

Research Update:

# Swedish City Of Uppsala Affirmed At 'AA+/A-1+'; Outlook Stable

November 22, 2024

## Overview

- On the back of lower population growth, the City of Uppsala is reducing investments in school properties and other tax-financed activities, which will result in lower deficits after capital accounts compared to our previous forecast.
- However, large upcoming infrastructure investments--mainly related to the construction of a tramway--alongside sizable investments by the municipal companies will weigh on the city's financial position in the coming years.
- We therefore affirmed our 'AA+/A-1+' global scale and 'K-1' regional scale ratings on the City of Uppsala. The outlook is stable.

## Rating Action

On Nov. 22, 2024, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on the Swedish City of Uppsala. The outlook is stable.

We also affirmed our 'K-1' Nordic regional scale rating on Uppsala.

## Outlook

The stable outlook reflects our view that Uppsala will maintain sound budgetary performance, including moderate deficits after capital accounts and a controlled debt accumulation, despite large upcoming infrastructure-related expenditures.

## Downside scenario

We could lower the ratings if we observe a significantly weaker budgetary performance, driven by weaker cost controls and budget overruns in investment plans, resulting in an increase of the city's debt burden well beyond our current projections. This could put pressure on Uppsala's liquidity position.

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## Upside scenario

We could raise the ratings if Uppsala is able to control expenditures, despite large investments, resulting in a stronger-than-expected budgetary performance, putting its debt ratio on a declining path.

## Rationale

The affirmation reflects our view that Uppsala will maintain sound budgetary performance and a manageable debt burden, despite large spending needs and a challenging macroeconomic situation, on the back of prudent cost control. We view Uppsala's strong local economy and Sweden's supportive institutional framework for local and regional governments (LRGs) as further pillars of the rating.

## Uppsala will fare better compared to domestic peers in the context of the nationwide slump in population growth

Uppsala benefits from Sweden's high wealth levels, illustrated by our 2024 estimated GDP per capita of close to \$60,000. Uppsala is the fourth-largest city in Sweden, benefiting from its proximity to the Stockholm area and from being the home of one of Sweden's largest universities. Although population growth in Sweden has decreased notably, we think that Uppsala will be less affected than many other Swedish LRGs. Uppsala also has a well-educated work force, with income and employment levels roughly on par with the national averages.

We regard Uppsala's managerial capabilities as strong, with a solid track record of budgetary discipline benefiting from consensus among both civil servants and the political leadership. A left-green minority administration governs the city, benefitting from passive support from a local party. We have observed a strong consensus regarding the city's long-term plans, although there are dissenting views regarding the city's expansion and the related public transport infrastructure projects. We regard Uppsala's treasury policies as risk minimizing.

We consider the institutional framework for Swedish LRGs as extremely predictable and supportive. In our view, the framework displays a high degree of stability, while the sector's revenue and expenditure management are based on a far-reaching equalization system and tax autonomy. The central government has historically extensively supported the LRG sector. This is demonstrated by the additional grants distributed in response to the COVID-19 pandemic or--more recently--to cover rising pension costs.

## Debt is set to increase on the back of large investments in the municipal group

Higher-than-expected tax revenues and lower spending will result in operating performance remaining solid in 2024. However, we expect that large nonrecurring expenditures will weigh on the operating budget in 2025-2026. These expenditures, which we estimate will total Swedish krona (SEK) 1.9 billion between 2024-2027, are preparational works for the construction of the tramway network. Although the city will receive co-financing for these activities, which we estimate at about SEK650 million in 2024-2027, we expect these costs will suppress operating budget balances through at least 2026. On the back of lower population growth and a challenging macroeconomic situation, we forecast lower tax-revenue growth compared to a few years ago. However, we expect the city to undertake sufficient cost containment measures. Together with

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lower inflation and lower demand for services--caused by the weaker population growth, these measures will still allow for solid, albeit somewhat weaker, operating budgetary performance in the next two years.

We also forecast lower deficits after capital accounts compared to previous expectations, as the city has notably reduced investments in school properties due to the lower population growth. These investments are undertaken by the fully owned subsidiary Uppsala Kommun Skolfastigheter AB (Skolfastigheter), which we consolidate with the city's capital accounts. However, we expect that the city's capital spending will increase significantly from 2026 when the construction of the tramway begins, widening the city's budget deficits after capital accounts.

To enhance comparability between our rated LRGs in Sweden, we now reflect investments in water and waste, carried out by the fully owned subsidiary Uppsala Vatten & Avfall, in the city's capital accounts. Although these investments are sizable, requiring approximately SEK400 million in annual new net borrowings, our assessment of the city's budgetary performance is not negatively affected because the inclusion of these investments does not materially weaken the city's balance after capital accounts.

