City of Kielce

Full Rating Report

Ratings

Foreign Currency	
Long-Term IDR	BBB
Local Currency	
Long-Term IDR	BBB
National	
Long-Term Rating	A+(pol)

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable
National Long-Term Rating	Stable

Financial Data

City of Kielce

	31 Dec 17	31 Dec 16
Operating revenue (PLNm)	1,124.2	1,063.4
Debt (PLNm)	765.4	704.5
Operating balance/ operating revenue (%)	5.50	6.47
Debt service/current revenue (%)	6.67	7.95
Debt/current balance (yrs)	17.4	13.6
Operating balance/ interest paid (x)	3.4	4.0
Capital expenditure/ total expenditure (%)	14.19	11.39
Surplus (deficit) before debt variation/total rev. (exc. new debt) (%)	-3.41	-3.27
Current balance/capital expenditure (%)	23.39	37.49

Related Research

Polish LRGs: Dashboard (September 2018)

Prospects for Polish Cities (October 2017)

Polish LRGs Debt Dashboard (September 2017)

Interpreting the Financial Ratios in Local and Regional Government Rating Reports (October 2015)

Institutional Framework for Polish Subnationals (March 2014)

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Key Rating Drivers

Ratings Affirmed at 'BBB': The City of Kielce's ratings reflect Fitch Ratings' unchanged view that the city will maintain its satisfactory operating performance, with an operating margin of 5%-7% and an operating balance sufficient to cover annual debt service despite expected debt growth on the back of investments.

Opex Pressure Continues: We expect Kielce's 2018 operating results to remain at the 2017 level rather than improve due to ongoing opex pressure, especially on education, resulting from state reform, and on salaries following the general market trend of declining unemployment and rising salaries in the private sector. Fitch notes also that, in election years such as 2018, local governments usually hold back from raising local taxes or making permanent spending cuts.

Fitch expects Kielce's operating results to improve from 2019, reflecting stronger tax revenue amid growing national and local economies. We believe the city has some ability to increase its revenue as local tax rates are below the maximum legal limit. We also assume that the city will maintain its opex control over the medium term.

Increasing Capex: In 2018, investment has increased. We expect capex of PLN230 million-PLN250 million per year in 2018-2020 (or 16%-18% of total expenditure) as the city is conducting investments co-financed from the EU funds available for Polish local governments. We expect that half of this capex will be financed from capital revenue (mainly EU grants), while the rest will come from new debt and the current balance.

Growing Debt: Fitch assumes that Kielce's direct debt will grow gradually in 2018-2020 as a result of financing infrastructure investment but that it will remain below 75% of current revenue. We expect direct debt to rise to PLN826 million at end-2018, or 71% of current revenue (end-2017: PLN765 million, or 68%). According to Fitch's scenario, the payback ratio (debt/current balance) should strengthen to below 15 years in the medium term from 17.4 years in 2017.

Sound Management Practices: The city's authorities present a safe approach to budgeting. Kielce's operating revenue budgeting is prudent, and actual revenue is usually higher than originally planned at the beginning of the year. We believe that the city has some ability to increase its revenue, as local tax rates are below the maximum legal limit.

Moderate Economy: Kielce is a medium-sized Polish city (around 200,000 inhabitants) with an economy that is diversified but weaker than that of other regional capital cities. GDP per capita for the Kielecki sub-region, which includes Kielce and the surrounding villages, was 79% of the national average in 2015. We estimate that the city's wealth indicators are on a par with the national average, as Kielce is the strongest area in the sub-region. Fitch projects that Poland's real GDP will grow by 3.4% a year in the medium term.

Rating Sensitivities

Deterioration of Debt Matrix: A failure to strengthen the debt/current balance ratio back to below 15 years on a sustained basis or a significant increase in net overall risk to over 100% of current revenue could lead to a downgrade.

Improvement of Operating Results: The ratings could be upgraded if the city improves its operating margin toward 10% and maintains a moderate debt level.

