

# RatingsDirect®

---

## Research Update:

# City of Vasteras 'AAA/A-1+' Ratings Affirmed; Outlook Remains Stable

**Primary Credit Analyst:**

Carl Nyreerod, Stockholm (46) 8-440-5919; carl.nyreerod@spglobal.com

**Research Contributor:**

Dennis Nilsson, Stockholm (46)84405354; dennis.nilsson@spglobal.com

**Secondary Credit Analyst:**

Gabriel Forss, Stockholm (46) 8-440-5933; gabriel.forss@spglobal.com

## Table Of Contents

---

Overview

Rating Action

Outlook

Rationale

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria And Research

Ratings List

## Research Update:

# City of Vasteras 'AAA/A-1+' Ratings Affirmed; Outlook Remains Stable

## Overview

- We expect the Swedish city of Västerås will maintain its budgetary performance through 2019--despite spending pressures and higher investment needs stemming from its changing demography--thanks to its ample revenue flexibility.
- That said, we believe that debt-funded investments for the city and its company sector over the next three years will result in increased debt.
- We are affirming our 'AAA/A-1+' and 'K-1' ratings on Västerås.
- The stable outlook reflects our view that risks to the rating are balanced. The city's financial management and liquidity will counterbalance any risks arising from heightened spending needs and demographic pressures.

## Rating Action

On March 17, 2017, S&P Global Ratings affirmed its 'AAA' long-term and 'A-1+' short-term foreign and local currency issuer credit ratings on the Swedish City of Västerås. The outlook remains stable.

We also affirmed our 'K-1' short-term Nordic regional scale rating on Västerås.

## Outlook

The stable outlook reflects our expectation that Västerås' financial management will continue its prudent approach over the next 24 months and maintain its liquidity position. In our base case, we also assume that the city will increase direct debt, although this will primarily constitute onlending to its creditworthy housing and energy companies and thereby not trigger any need for a tax rise or cost-cutting pressure on tax-supported operations.

Downside scenario

We could take a negative rating action if we observed significant deterioration in Västerås' liquidity. Such a shift in liquidity and deviation from its policies would likely lead us to revise downward our assessment of its financial management.

## Rationale

The affirmation reflects our opinion that Västerås' liquidity position and budgetary performance will stay on a stable path, despite increased expenditure pressures and investment needs stemming from the city's changing demography. Management's prudent approach and the city's ample revenue flexibility will remain central to our base case. Additionally, although we believe that debt-funded investments for the city and its company sector will result in increased debt over the next three years, we

believe Västerås' management will increasingly focus on limiting further debt accumulation.

- Västerås benefits from strong population growth, a diverse economy, and the stability of Sweden's equalization system

Västerås has a strong local economy, in a global comparison, with sound growth prospects and average population growth over the past three years of 1.1%. We consider the economy to be well balanced with a diverse industry structure that has a focus on high tech engineering. Income levels are slightly above average for Sweden and high by international standards. Owing to the comprehensive equalization system within the Swedish institutional framework, which evens out the wealth among Swedish local and regional governments (LRGs), we use the three-year average national GDP per capita of US\$54,200 for 2014-2016 as the starting point of our ratings analysis on the municipality.

Sweden's institutional framework is a key strength for our ratings on Västerås. The country's LRG system presents a high degree of institutional stability, and we note that the main tools for balancing revenues and expenditures are Sweden's far-reaching equalization system and the autonomy LRGs enjoy in setting local taxes.

We believe Västerås' management will continue its track record of prudent and sophisticated management of budgetary performance, debt, and liquidity. Budgeting procedures show a high degree of transparency, and formal rules stipulate processes and levels of financial disclosure.

- Despite continued high investments, Västerås has ample revenue flexibility and healthy liquidity

In our view, Västerås has the revenue flexibility to mitigate almost any significant budgetary deterioration, which is important in light of our assessment of the municipality's fairly rigid expenditure structure. Although Västerås' operating expenditure structure is quite inflexible, the municipality's moderately strong per-capita tax base means that it has a fairly high share of modifiable revenues (close to 72% of 2016 total revenues). In addition, Västerås' municipal tax rate stands below the national and county averages.

Thanks to robust economic fundamentals and prudent financial management, the city has posted consistently average budgetary performance in recent years, counterbalancing increasing cost pressure stemming from its changing demography. As such, the city has a track record of moderate operating balances averaging 3.5% of operating revenues in 2014-2016. Furthermore, the city post balanced after-capital accounts over the same period, mostly due to asset sales.

In our base-case scenario, we expect the city's operating balance will remain at an average of 3.8% of operating revenues over 2017-2019. We include in our base-case assumptions that the city will gradually manage to control cost development in its core services, while benefiting from positive developments in its tax revenues. Due to sustained investment levels, we expect Västerås will demonstrate a modest deficit after capital accounts of 1.8% of revenues in 2017-2019.

However, we acknowledge that the lion's share of Västerås' group investments is delivered by its company sector, in particular by power utility Mälarenergi and public housing entity Bostads AB Mimer, which are currently undergoing considerable expansion. We continue to expect that Mälarenergi's investments will require additional loan funding, which we assume will come via further onlending from the city treasury. We estimate the required onlending for the two companies at a sizable Swedish krona (SEK) 1,150 million (about €120 million) per year over the 2016-2018 planning period, which will result in additional borrowing for the city. In our base case, we expect Västerås' direct debt will reach about 128% of operating revenues in 2019, up from 92% in 2016.

