

Research Update:

City Of Uppsala Outlook Revised To Stable As Large Investments Will Weigh On Performance; 'AA+/A-1+' Ratings Affirmed

May 24, 2024

Overview

- The City of Uppsala is set embark on its largest infrastructure project ever, related to the construction of a tramway, which will weigh on the city's budgetary performance.
- In addition, the city's companies have sizable investment plans in the near term, although lower population growth may moderate their pace.
- We expect this investment cycle will lead to a gradual increase in the city's debt burden over the coming two years.
- We are therefore revising our outlook on City of Uppsala to stable from positive and affirming our 'AA+/A-1+' global scale and 'K-1' regional scale ratings.

Rating Action

On May 24, 2024, S&P Global Ratings revised its outlook on the Swedish city of Uppsala to stable from positive. We also affirmed our 'AA+/A-1+' long- and short-term issuer credit ratings and 'K-1' Nordic regional scale rating on the city.

Outlook

The stable outlook reflects our view that Uppsala will manage weaker tax-revenue growth and higher infrastructure-related spending, while maintaining a sound financial position.

Downside scenario

We could consider a downgrade if Uppsala's ambitious investment plan in local infrastructure led to higher cost increases, resulting in a meaningful increase of the city's debt burden beyond our current expectations. This increase in debt could in turn put pressure on Uppsala's liquidity

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Upside scenario

We could consider an upgrade if Uppsala is able to control expenditures, despite large infrastructure spending, resulting in a structurally improved performance.

Rationale

We have revised the outlook to stable because we think the likelihood of a structurally improved performance has reduced because of the large infrastructure projects the city will undertake. This comes alongside a challenging macroeconomic situation, which will likely weigh on performance.

We expect the city will maintain prudent cost control on its day-to-day operations, while deficits after capital accounts reflect the impact of its investment projects alone. This will lead to an increase in Uppsala's debt burden, which we nevertheless see as manageable, given the entity's strong access to funding. 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.

An extremely supportive institutional framework and budgetary discipline support the city's financial sustainability

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. Historically, central government has provided extensive support to the LRG sector. This is demonstrated by the additional grants distributed in response to the pandemic or--more recently--to cover rising pension costs.

Uppsala benefits from Sweden's high wealth levels, illustrated by our 2024 estimated GDP per capita of \$58,000, and a strong local economy. Like the rest of Sweden, population growth has decreased significantly compared with a few years ago on the back of a more restrictive immigration policy and lower birth rates. However, Uppsala is the fourth-largest city in the country, benefiting from its close integration to the greater Stockholm area. It is also home to one of Sweden's largest universities. As such, we think Uppsala will fare better than many other Swedish LRGs. Furthermore, Uppsala has a well-educated work force, with income levels and employment structure being roughly on par with the national averages.

In our view, Uppsala's managerial capabilities compare well both domestically and internationally. A left-green minority administration is in power, benefitting from passive support from a local party. The political discussions in the city mainly concern the city's expansion and the related public transport infrastructure projects. Although a referendum on this matter is scheduled for June 2024, we do not expect any changes to the city's long-term strategies. In general, we have observed strong consensus regarding long-term plans, with sound commitment to budgetary discipline at both the managerial and political leadership levels, reflecting a strong track record in this respect. We regard Uppsala's financial management as prudent, and the city adheres to conservative risk policies.

Large infrastructure projects will weigh on financial metrics

We forecast that large expenditures in preparation for the tramway will weaken operating performance compared with the past two years. We estimate these costs, which include moving underground pipes and cables, will total Swedish krona (SEK) 1.3 billion (about €112 million) through 2026. Although we expect the city will receive co-financing for these activities, the additional costs will weigh on operating performance. In addition, we expect lower tax-revenue growth on the back of the challenging macroeconomic situation and lower population growth. However, the lower population growth will also subdue expenditure growth due to lower demand for services. We also expect the city to undertake cost containment measures while inflationary pressure should gradually abate at the same time, supporting healthy, yet somewhat weaker, operating performance in the next two years.