Rating History

Date	Long-Term Foreign IDR	Long-Term Local IDR
23 Mar 18	BBB	BBB
29 Sep 17	BBB	BBB
31 Mar 17	BBB	BBB
14 Oct 16	BBB	BBB
15 Apr 16	BBB	BBB
16 Oct 15	BBB−	BBB−
17 Apr 15	BBB−	BBB−
24 Oct 14	BBB−	BBB−
25 Apr 14	BBB−	BBB−
13 Dec 13	BBB−	BBB−
5 Nov 13	BBB−	BBB−
12 Mar 13	BBB−	BBB−
14 Mar 12	BBB−	BBB−
18 Mar 11	BBB−	BBB−
9 Mar 10	BBB−	BBB−
24 Feb 09	BBB−	BBB−
21 Feb 08	BBB−	BBB−
10 Jan 07	BBB−	BBB−

Related Criteria

International Local and Regional Governments Rating Criteria – Outside the United States (April 2016)

National Scale Ratings Criteria (July 2018)

Principal Rating Factors

Summary: Strengths and Weaknesses

	Institutional framework	Debt and other liabilities	Economy	Finances	Management and administration
Status	**Neutral**	**Neutral**	**Neutral**	**Neutral**	**Neutral**
Trend	Stable	Stable	Stable	Stable	Stable

Source: Fitch

Overall Strengths

- Moderate direct debt and limited borrowing requirements
- Good liquidity
- Good financial, operating and debt management

Overall Weaknesses

- A more challenging economic environment for the city compared to its peers
- Exposure to interest rate risk
- Continuous pressure on opex

Institutional Framework

There is a stable regulatory regime for Polish local and regional governments (LRGs), which include regions, counties and municipalities (cities combine the functions of a county and a municipality). Their activities and financial statements are closely monitored and reviewed by the central administration. There is good disclosure in the LRGs' accounts. LRGs are obliged to publish their budgets and annual and interim execution reports on their websites, as well as their long-term financial projections. LRGs' budgets and budget execution reports are based on cash accounting.

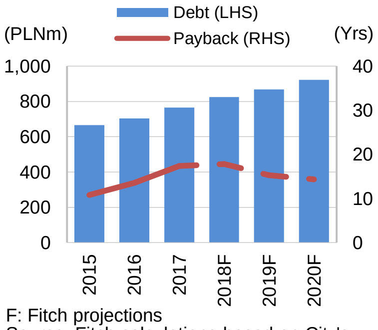
All revenue sources for all tiers of LRGs and the formulae for their distribution are defined in law, limiting the national government's scope for discretionary decisions; revenue equalisation schemes are also defined. Gradual decentralisation of responsibilities affects the LRGs' budgets, as financial resources assigned to new responsibilities have often been insufficient. This has increased the size of the LRGs' budgets, but is gradually reducing their financial flexibility. LRGs are not allowed to vote to approve a budget with an operating deficit, but there are no restrictions on running capital deficits.

LRGs may place outstanding cash in deposits with banks established on Polish territory and invest it in treasury bonds or bonds issued by other LRGs. LRGs can incur short-term debt to cover their liquidity shortages during a year, but it must be repaid by the year-end.

Since 2014, each LRG has had to comply with an individual debt limit calculated specifically for it. The debt service/total revenue planned in an LRG's budget must not exceed the last three years' average current balance plus revenue from asset sales to total revenue. This should encourage LRGs to improve their operating results.

LRGs cannot go bankrupt. In financial distress, an LRG can be granted loans from the state budget when launching a reparatory procedure. However, an LRG defaulting on its financial obligations cannot be ruled out.

Debt and Payback



F: Fitch projections
Source: Fitch calculations based on City's budgets

Direct Debt Structure

	Debt (PLNm)	% of total
End-2017		
Bank loans	680	89
Bond issue	80	10
Preferential loans	6	1
Total	**765**	**100**
End-1H18		
Bank loans	669	89
Bond issue	80	11
Preferential loans	5	1
Total	**754**	**100**

Source: Fitch own calculations based on city's budget

Debt and Other Long-Term Liabilities

Fitch assumes that Kielce's direct debt will gradually grow in 2018-2020 as a result of financing infrastructure investment but that it will remain below 75% of current revenue. We expect direct debt to rise to PLN826 million at end-2018, or 71% of current revenue (end-2017: PLN765 million, or 68%). We also assume that the city's payback ratio should strengthen to below 15 years in the medium term from 17.4 years in 2017.

Operating balances reported by Kielce are usually sufficient to meet its annual debt service (both interests and instalments). However, in years when the city makes earlier debt redemption to restructure its debt profile, this relationship can be disrupted, as in 2017 when Kielce repaid more of its direct debt than budgeted at the beginning of the year – PLN57 million vs PLN21 million. This influenced the debt service/operating balance ratio, which would otherwise have been 82% rather than the reported 121%.