We anticipate that the city's other companies will also have sizable investments in the coming years. This is primarily related to the housing company, Uppsalahem AB. Alongside investments in existing assets and increased new production, the company will acquire a large package of residential units in 2025, which we think will mainly be debt financed. In total, we estimate the municipal companies' borrowing needs (excluding Skolfastigheter) will average about SEK1.4 billion annually through 2026, which will be sourced via the city's treasury.

We expect that large investments in the municipal group will drive the city's debt burden increase through 2026. All the city's debt has been on-lent to the municipal companies, with Uppsalahem and Skolfastigheter being the main borrowers. While we view on-lending to Uppsalahem as positive in our debt assessment, we no longer consider on-lent funds to Uppsala Vatten & Avfall as a mitigating factor. This now negatively affects our assessment on the city's debt burden compared to previously. This is because we think that as the water and waste sector in Sweden embarks on a heightened investment period, mostly debt financed, the sector's credit quality would likely erode. Our analysis of Uppsala is comparable with our analysis of those municipalities that conduct water and waste activities on their own balance sheets and those that integrate these activities in their energy companies. We also regard the city's contingent liabilities, including its joint and several guarantee to Kommuninvest, as limited.

Although lower inflation and policy rate cuts should lead to financial conditions improving, we expect that the average cost of debt will continue to increase as cheap legacy debt and derivatives are refinanced at higher rates. That said, as the city's entire debt burden has been on-lent to its companies, we do not expect any material effect on the city's budgetary performance. This is because the city will receive a corresponding increase in interest revenues.

We expect Uppsala's liquidity will remain solid due to its ample contracted facilities and strong access to capital markets. We estimate that available cash and committed bank lines will cover 164% of maturing debt over the next 12 months. The city primarily uses committed credit facilities from banks to handle its liquidity needs and reduce refinancing risk. In our calculation, we include close to SEK6.2 billion of cash and committed and available facilities, SEK150 million of expected funding needs for the city, and SEK3.9 billion of maturing debt and interest.

## Key Statistics

Table 1

### Uppsala (City of)--Selected indicators

	--Year ended Dec. 31--					
	2021	2022	2023	2024bc	2025bc	2026bc
Operating revenues	16,814	17,788	18,939	19,602	20,430	21,373
Operating expenditures	15,775	16,519	17,676	18,411	19,531	20,490
Operating balance	1,039	1,269	1,263	1,191	899	883
Operating balance (% of operating revenues)	6.2	7.1	6.7	6.1	4.4	4.1
Capital revenues	718	132	194	129	124	286
Capital expenditures	1,298	2,197	1,642	1,833	1,306	1,796
Balance after capital accounts	459	(796)	(185)	(513)	(283)	(627)
Balance after capital accounts (% of total revenues)	2.6	(4.4)	(1.0)	(2.6)	(1.4)	(2.9)
Debt repaid	3,230	4,020	4,070	4,070	3,300	4,250
Gross borrowings	4,300	4,736	4,303	5,690	5,500	6,050
Balance after borrowings	577	46	(956)	81	(88)	(134)
Direct debt (outstanding at year-end)	16,820	17,100	17,180	18,800	21,000	22,800
Direct debt (% of operating revenues)	100.0	96.1	90.7	95.9	102.8	106.7
Tax-supported debt (outstanding at year-end)	17,623	17,703	17,780	19,000	21,000	22,800
Tax-supported debt (% of consolidated operating revenues)	92.4	85.7	81.2	83.7	88.7	92.2
Interest (% of operating revenues)	0.8	1.2	1.5	1.9	2.4	2.5
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	526,517	561,139	589,887	605,277	628,464	654,778

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 applicable. N.A.--Not available. N.M.--Not meaningful.

## Ratings Score Snapshot

Table 2

### Uppsala (City of)--Ratings score snapshot

#### Key rating factors

Institutional framework	1
Economy	1
Financial management	2

Table 2

## Uppsala (City of)--Ratings score snapshot (cont.)

### Key rating factors

Budgetary performance	3
Liquidity	1
Debt burden	3
Stand-alone credit profile	aa+
Issuer credit rating	AA+

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

- Sweden, Oct. 28, 2024

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Nordic Public Finance Credit Outlook 2024: A Mixed Picture, May 16, 2024
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., Oct. 31, 2024
- Subnational Debt 2024: Focus on Debt Sustainability, Feb. 29, 2024
- Subnational Debt 2024: Infrastructure Spending Succumbs To Economic Slowdown, Feb. 29, 2024
- Subnational Debt 2024: Global LRGs Can Handle Rising Interest Expenses, Feb. 29, 2024
- Institutional Framework Assessment: Swedish Municipalities And Regions Have Flexibility To Balance Costs, Nov. 29, 2023
- Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise, Sept. 14, 2023

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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 Affirmed

#### Uppsala (City of)

Issuer Credit Rating	AA+/Stable/A-1+
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Nordic Regional Scale	--/--/K-1
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#### Uppsala (City of)

Commercial Paper	A-1+
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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.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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