However, in assessing Västerås' debt, we acknowledge that the city has almost no loans for its core municipal activities and that the large majority of the debt held in the city treasury is lent on to subsidiaries. Additionally, our assessment of Västerås' debt burden is supported by the financially sound operations of these companies, in particular Bostads AB Mimer, which we consider self-supporting. Consequently, with the company sector's loans largely being assessed in Västerås' debt burden, we regard risks related to contingent liabilities as nonsubstantial.

Västerås' liquidity position reflects its strong debt-service coverage. In January 2017, cash and committed facilities accounted for about 129% of debt service for the ensuing 12 months. We also incorporate in our liquidity assessment the city's strong access to external liquidity and funding needs in the coming years.

Using our base-case estimates for 2016-2017, the city's average cash and security investments include about SEK2.0 billion, SEK4.05 billion of average committed facilities and available checking accounts, and a SEK1.5 billion loan agreement with the European Investment Bank.

## Key Statistics

Table 1

### City of Vasteras Financial Statistics

(Mil. SEK)	--Fiscal year end Dec. 31--					
	2014	2015	2016	2017bc	2018bc	2019bc
Operating revenues	8,546	8,822	9,427	9,771	10,051	10,349
Operating expenditures	8,336	8,464	9,048	9,391	9,682	9,969
Operating balance	210	358	379	381	369	380
Operating balance (% of operating revenues)	2.5	4.1	4.0	3.9	3.7	3.7
Capital revenues	50	528	185	0	0	0
Capital expenditures	473	438	320	518	563	585
Balance after capital accounts	(213)	448	244	(137)	(194)	(205)
Balance after capital accounts (% of total revenues)	(2.5)	4.8	2.5	(1.4)	(1.9)	(2.0)
Debt repaid	3,218	4,566	3,763	4,488	4,607	4,900
Net budget loans	(528)	(957)	(603)	(1,159)	(1,506)	(1,978)

**Table 1**

**City of Vasteras Financial Statistics (cont.)**

(Mil. SEK)	--Fiscal year end Dec. 31--					
	2014	2015	2016	2017bc	2018bc	2019bc
Balance after debt repayment and onlending	(3,959)	(5,075)	(4,122)	(5,784)	(6,307)	(7,083)
Balance after debt repayment and onlending (% of total revenues)	(46.1)	(54.3)	(42.9)	(59.2)	(62.7)	(68.4)
Gross borrowings	4,204	5,542	4,061	5,634	6,107	6,883
Balance after borrowings	245	467	(61)	(150)	(200)	(200)
Operating revenue growth (%)	1.6	3.2	6.9	3.7	2.9	3.0
Operating expenditure growth (%)	3.5	1.5	6.9	3.8	3.1	3.0
Modifiable revenues (% of operating revenues)	71.7	72.7	71.2	71.7	72.2	72.5
Capital expenditures (% of total expenditures)	5.4	4.9	3.4	5.2	5.5	5.5
Direct debt (outstanding at year-end)	7,540	8,516	8,652	9,798	11,298	13,281
Direct debt (% of operating revenues)	88.2	96.5	91.8	100.3	112.4	128.3
Tax-supported debt (% of consolidated operating revenues)	60.1	66.6	64.2	69.7	77.9	88.8
Interest (% of operating revenues)	1.5	0.8	0.9	0.7	0.8	0.8
Debt service (% of operating revenues)	39.2	52.6	40.8	46.7	46.7	48.1

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.

**Table 2**

**City of Vasteras Economic Statistics**

	--Fiscal year end Dec. 31--					
	2014	2015	2016	2017bc	2018bc	2019bc
Population	143,702	145,218	146,947	149,245	150,722	152,229
Population growth (%)	1.1	1.1	1.2	1.6	1.0	1.0
Unemployment rate (%)	7.1	8.8	7.4	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. Sources typically include national statistical offices, Eurostat, and Experian Limited. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable.

## Ratings Score Snapshot

**Table 3**

### City of Vasteras Ratings Score Snapshot

Key rating factors	
Institutional Framework	Extremely predictable and supportive
Economy	Very strong
Financial management	Very strong
Budgetary flexibility	Strong
Budgetary performance	Average
Liquidity	Exceptional
Debt burden	Moderate
Contingent liabilities	Low

\*S&P Global Ratings bases its ratings on local and regional governments on the eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the rating.

## Key Sovereign Statistics

Kingdom of Sweden 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 3, 2017

## Related Criteria And Research

### Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments - June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs - October 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

### Related Research

- Sovereign Risk Indicators - December 14, 2016, a free interactive version is available at <http://www.spratings.com/sri>

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

## Research Update: City of Vasteras 'AAA/A-1+' Ratings Affirmed; Outlook Remains Stable

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee agreed that the debt burden had deteriorated and liquidity had improved. All other key rating factors were unchanged.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

### Ratings List

	Rating	
	To	From
Vasteras (City of)		
Issuer Credit Rating		
Foreign and Local Currency	AAA/Stable/A-1+	AAA/Stable/A-1+
Nordic Regional Scale	--/--/K-1	--/--/K-1
Commercial Paper		
Foreign and Local Currency	A-1+	A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

#### Additional Contact:

International Public Finance Ratings Europe; [PublicFinanceEurope@spglobal.com](mailto:PublicFinanceEurope@spglobal.com)

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.