Debt Policy and Debt Structure

At end-1H18, almost all of Kielce's direct debt had floating rates, which exposes the city to interest rate risk. However, this is mitigated by the city's prudent budgetary approach, whereby it usually budgets higher interest payments on debt than the actual amounts paid, to secure sufficient funds in the event of unforeseen interest rate changes. The city is not exposed to foreign-currency risk, as all of Kielce's debt is denominated in local currency.

In addition, the city actively manages its debt, for instance by prematurely refinancing high interest-bearing loans as it did in 2010-2017. Debt restructuring may also take place in the medium term. The city may begin early redemption of debt incurred in the past and replace it with new debt on more favourable terms. This will lengthen the maturity profile and possibly reduce costs associated with the city's debt service.

Kielce has already secured funds to co-finance investments in the current EU programming period by signing an agreement with the European Investment Bank for PLN250 million. This loan has a six-year grace period and a long maturity of 25 years for each tranche.

Liquidity

Fitch regards Kielce's liquidity as good, with average funds at month-end of PLN28 million in 2017 and PLN49 million in 1H18. The city may also access a PLN50 million low-cost liquidity credit line (committed until end-2020) if it encounters liquidity stress and may use it recurrently to postpone incurring investment loans. In addition, Kielce has a consolidated bank account (cash pooling), which supports its liquidity and minimises the cost of bank services.

Contingent Liabilities

The city's contingent liabilities are composed mainly of the debt of public-sector entities (end-2017: PLN99 million), most of which belongs to four companies: two communal services companies (Rejonowe Przedsiebiorstwo Zieleni i Uslug Komunalnych Sp. z o.o. and Przedsiebiorstwo Gospodarki Odpadami Sp. z o.o.), a housing association (Kieleckie Towarzystwo Budownictwa Spolecznego Sp. z o.o.) and an exhibition organiser (Targi Kielce S.A. or TK).

The risk to Kielce's budget is low, as these companies are mostly self-supporting and repay their debt from rents paid by social housing tenants or tariffs paid by end-users. The city has supported some of its companies with capital injections aimed at their investments (about PLN9 million in 2017). At end-1H18, Kielce did not report any guarantees outstanding, and the city does not plan to issue any guarantees in the medium term.

Selected Data of Municipal Companies in 2017

(PLNm)	City's stake (%)	Equity	Total assets	Net profit/loss	Long-term debt 2016	Long-term debt 2017
Miejskie Przedsiebiorstwo Energetyki Cieplnej Sp. z o.o (heating)	100	62.4	90.0	2.0	0.8	0.6
Przedsiebiorstwo Gospodarki Odpadami Sp. z o.o. (waste management)	100	21.2	232.4	-6.0	57.8	56.7
Rejonowe Przedsiebiorstwo Zieleni i Uslug Komunalnych Sp. z o.o. (municipal services and parks)	100	51.6	75.3	0.8	16.0	13.4
Kieleckie Towarzystwo Budownictwa Spolecznego Sp. z o.o. (social housing)	100	34.6	87.0	0.9	28.9	27.3
Port Lotniczy Kielce S.A. (airport)	100	0.9	0.9	-0.1	0.0	0.0
Targi Kielce S.A. (fair company)	99.96	115.6	189.7	5.7	4.9	1.5
Total					**108.4**	**99.5**

Columns City's stake through Net profit/loss: 2017.

Source: City of Kielce

Economy

Kielce is the capital of the Swietokrzyskie region, and an important administrative, cultural and educational centre. However, wealth indicators place the Swietokrzyskie region among the five poorest regions in Poland. The region accounts for about 3.7% of the national territory and 3.3% of the population, but produces only 2.4% of national GDP; it qualifies for extra EU grants for regional development from the Operational Programme Eastern Poland 2014-2020.

Kielce's economy is diversified, with services playing an important role, as reflected in the city's gross value added (2015: 62.5% in the sub-region), followed by industry at 25.7%. GDP per capita for the Kielecki sub-region, which includes Kielce and surrounding towns and villages, was 79% of the national average in 2015 (latest available data). Wealth indicators for the city itself should be in line with the national average, as it is the strongest area in the sub-region. The city's main industrial sectors are construction, printing, pharmaceuticals, metallurgy and machinery. The number of companies in Kielce has held stable in recent years, at around 28,000.

