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Research Update:

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

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Overview

- We expect Stavanger's costs could rise, given that the municipality will merge with two smaller municipalities, Renneöy and Finnsöy, in 2020, nearly doubling its geographical area, although the population increase will be limited.
- We are affirming our 'AA+' long-term and 'A-1+' short-term ratings on Stavanger.
- The outlook remains stable.

Rating Action

On May 25, 2018, 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 remains stable.

Outlook

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

Downside Scenario

The ratings could come under pressure if we observed a loosening of liquidity management, leading to a significantly lower liquidity coverage ratio and subsequently a downward revision of our assessment of Stavanger's financial management.

Upside Scenario

We could take a positive rating action if we observed structurally higher liquidity coverage whereby the municipality would have less exposure to short-term debt maturities and improved liquidity buffers. This could in turn improve our assessment of the robustness of Stavanger's financial management.

Rationale

The affirmation reflects our opinion that the risks to the ratings are balanced. Stavanger benefits from the very supportive institutional framework in Norway, a wealthy local economy, and strong financial management. These factors underpin the city's strong budgetary performance, with stable operating surpluses and limited deficits after capital accounts. We expect Stavanger's financial management to remain committed to budgetary discipline as well as adequate debt and liquidity management, such that debt accumulation is contained. Moreover, we expect Stavanger's costs could rise, given that the municipality will merge with two smaller municipalities, Renneöy and Finnsöy, in 2020, nearly doubling its geographical area, although the population increase will be limited.

We note that the city's liquidity coverage has strengthened thanks to higher average cash levels. However, we consider liquidity coverage to still be volatile due to upcoming debt maturities and the need to balance seasonality patterns in cash flow.

A very strong institutional framework and financial management remain key strengths

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, since the Norwegian equalization system significantly balances wealth levels among local and regional governments (LRGs), we use the three-year average national GDP per capita of $73,800 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 133,140 inhabitants, equating to about 2.5% of the national population.

Although the city 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. Stavanger is the administrative hub of southwestern Norway and, besides offering jobs in public administration, also hosts a university and a regional hospital. Income levels are very high, at about 130% of the national average.

We view Stavanger's financial management as prudent and competent, with a track record of enforcing budgetary discipline through cost controls. We also observe a history of broad consensus across the political spectrum on key policy areas. Therefore, we expect revenue and expenditure management to remain conservative beyond the 2019 elections. The in-house treasury management has strong expertise in capital markets with good monitoring mechanisms.

Strong operating balances curtail borrowing needs for investments

Although Stavanger's current economic fundamentals support revenue growth and operating surpluses, we expect greater cost pressure due to increased demand for municipal services and operating expenditures stemming from Stavanger expanding to include two smaller municipalities, Renneöy and Finnsöy, in 2020. The municipality will nearly double in size, although the population increase will be a low 6%. Nevertheless, we expect the city's ongoing efficiencies to counterbalance such cost pressures.

That said, we expect management to continue to contain spending and use budgetary discipline such that the operating balance remains above 5% of operating revenues on average over 2018-2020. The strong operating performance helps contain deficits after capital accounts in a period of high investments. In 2017, the city's investments were a record high Norwegian krone (NOK) 1.2 billion (€0.1 billion), reaching about 11% of spending. We expect that investments will decline only slightly over the coming three years, but remain elevated, averaging almost NOK1 billion annually, or 9% of expenditures, because of the need to maintain educational facilities and build new schools and care facilities. We project that the city will post a deficit of about 1.4% of total revenues on average over our forecast horizon. This includes total capital revenues for 2018-2020 of NOK750 million, 2% of revenues, that we expect the city will receive.

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. Nevertheless, Stavanger's budgetary flexibility is somewhat limited because the central government sets transfers and upper limits for personal income taxes. Consequently, concerning taxes, Stavanger's only flexibility is to increase property taxes within set limits, which could enhance revenues by about NOK165 million. In addition, Stavanger has some leeway to cut operating expenditures, given the already high standard of its services.

To provide for the continued above-average standard of services, we assume that the city's investments will remain high in our base-case scenario for 2018-2020. As a result, we forecast additional net new borrowings and expect Stavanger's tax-supported debt will increase to 86% of consolidated operating revenues by year-end 2020, from 81% in 2017. In our calculation of tax-supported debt, we include on-lent debt to municipal companies and loans to households via state-owned bank Husbanken. Unfunded pension liabilities are low and do not weigh on our view of Stavanger's debt position.

In assessing the city's contingent liabilities, 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.

Moreover, in January 2018, Stavanger sold its shareholding in the toll road company Nord-Jaeren, which resulted in a capital revenue of NOK0.2 million for 2018. A decision will also be taken by spring 2019 regarding a potential divestment of its ownership in its other toll road company Ryfast, which could lead to reduced guarantees for Stavanger. This is in line with the national reform, which aims at reducing the number of toll road companies, creating larger amalgamated companies, thereby increasing the economies of scale.

We observe that Stavanger's liquidity has strengthened thanks to an increased average cash position. The city 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 have increased to 127% of debt service for the next 12 months from 108% in our last review. However, we acknowledge that the city's liquidity coverage is volatile over the next two years.

Key Statistics

Table 1

Municipality of Stavanger Key Statistics

	--Fiscal year end Dec. 31--				
(Mil. NOK)	**2016**	**2017**	**2018bc**	**2019bc**	**2020bc**
Operating revenues	10,172	10,511	10,852	11,088	11,316
Operating expenditures	9,234	9,736	10,236	10,520	10,747
Operating balance	938	775	616	568	569
Operating balance (% of operating revenues)	9.2	7.4	5.7	5.1	5.0
Capital revenues	443	596	323	266	159
Capital expenditures	1,162	1,232	1,081	976	911
Balance after capital accounts	219	139	(141)	(142)	(183)
Balance after capital accounts (% of total revenues)	2.1	1.3	(1.3)	(1.2)	(1.6)
Debt repaid	2,189	1,391	1,051	524	1,700
Gross borrowings	2,500	1,792	1,411	1,014	2,157
Balance after borrowings	447	287	(15)	0	0
Modifiable revenues (% of operating revenues)	4.3	4.2	4.3	4.2	4.2
Capital expenditures (% of total expenditures)	11.2	11.2	9.5	8.5	7.8
Direct debt (outstanding at year-end)	7,734	8,135	8,495	8,984	9,441
Direct debt (% of operating revenues)	76.0	77.4	78.3	81.0	83.4
Tax-supported debt (outstanding at year-end)	8,399	8,818	9,178	9,667	10,124
Tax-supported debt (% of consolidated operating revenues)	79.2	80.6	81.3	83.8	86.0
Interest (% of operating revenues)	2.5	2.2	2.3	2.4	2.4
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	598,196	623,653	641,164	661,742	685,004

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. N/A--Not available.

Ratings Score Snapshot

Table 2

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	Strong
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, April 10, 2018. 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07,2017

Related Research

- Norway 'AAA/A-1+' Ratings Affirmed On Wealthy Economy And Strong Financial Standing; Outlook Stable - March 23, 2018
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments - September 21, 2017
- 2016 Annual Non-U.S. Local And Regional Government Default Study And Rating Transitions - May 08, 2017

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+

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at 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.

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