditures                                    | 9,403                         | 10,002  | 10,377  | 10,375 | 10,672 | 10,910 |
| Operating balance   | 628                           | 422     | 477     | 537    | 456    | 456    |
| Operating balance (% of operating revenues)               | 6.3                           | 4.0     | 4.4     | 4.9    | 4.1    | 4.0    |
| Capital revenues  | 170                           | 218     | 493     | 145    | 150    | 150    |
| Capital expenditures                                      | 600                           | 977     | 1,138   | 1,275  | 1,182  | 1,380  |
| Balance after capital accounts                            | 198                           | (337)   | (168)   | (593)  | (576)  | (774)  |
| Balance after capital accounts (% of total revenues)      | 1.9                           | (3.2)   | (1.5)   | (5.4)  | (5.1)  | (6.7)  |
| Debt repaid   | 4,582                         | 3,962   | 2,453   | 3,630  | 2,800  | 2,931  |
| Gross borrowings  | 4,843                         | 4,178   | 3,748   | 4,583  | 3,453  | 4,723  |
| Balance after borrowings                                  | 289                           | (92)    | 416     | (111)  | 0      | (0)    |
| Direct debt (outstanding at year-end)                     | 9,356                         | 9,572   | 10,867  | 11,820 | 12,473 | 14,265 |
| Direct debt (% of operating revenues)                     | 93.3                          | 91.8    | 100.1   | 108.3  | 112.1  | 125.5  |
| Tax-supported debt (outstanding at year-end)              | 9,586                         | 9,796   | 11,051  | 11,999 | 12,646 | 14,433 |
| Tax-supported debt (% of consolidated operating revenues) | 65.8                          | 64.0    | 70.6    | 77.1   | 79.0   | 88.2   |
| Interest (% of operating revenues)                        | 0.9                           | 0.7     | 1.0     | 1.0    | 1.0    | 1.1    |
| Local GDP per capita (SEK)                                | N/A                           | N/A     | N/A     | N/A    | N/A    | N/A    |
| National GDP per capita (SEK)                             | 462,734                       | 477,094 | 490,830 | N/A    | N/A    | N/A    |

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. SEK--Swedish krona. N/A--Not applicable.

## Ratings Score Snapshot

**Table 2**

| City of Vasteras--Ratings Score Snapshot |        |
|--|--------|
| Key rating factors                       | Scores |
| Institutional framework                  | 1      |
| Economy                                  | 1      |

**Table 2**

| <b>City of Vasteras--Ratings Score Snapshot (cont.)</b> |               |
|---|---------------|
| <b>Key rating factors</b>                               | <b>Scores</b> |
| Financial management                                    | 1             |
| Budgetary performance                                   | 2             |
| Liquidity   | 1             |
| Debt burden   | 3             |
| Stand-alone credit profile                              | aaa           |
| Issuer credit rating                                    | AAA           |

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

## Key Sovereign Statistics

- Sovereign Risk Indicators, Oct. 12, 2020. Interactive version available at <http://www.spratings.com/sri>

## Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Extra Funding In Sweden's 2021 Budget Will Support LRGs, Sept. 24, 2020
- European Local And Regional Government Risk Indicators, June 30, 2020
- COVID-19: Fiscal Response Will Lift Local And Regional Government Borrowing To Record High, June 9, 2020
- COVID-19 Could Further Strain Swedish LRGs' Budgets, May 20, 2020
- Swedish Government To Mitigate Impact From Coronavirus On Local And Regional Governments, March 11, 2020
- Public Finance System Overview: Swedish Municipalities And Regions, Dec. 3, 2019
- Sweden's Local Governments To Get A Slight Boost From 2020 Budget, Sept. 20, 2019
- Default, Transition, and Recovery: 2018 Annual International Public Finance Default And Rating Transition Study, Aug. 19, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019

## Ratings Detail (As Of December 7, 2020)\*

**Vasteras (City of)**

|                              |                   |
|------------------------------|-------------------|
| Issuer Credit Rating         | AAA/Negative/A-1+ |
| <i>Nordic Regional Scale</i> | --/--/K-1         |
| Commercial Paper             | A-1+              |
| Senior Unsecured             | AAA               |

**Issuer Credit Ratings History**

|             |                              |                   |
|-------------|------------------------------|-------------------|
| 05-Jun-2020 | <i>Foreign Currency</i>      | AAA/Negative/A-1+ |
| 25-Sep-2015 |                              | AAA/Stable/A-1+   |
| 18-Oct-2013 |                              | AA+/Positive/A-1+ |
| 05-Jun-2020 | <i>Local Currency</i>        | AAA/Negative/A-1+ |
| 25-Sep-2015 |                              | AAA/Stable/A-1+   |
| 18-Oct-2013 |                              | AA+/Positive/A-1+ |
| 31-Dec-1998 | <i>Nordic Regional Scale</i> | --/--/K-1         |

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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