Kielce has around 200,000 inhabitants. The city's population is ageing, with a growing number of people of retirement age (25% in 2017, compared with a national average of about 21%), which may lead to higher social and health care spending for the city in the long term. The demographic trend in the city is for a negative natural decline (2017: falling by 0.8 per 1,000 inhabitants compared with a national average of 0.0) and a negative migration rate (2017: -3.3 per 1,000 inhabitants). The 5.3% unemployment rate in the city in September 2018 was in line with the national average of 5.7%.

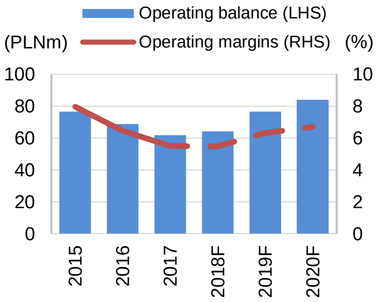
TK, of which the city owns almost 100%, is one of Poland's largest exhibition organisers. It organises over 70 fairs and exhibitions and over 700 conferences a year, for various sectors, including construction, agriculture and infrastructure, power and defence. TK has grown quickly in recent years and will continue its expansion of exhibitions and events.

Fitch projects that Poland's real GDP will grow by 4.8% in 2018 and 3.3% in 2019-2020. National economic growth should continue to support the development of Kielce's economy. The city's economy should also benefit from the improving local infrastructure, which may stimulate business activity within Kielce and support tax revenue growth.

'Family 500+' commenced in April 2016

The 'Family 500+' programme is a central government-delegated task, with transfers from the central budget to the budgets of municipalities. Each LRG in Poland pays out monthly cash benefits of PLN500 for each child to families with more than one child. The central government also covers the administration costs of the process. The flow of funds from the central government inflates both sides of the LRGs' budgets and is therefore neutral to the operating balance. However, operating and current margins, as well as debt/current revenue ratios in 2017, 2016 and 2015, are not directly comparable.

Budgetary Performance



F: Fitch projections
Source: Fitch calculations based on City's budgets

Finances

We expect Kielce's 2018 operating results to stabilise rather than improve in comparison to 2017. Fitch notes that in 2018 operating expenditure may also outpace growth of operating revenue. This will be due to rising opex pressure, especially on education resulting from state reform, and on salaries following the general trend in the market of declining unemployment and rising salaries in the private sector.

Due to local elections scheduled for October 2018, Kielce refrained from increasing local tax rates and fees for services provided to inhabitants in 2018. In 1H18, Kielce reported an operating balance of about PLN54 million, supported by higher revenue from income taxes as well as one-off revenue (VAT refund).

We expect that Kielce's operating results may improve from 2019, reflecting stronger tax revenue supported by growing national and local economies and continued control over opex. We believe that the city has some ability to increase its revenue, as local tax rates are below the maximum legal limit. The city may also consider raising fees for services provided to inhabitants – ie for public transport or waste management – that have been kept stable for years.

In 1H18, Kielce posted a budgetary surplus of PLN22 million, despite having budgeted for a large budgetary deficit of PLN171 million or 13% of total revenue. The surplus stems from the slower launch of EU capex programmes than the city had expected at the beginning of the year. We expect a part of investments to be shifted from 2018 to 2019, so actual capex may be around 70% of the amount budgeted by the city. We expect a deficit of 4%-5% of total revenue in 2018-2020 when the investment process will accelerate.

Operating Revenue

Fitch expects Kielce's operating revenue to grow by 3%-4% a year on average in 2018-2020. Kielce does not have as wealthy a tax base as other Polish cities, but the national economy is expected to support growth of the local economy in the medium term.

We expect that revenue from local taxes will stem from an expanding local tax base Growth in income taxes is supported by economic growth (expected by Fitch at 3.7% on average in 2018-2020), increased salaries and declining unemployment, and should continue over the medium term.

Kielce has some flexibility on the revenue side, as the city has not raised local tax rates in 2017-2018 due to its policy of not burdening its inhabitants too heavily. The financial effect of keeping local tax rates below the maximum legal limit was around PLN7 million in 2017 or 1.8% of total revenue from taxes and fees.

Current transfers will remain the city's largest source of operating revenue, but they do not provide Polish cities with much flexibility, as transfers are mostly allocated to an educational subsidy, mainly for teachers' salaries, and targeted social assistance benefits or are used to co-finance some of the city's own responsibilities, mainly in social care.

