

# RatingsDirect®

---

## Research Update:

# Swedish City of Vasteras Upgraded To 'AAA' From 'AA+' On Improved Financial Management; Outlook Stable

### Primary Credit Analyst:

Pierre-Brice Helsing, Stockholm +46 (0)8 440 59 06; [Pierre-Brice.Helsing@standardandpoors.com](mailto:Pierre-Brice.Helsing@standardandpoors.com)

### Secondary Contact:

Gabriel Forss, Stockholm (46) 8-440-5933; [gabriel.forss@standardandpoors.com](mailto:gabriel.forss@standardandpoors.com)

## Table Of Contents

---

- Overview
- Rating Action
- Rationale
- Outlook
- Key Statistics
- Ratings Score Snapshot
- Key Sovereign Statistics
- Related Criteria And Research
- Ratings List

## Research Update:

# Swedish City of Vasteras Upgraded To 'AAA' From 'AA+' On Improved Financial Management; Outlook Stable

## Overview

- In our view, the Swedish City of Västerås' financial management has achieved a strong track record of very sound liquidity and an improving debt profile, while focusing on long-term funding, in the past few years.
- We are therefore reassessing the city's financial management to very strong from strong previously.
- We are raising our long-term rating on Västerås to 'AAA' from 'AA+' and affirming the 'A-1+' short-term and 'K-1' Nordic regional scale ratings.
- The stable outlook reflects our assumption that the city will maintain cautious financial management.

## Rating Action

On Sept. 25, 2015, Standard & Poor's Ratings Services raised its long-term issuer credit rating on the Swedish City of Västerås to 'AAA' from 'AA+'. The outlook is stable. We affirmed the short-term issuer credit rating at 'A-1+'.

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

## Rationale

The upgrade follows our reassessment of Västerås' financial management to very strong versus strong. In our view, in recent years, the city has consistently improved its debt profile and liquidity position.

The ratings on Västerås are supported by our assessments of the city's very strong local economy, very strong financial management, and the extremely predictable and supportive institutional framework for Swedish local and regional governments (LRGs). The city's strong liquidity, strong budgetary flexibility, low debt burden, and low contingent liabilities, in our opinion, further underpin the ratings. These positive rating factors are balanced by Västerås' average budgetary performance. The long-term rating on Västerås is at the same level as its stand-alone credit profile, which we assess at 'aaa'.

Västerås' very strong local economy rests on solid fundamentals, in our view. Income levels are average for Sweden and high internationally. Owing to the comprehensive equalization system within the Swedish institutional framework, which evens out the wealth among Swedish LRGs, we use the three-year average national GDP per capita of US\$59,053 for 2012-2014 as the starting point of our analysis.

Västerås' robust economic fundamentals have supported the city's consistently average budgetary performance in recent years. As such, the city has a track record of moderate operating balances averaging 3.8% of operating revenues in 2012-2014, partly due to the extraordinary reimbursement of previously paid health care insurance premiums in 2012 and 2013, totaling Swedish krona (SEK) 180 million (about €19.3 million) over that period. In addition, given that the city's capital expenditures remained modest in 2012, Västerås posted average surpluses after capital accounts of about 0.2% of total revenues in 2012-2014.

In our base-case scenario, we expect the city's operating balance to remain at an average of 3.7% of operating revenues over 2015-2017, including a final reimbursement of pension premiums in 2015. Due to sustained investment levels, we expect Västerås to demonstrate a modest deficit after capital accounts of 1.9% of revenues in 2015-2017.

We assess Västerås' budgetary flexibility as strong in an international context, due to sound revenue flexibility and a rigid expenditure structure. In our opinion, Västerås has strong revenue flexibility owing to its high share of modifiable revenues and a low tax rate in its regional context. We consider this revenue flexibility important in light of our view of the city's fairly rigid expenditure structure.

The city's capital expenditures create modest financing needs. Still, we acknowledge that its company sector is in a heavy investment phase, led by power utility Mälarenergi and public housing entity Bostads AB Mimer, which are currently undergoing considerable expansion. We think that Mälarenergi's investments will require additional loan funding, which we assume will come via further onlending from the city treasury, as the company embarks on its strategic plan for 2015-2019. Together with Bostads AB Mimer, we estimate the required onlending for the two companies at an average SEK662 million per year over the 2015-2017 planning period. In our base case, we position Västerås' direct debt at about 106% of operating revenues in 2017, up from 88% in 2014. However, in assessing Västerås' debt, we acknowledge that the city has almost no loans for its municipal activities and that the large majority of the debt held in the city treasury is lent on to subsidiaries. As such, our assessment of Västerås' debt burden is supported by the financially sound operations of these companies. In our base-case scenario, we factor in our expectation that the city's debt will stay well within 120% of operating revenues in the coming years, despite sizable investment plans.

We regard the city's contingent liabilities as low. Västerås has a large but financially solid company sector, in our view. Moreover, Västerås holds the entire debt of its companies in the city treasury, which we include in our debt assessment.

## **Liquidity**

The short-term rating on Västerås is 'A-1+'. We assess Västerås' liquidity as strong, as defined in our criteria, based on a strong debt-service coverage. In January 2015, cash and committed facilities accounted for about 128% of debt service for the ensuing 12 months. We also incorporate in our liquidity assessment our view

of the city's strong access to external liquidity and our assessment of its company sector's very high funding needs in the coming years.