We continue to expect limited impact on the city's cash flows from the large pension costs in 2023-2024, as these are mainly non-cash provisions (see "Sweden's Local And Regional Governments Have Less Room To Maneuver Over The Next Year As Pension Costs Rise," published Sept. 14, 2023, on RatingsDirect).

Capital spending will notably increase from 2025 or 2026, when construction of the tramway begins, resulting in gradually widening deficits after capital accounts until the project is completed in 2029. In addition to this, investments in local infrastructure and strategic land acquisitions will also contribute to the city's capital spending. We also reflect the borrowing needs of the fully owned subsidiary Uppsala Kommun Skolfastigheter AB (Skolfastigheter), in the city's capital accounts as we consider its operations as core. The company is currently in an investment-intensive phase, and we estimate it will borrow about SEK700 million annually on average through 2026. That said, we have factored in that lower population growth is likely to have a dampening effect on certain capital projects, such as construction of public service properties, as demand for new properties diminishes.

The city's companies will continue to invest as well, which will require onlending from the city treasury. We estimate that the companies' borrowing needs (excluding Skolfastigheter) will average about SEK800 million annually. These investments are mainly related to the housing company, Uppsalahem AB, and the water and sewage company Uppsala Vatten & Avfall.

The city's debt burden has remained stable over recent years, but we expect it will increase in the coming two years on the back of increasing capital spending. Half of the city's debt has been lent to Uppsalahem and Uppsala Vatten & Avfall, which in our view is a mitigant due to the solid business profiles and strong financial positions of these companies. The city's direct debt, adjusted for these two companies, would be around 55% of operating revenues in 2026. Furthermore, we continue to regard the city's contingent liabilities, including its joint and several guarantee to Kommuninvest, as limited.

Although interest rates are set to decrease because of lower inflation and policy rate cuts, we anticipate 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 onlent to its companies, we don't expect any material impact on the city's performance as 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 cover 142% 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, SEK230 million of expected

funding needs for the city, and SEK4.2 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	19,574	20,488	21,436
Operating expenditures	15,775	16,519	17,676	18,591	19,549	20,386
Operating balance	1,039	1,269	1,263	983	938	1,050
Operating balance (% of operating revenues)	6.2	7.1	6.7	5.0	4.6	4.9
Capital revenues	718	132	194	133	130	130
Capital expenditures	1,298	2,197	1,642	1,756	1,809	2,220
Balance after capital accounts	459	(796)	(185)	(640)	(741)	(1,041)
Balance after capital accounts (% of total revenues)	2.6	(4.4)	(1.0)	(3.2)	(3.6)	(4.8)
Debt repaid	3,230	4,020	4,070	4,070	3,400	4,350
Gross borrowings	4,300	4,736	4,303	6,100	5,250	6,000
Balance after borrowings	577	46	(956)	57	135	5
Direct debt (outstanding at year-end)	16,820	17,100	17,180	19,210	21,060	22,710
Direct debt (% of operating revenues)	100.0	96.1	90.7	98.1	102.8	105.9
Tax-supported debt (outstanding at year-end)	17,623	17,703	17,780	19,410	21,260	22,910
Tax-supported debt (% of consolidated operating revenues)	92.4	87.3	82.3	85.6	89.8	92.7
Interest (% of operating revenues)	0.8	1.2	1.5	2.1	2.5	2.6
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	528,606	571,313	598,264	608,711	628,917	648,518

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

Table 2

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

Financial management	2
Budgetary performance	3
Liquidity	1
Debt burden	2
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, April 29, 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., April 8, 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
- 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

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; Outlook Action

	To	From
Uppsala (City of)		
Issuer Credit Rating	AA+/Stable/A-1+	AA+/Positive/A-1+

Ratings Affirmed

Uppsala (City of)		
Issuer Credit Rating		
Nordic Regional Scale	--/--/K-1	
Commercial Paper	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.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/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at 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. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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