The second-largest revenue item is proceeds from (personal and corporate) income taxes. The compound growth rate (CAGR) of income taxes for the last three years was 6%, supported by dynamic national economic growth.

Selected Budgetary Data in 2015-2017

(PLNm)	2015	2016	2017	CAGR (%)
Property tax	99	110	110	4
Vehicle tax	6	5	5	-2
Property transfer tax	11	12	13	15
Stamp duty	3	4	4	-6
Solid waste fee	31	31	31	0
Other	27	25	23	-5
Total local taxes and fees	177	187	185	2
PIT	226	239	262	6
CIT	14	12	13	2
Total income taxes	240	251	276	6
Current transfers	409	490	532	8
Other operating revenue	136	135	131	2
Total operating revenue	**962**	**1.063**	**1.124**	**6**
Total operating expenditure	**-885**	**-995**	**-1.062**	**7**
Operating balance	**77**	**69**	**62**	**-5**

PIT = personal income tax; CIT = corporate income tax
Source: Fitch own calculations based on city's budgets

Operating Expenditure

We expect the city's operating expenditure to grow by 3%-4% a year over the medium term. In 2016-2017, operating expenditure in Kielce grew faster than operating revenue as a result of continued pressure, especially on education and salaries. Fitch notes that this may continue in 2018 as most Polish cities do not implement rigid opex cuts in election years.

As in other Polish cities, education is Kielce's largest expenditure item. In 2017, opex in the education sector was 34% of total opex, similar to the 35%-40% share at most peers. The educational subsidy and other operating revenue generated in this sector do not cover all the sector's operating costs, which puts pressure on the city's budget as the remainder needs to be financed from its own sources (2017: PLN78 million or 23% of total operating expenditure on education).

Expenses related to education (33%), social care (31%) and public transport (9%) will remain the city's biggest cost items in the medium term, with the highest spending pressure coming from education, similar to the last five years.

Kielce's Expenditure by Sectors in 2017

	Current (PLNm)	Share (%)	Capital (PLNm)	Share (%)
Education	361	33	15	8
Transport and roads	102	9	106	56
Housing	27	3	23	12
Public administration	63	6	1	1
Public safety	26	2	2	1
Healthcare	13	1	1	0
Social care & support for families	334	31	8	4
Environment protection	58	5	8	4
Culture	28	3	2	1
Sport	22	2	6	3
Other	46	4	16	8
Total	**1,080**	**100**	**188**	**100**

Source: Fitch own calculations based on city's budgets

Capital Revenue and Expenditure

Capital expenditure rose to PLN188 million in 2017 from PLN139 million in 2016. We expect capex of PLN230 million-PLN250 million per year in 2018-2020 (or 16%-18% of total expenditure), as the city is conducting investments co-financed from EU funds.

The city's main investment areas are: local infrastructure, including local roads; the technological park; public transport; and housing. We expect that half of capex will be financed from capital revenue (mainly EU grants), new debt and the current balance.

The city is entitled to extra EU funds dedicated to governments from Poland's five least developed eastern regions (Operational Programme Eastern Poland 2014-2020), as under previous EU budgets.

Management and Administration

To date, the local authorities have been focused on creating good conditions for business development in the city, attracting new investors, and improving local infrastructure, particularly roads. There has also been an emphasis on preparing plots of land in the city for commercial and residential investment, by drawing up development plans and constructing utilities' infrastructure.

To counteract persisting pressure on operating spending, Kielce's administration is monitoring spending on employment, organising collective tenders for utilities, and modernising public buildings as well as on spending rationalisation and cost control.

November's local election saw a change in the city's president, with Mr Bogdan Wenta having been elected for a five-year-term.

