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## Research Update:

# Norwegian Municipality of Stavanger Affirmed At 'AA+/A-1+'; Outlook Stable

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## Research Update:

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## Overview

- Stavanger benefits from its very strong local economy and strong financial management, and from Norway's extremely predictable and supportive institutional framework.
- We are affirming our 'AA+' long-term and 'A-1+' short-term ratings on Stavanger.
- The stable outlook reflects our base-case forecast that, through 2019, Stavanger will present strong budgetary performance and keep its liquidity position at least at the current level.

## Rating Action

On Jan. 13, 2017, S&P Global Ratings affirmed its 'AA+' long-term and 'A-1+' short-term issuer credit ratings on the Norwegian Municipality of Stavanger. The outlook is stable.

## Rationale

The ratings reflect our assessment of Stavanger's very strong economy, strong financial management, strong budgetary performance, and low contingent liabilities. A further support is our view of Norway's extremely predictable and supportive institutional framework. Our assessment of Stavanger's only adequate liquidity position, average budgetary flexibility, and moderate debt position offset these positives. The long-term rating on Stavanger is at the same level as its stand-alone credit profile, which we assess at 'aa+'.

We consider Norway's institutional framework to be a key component of our long-term rating on Stavanger. The Norwegian local and regional government (LRG) sector shows a high degree of institutional stability because it benefits from very strong system support. The central government regularly monitors the sector's financial status and distributes revenues through a far-reaching equalization system and extensive grant schemes. Mechanisms to handle financial distress of individual LRGs are well established through monitoring of LRGs' financial situation when needed.

In a global comparison, Stavanger's economy is very strong. Wages in Stavanger are high and we estimate that locally derived GDP per capita exceeds Norway's GDP per capita. However, in our view, the Norwegian LRG system has so many equalization components that we use the three-year average national GDP per capita of \$82,300 as the starting point for our analysis of Stavanger's economy. Stavanger is Norway's fourth-largest municipality, and its main responsibilities are elementary education, childcare, elderly care, social care, city planning, and infrastructure-related tasks. It has 133,234 inhabitants, equating to about 2.5% of the national population.

Stavanger has shown healthy growth over the past few decades, but because of depressed global market prices for oil- and gas-related products, economic activity has slowed in the city. Although Stavanger is the center of Norway's oil- and gas-related industry, it has a fairly diverse employment sector, with the public sector playing a predominant role. It is the administrative hub of southwestern Norway and, besides public administration employment, it hosts a university and a regional hospital. Due to the focus on the oil and gas industry, income levels are very high in Stavanger, at about 140% of the national average. Stavanger's high economic wealth helps to mitigate the exposure to the oil and gas sector.

We consider Stavanger's financial management to be strong. The administration model is clear regarding the division of responsibilities between politicians and civil servants. Elections were last held in 2015 and will take place next time in 2019. The ruling government consists of six political parties constituting a conservative-green majority. To date, there has been no major friction within the ruling coalition. Furthermore, we regard financial management as competent and effective at enforcing strict budget discipline with robust cost control.

We believe that Stavanger has demonstrated a track record of strong budgetary performance over the past years, and we have therefore revised our assessment, which was adequate previously. The city posted an operating surplus of 6.1% of operating revenues in 2016 (compared with 6.2% in 2015) with a small surplus after capital accounts of 0.2% of total revenues (improved from a 1.8% deficit in 2015). Despite subdued economic activity and rising unemployment, we forecast sound budgetary performance, with operating revenue growth outpacing that of operating expenditures in 2018-2019. In our base-case scenario for 2017-2019, we expect Stavanger will keep a firm grip on spending, facilitating the stabilization of operating balances at about 5.6% in 2019. However, we consider that Stavanger's investments will remain high over the coming three years, due to the increasing need to maintain educational facilities and build new schools and care facilities. Therefore, we think these investments are likely to result in deficits after capital accounts averaging 2.7% of total revenues in 2017-2019.

We view Stavanger's budgetary flexibility as average, and somewhat limited because the central government sets transfers and upper limits for personal income taxes. Consequently, with regards to operating revenues, Stavanger's only flexibility is to increase property tax within set limits, which could enhance revenues by about Norwegian krone (NOK) 250 million (€28 million). However, Stavanger's sizable assets, primarily shares in an energy company, show significant surplus values that could be sold, providing flexibility to raise capital revenues. In addition, Stavanger has some leeway to cut operating expenditures, given the already high standard of its assets.

We assess Stavanger's debt burden as moderate. Since we assume that the city's investments will remain high in our base-case scenario for 2017-2019, we forecast additional net new borrowings. As a result, we forecast Stavanger's tax-supported debt will increase to 86.5% of consolidated operating revenues by year-end 2019, from 80.4% in 2016. In our calculation of tax-supported debt, we include onlent debt to municipal companies and loans to households via state-owned bank Husbanken.

Unfunded pension liabilities are low and do not negatively affect our view of Stavanger's debt position. Stavanger has both commercial paper and medium-term notes outstanding.

In assessing contingent liabilities as low, we include guarantees to self-supporting toll-road companies. Furthermore, Stavanger's stakes in several limited liability companies constitute a pool of reserves, while its stake in energy company, LYSE, creates substantial dividend revenues. Stavanger could generate significant capital revenues by divesting these companies.