Using our base-case estimates for 2014-2015, the city's average cash and security investments include about SEK2.02 billion, as well as SEK2.45 billion of average committed facilities and available checking accounts. We also include in our liquidity sources the funding from the city's loan agreement with the European Investment Bank (EIB) for SEK1.5 billion, which we assume will be available in the coming 12 months, because we expect the city to gradually replace the amount it draws with new bank lines to maintain stable liquidity coverage. These liquidity sources will cover about 128% of the city's debt service and interest payments--about SEK3.9 billion by our calculations--due over the next 12 months.

We acknowledge that the loan agreement with the EIB may help the city reduce the term structure of its debt portfolio, thereby further reinforcing its liquidity.

## Outlook

The stable outlook reflects our expectation that Västerås will continue to demonstrate very prudent and strategized financial management over the next 24 months and maintain strong liquidity. We also take into account our view that the city will maintain its direct debt below 120% of its revenues by 2017 through persistently solid financial performance and contained funding needs in its company sector.

We could take a negative rating action if we observed a significant shift in Västerås' financial management, leading us to revise our assessment to strong from very strong, and if the city's direct debt increased beyond 120% of its operating revenues over the next two years.

## Key Statistics

Table 1

### City of Vasteras Financial Statistics

(Mil. SEK)	--Fiscal year end Dec. 31--				
	2013	2014	2015bc	2016bc	2017bc
Operating revenues	8,410	8,546	8,826	9,169	9,480
Operating expenditures	8,052	8,336	8,541	8,797	9,121
Operating balance	358	210	285	372	359
Operating balance (% of operating revenues)	4.3	2.5	3.2	4.1	3.8
Capital revenues	89	50	50	50	50
Capital expenditures	457	473	574	557	557
Balance after capital accounts	(10)	(213)	(239)	(135)	(148)
Balance after capital accounts (% of total revenues)	(0.1)	(2.5)	(2.7)	(1.5)	(1.6)
Debt repaid	3,215	3,218	2,845	3,825	3,950

**Table 1**

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

(Mil. SEK)	--Fiscal year end Dec. 31--				
	2013	2014	2015bc	2016bc	2017bc
Net budget loans	(1,124)	(528)	(311)	(697)	(978)
Balance after debt repayment and onlending	(4,349)	(3,959)	(3,394)	(4,657)	(5,076)
Balance after debt repayment and onlending (% of total revenues)	(51.2)	(46.1)	(38.2)	(50.5)	(53.3)
Gross borrowings	4,794	4,204	3,394	4,657	5,076
Balance after borrowings	445	245	(0)	(0)	(0)
Operating revenue growth (%)	4.6	1.6	3.3	3.9	3.4
Operating expenditure growth (%)	5.1	3.5	2.5	3.0	3.7
Modifiable revenues (% of operating revenues)	70.5	71.7	72.8	74.2	74.8
Capital expenditures (% of total expenditures)	5.4	5.4	6.3	6.0	5.8
Direct debt (outstanding at year-end)	6,556	7,540	8,089	8,921	10,047
Direct debt (% of operating revenues)	78.0	88.2	91.6	97.3	106.0
Tax-supported debt (% of consolidated operating revenues)	53.1	60.1	62.6	66.8	72.8
Interest (% of operating revenues)	1.6	1.5	1.5	1.5	1.4
Debt service (% of operating revenues)	39.8	39.2	33.7	43.2	43.1

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's 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, reflecting Standard & Poor's expectations of the most likely scenario. SEK--Swedish krona.

**Table 2**

**City of Vasteras Economic Statistics**

	--Fiscal year ending Dec. 31--					
	2012	2013	2014	2015bc	2016bc	2017bc
Population	140,499	142,131	143,702	145,769	147,491	149,245
Population growth (%)	1.29	1.21	1.28	1.22	1.18	1.19
GDP per capita (SEK)	341,706	347,184	N/A	N/A	N/A	N/A
Unemployment rate (%)	7.8	8.0	6.8	7.0	N/A	N/A

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's 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, reflecting Standard & Poor's expectation of the most likely scenario. SEK--Swedish krona. 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	Strong
Debt burden	Low
Contingent liabilities	Low

Standard & Poor's ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of Standard & Poor's "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, Sept. 4, 2015.

## Related Criteria And Research

### Related Criteria

- General Criteria: Standard & Poor's National And Regional Scale Mapping Tables - September 30, 2014
- 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

### Related Research

- Sovereign Risk Indicators, June 30, 2015. An interactive version is available at [www.spratings.com/sri](http://www.spratings.com/sri).
- Swedish Local And Regional Government Risk Indicators: May 2015 - May 28, 2015
- Sweden's New Equalization System Will Hurt Some LRGs' Finances But Not Their Credit Quality - February 09, 2015

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.

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's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

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**

	Ratings	
	To	From
Vasteras (City of)		
Issuer credit rating		
Foreign and Local Currency	AAA/Stable/A-1+	AA+/Positive/A-1+
Nordic Regional Scale	--/--/K-1	--/--/K-1
Commercial Paper		
Foreign and Local Currency	A-1+	A-1+

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 Standard & Poor's 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 Standard & Poor's 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@standardandpoors.com](mailto:PublicFinanceEurope@standardandpoors.com)

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. 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 acknowledgement 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).