Appendix A

City of Kielce

(PLNm)	2013	2014	2015	2016	2017
Taxes	328.1	344.4	357.9	380.8	405.5
Transfers received	416.4	417.0	408.7	490.2	532.4
Fees, fines and other operating revenue	164.5	180.1	195.0	192.4	186.3
Operating revenue	**909.0**	**941.5**	**961.6**	**1,063.4**	**1,124.2**
Operating expenditure	-832.7	-872.7	-884.9	-994.6	-1,062.4
Operating balance	**76.3**	**68.8**	**76.7**	**68.8**	**61.8**
Financial revenue	1.0	0.5	0.5	0.3	0.2
Interest paid	-16.3	-16.7	-15.6	-17.1	-18.0
Current balance	**61.0**	**52.6**	**61.6**	**52.0**	**44.0**
Capital revenue	115.5	114.3	129.1	50.3	102.3
Capital expenditure	-213.8	-219.1	-303.8	-138.7	-188.1
Capital balance	-98.3	-104.8	-174.7	-88.4	-85.8
Surplus (deficit) before debt variation	**-37.3**	**-52.2**	**-113.1**	**-36.4**	**-41.8**
New borrowing	76.6	76.0	131.6	107.4	118.2
Debt repayment	-55.2	-47.8	-35.4	-67.5	-57.0
Net debt movement	**21.4**	**28.2**	**96.2**	**39.9**	**61.2**
Overall results	**-15.9**	**-24.0**	**-16.9**	**3.5**	**19.4**
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	541.1	569.2	665.1	704.5	765.4
Direct debt	**541.1**	**569.2**	**665.1**	**704.5**	**765.4**
+ Other Fitch classified debt – pre-financing	0.0	0.0	0.0	-	-
Direct risk	**541.1**	**569.2**	**665.1**	**704.5**	**765.4**
- Cash, liquid deposits, sinking fund	66.8	42.8	25.8	29.4	48.8
Net direct risk	**474.3**	**526.4**	**639.3**	**675.1**	**716.6**
Guarantees and other contingent liabilities	0.0	0.0	0.0	0.0	0.0
Net indirect debt (public sector entities exc. gteed amount)	55.8	96.5	121.8	108.4	99.5
Net overall risk	**530.1**	**622.9**	**761.1**	**783.5**	**816.1**
Memo for direct debt					
% in foreign currency	0.0	0.0	0.0	0.0	0.0
% issued debt	15.9	15.0	12.6	11.6	10.5
% fixed interest rate debt	0.7	0.5	0.4	1.0	0.8

Source: Issuer and Fitch calculations

Appendix B

City of Kielce

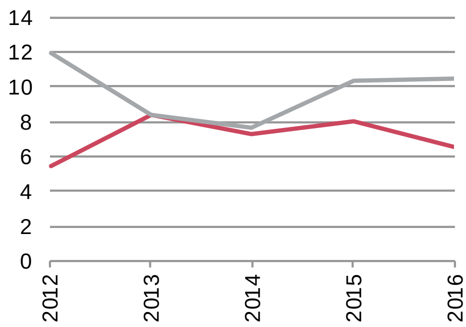
	2013	2014	2015	2016	2017
Fiscal performance ratios					
Operating balance/operating revenue (%)	8.39	7.31	7.98	6.47	5.50
Current balance/current revenue[a] (%)	6.70	5.58	6.4	4.89	3.91
Surplus (deficit) before debt variation/total revenue[b] (%)	-3.64	-4.94	-10.36	-3.27	-3.41
Overall results/total revenue (%)	-1.55	-2.27	-1.55	0.31	1.58
Operating revenue growth (annual % change)	n.a.	3.58	2.13	10.59	5.72
Operating expenditure growth (annual % change)	n.a.	4.80	1.40	12.40	6.82
Current balance growth (annual % change)	n.a.	-13.77	17.11	-15.58	-15.38
Debt ratios					
Direct debt growth (annual % change)	n.a.	5.19	16.85	5.92	8.64
Interest paid/operating revenue (%)	1.79	1.77	1.62	1.61	1.60
Operating balance/interest paid (x)	4.7	4.1	4.9	4	3.4
Direct debt servicing/current revenue (%)	7.86	6.85	5.30	7.95	6.67
Direct debt servicing/operating balance (%)	93.71	93.75	66.49	122.97	121.36
Direct debt/current revenue (%)	59.46	60.42	69.13	66.23	68.07
Direct risk/current revenue (%)	59.46	60.42	69.13	66.23	68.07
Direct debt/current balance (yrs)	8.87	10.82	10.80	13.55	17.40
Net overall risk/current revenue (%)	58.25	66.13	79.11	73.66	72.58
Direct risk/current balance (yrs)	8.87	10.82	10.80	13.55	17.40
Direct debt/GDP (%)	7.88	8.07	9.1	-	-
Direct debt per capita (PLN)	2,706	2,860	3,359	3,558	3,866
Revenue ratios					
Operating revenue/budget operating revenue (%)	104.88	105.64	104.31	111.06	103.48
Tax revenue/operating revenue (%)	36.09	36.58	37.22	35.81	36.07
Modifiable tax revenue/total tax revenue (%)	34.47	32.81	33.00	34.09	32.01
Current transfers received/operating revenue (%)	45.81	44.29	42.50	46.10	47.36
Operating revenue/total revenue[b] (%)	88.64	89.13	88.12	95.46	91.64
Total revenue[b] per capita (PLN)	5,128	5,308	5,511	5,626	6,196
Expenditure ratios					
Operating expenditure/budget operating expenditure (%)	103.38	104.54	102.64	110.30	102.66
Staff expenditure/operating expenditure (%)	46.78	46.03	46.17	43.13	40.28
Current transfer made/operating expenditure (%)	9.56	8.91	8.81	8.47	8.75
Capital expenditure/budget capital expenditure (%)	78.09	69.75	130.61	76.59	64.22
Capital expenditure/total expenditure (%)	19.12	18.95	24.51	11.39	14.19
Capital expenditure/local GDP (%)	3.11	3.10	4.16	-	-
Total expenditure per capita (PLN)	5,590	5,811	6,261	6,151	6,694
Capital expenditure financing					
Current balance/capital expenditure (%)	28.53	24.01	20.28	37.49	23.39
Capital revenue/capital expenditure (%)	54.02	52.17	42.50	36.27	54.39
Net debt movement/capital expenditure (%)	10.01	12.87	31.67	28.77	32.54