We are interpreting the criteria "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" with regards to Stavanger's commercial paper coverage.

## **Liquidity**

We assess Stavanger's liquidity as adequate, taking into account both its 74% internal debt service coverage and its strong access to external liquidity. Stavanger uses NOK500 million in committed credit facilities from banks, as well as cash, to handle its liquidity needs and reduce refinancing risk. Consequently, Stavanger's cash, liquid assets, and available committed credit facilities amount to 74% of debt service over the next 12 months.

In assessing Stavanger's liquidity, we take into account the municipality's access to the capital markets, which we view as strong. We also believe that cash and amounts available under the liquidity facilities will cover 100% of the first 30 days due for Stavanger's outstanding CP.

## **Outlook**

The stable outlook reflects our expectation that, over the next 24 months, Stavanger's efforts to contain operating expenditures and its possible use of its revenue flexibility will enable the municipality to present strong budgetary performance. As such, we expect that the municipality will maintain average tax-supported debt. We also expect Stavanger to maintain its liquidity position in relation to upcoming liquidity needs at least at the current level.

We could take a positive rating action on Stavanger if we observed a major structural strengthening of the municipality's liquidity, together with an improvement in its financial management, especially with regards to debt and liquidity management, leading to less exposure to short-term debt.

The ratings could come under pressure if we observed a loosening of liquidity management, leading to lower debt coverage ratios with higher reliance on short-term debt.

## **Key Statistics**

**Table 1**

<b>Stavanger (Municipality of) Financial Statistics</b>					
	<b>--Year end Dec. 31--</b>				
<b>(Mil. NOK)</b>	<b>2015</b>	<b>2016</b>	<b>2017bc</b>	<b>2018bc</b>	<b>2019bc</b>
Operating revenues	9,674	9,699	9,748	9,991	10,235
Operating expenditures	9,078	9,109	9,239	9,455	9,665
Operating balance	596	590	509	536	570
Operating balance (% of operating revenues)	6.2	6.1	5.2	5.4	5.6
Capital revenues	369	434	258	300	362
Capital expenditures	1,148	1,007	1,190	1,115	1,071
Balance after capital accounts	(182.7)	16.8	(422.9)	(279.1)	(138.9)
Balance after capital accounts (% of total revenues)	(1.8)	0.2	(4.2)	(2.7)	(1.3)
Debt repaid	2,221	875	1,390	2,314	1,437
Net budget loans	(40.6)	(67.9)	(101.4)	(101.5)	(100.6)
Balance after debt repayment and onlending	(2,444.3)	(926.1)	(1,914.3)	(2,694.6)	(1,676.0)
Balance after debt repayment and onlending (% of total revenues)	(24.3)	(9.1)	(19.1)	(26.2)	(15.8)
Gross borrowings	2,881	926	1,883	2,695	1,676
Balance after borrowings	436.3	(0.1)	(31.3)	0.4	(0.0)
Operating revenue growth (%)	4.8	0.3	0.5	2.5	2.4
Operating expenditure growth (%)	1.1	0.4	1.4	2.3	2.2
Modifiable revenues (% of operating revenues)	4.7	4.9	4.9	4.7	4.6
Capital expenditures (% of total expenditures)	11.2	10.0	11.4	10.6	10.0
Direct debt (outstanding at year-end)	7,417	7,468	7,961	8,342	8,582
Direct debt (% of operating revenues)	76.7	77.0	81.7	83.5	83.8
Tax-supported debt (% of consolidated operating revenues)	80.2	80.4	84.7	86.3	86.5
Interest (% of operating revenues)	2.8	2.7	2.6	2.5	2.5
Debt service (% of operating revenues)	25.7	11.7	16.9	25.7	16.5

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. NOK--Norwegian krone. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

**Table 2**

**Stavanger (Municipality of) Economic Statistics**

	--Fiscal year end Dec. 31--				
	2015	2016	2017bc	2018bc	2019bc
Population growth (%)	1.0	0.8	0.8	1.0	1.0
Unemployment rate (%)	4.5	5.1	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' expectation of the most likely scenario. N/A--Not applicable.

## Ratings Score Snapshot

**Table 3**

**Stavanger (Municipality of) Ratings Score Snapshot**

**Key rating factors**

Institutional framework	Extremely predictable and supportive
Economy	Very strong
Financial management	Strong
Budgetary flexibility	Average
Budgetary performance	Strong
Liquidity	Adequate
Debt burden	Moderate
Contingent liabilities	Low

\*S&P Global Ratings' ratings on local and regional governments (LRGs) are based on 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 foreign currency rating on an LRG.

## Key Sovereign Statistics

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

## Related Criteria And Research

### Related Criteria

- 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

- Norway 'AAA/A-1+' Ratings Affirmed On Wealthy Economy And Strong Financial

## Research Update: Norwegian Municipality of Stavanger Affirmed At 'AA+/A-1+'; Outlook Stable

Standing; Outlook Stable - October 21, 2016

- Default, Transition, and Recovery: 2015 Annual International Public Finance Default Study And Rating Transitions - June 30, 2016

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

	Rating	
	To	From
Stavanger (Municipality of)		
Issuer Credit Rating		
Foreign and Local Currency	AA+/Stable/A-1+	AA+/Stable/A-1+

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