n.a.: not available
[a] Includes financial revenue
[b] Excluding new borrowing
Source: Issuer and Fitch calculations

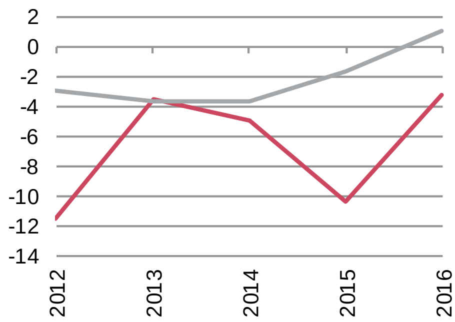
Appendix C
City of Kielce

Peer Comparison

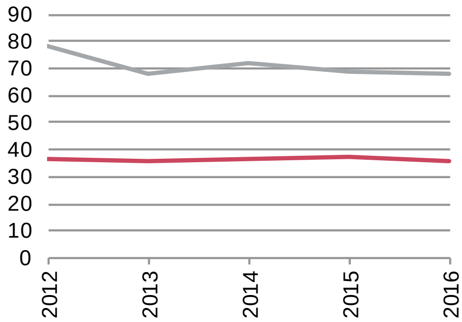
Operating Balance
% Operating Revenue



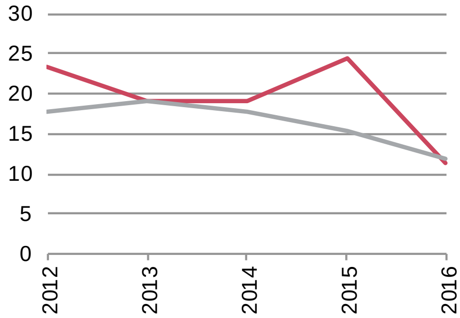
Surplus (Deficit)
% Total Revenue



Taxes
% Operating Revenue

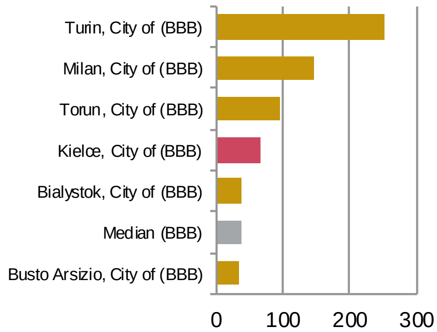


Capital Expenditure
% Total Expenditure

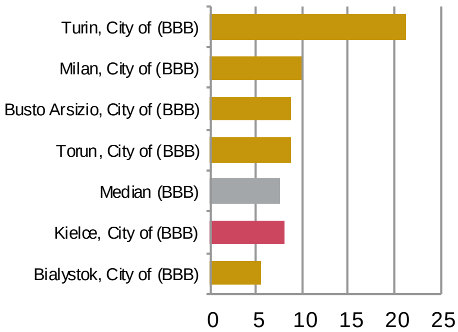


City of Kielce   BBB Peer Group Median

Debt
To Current Revenue (%) 2016



Debt Servicing
To Current Revenue (%) 2016



The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.