

Research Update:

Municipality of Täby Outlook Revised To Stable; Ratings Affirmed At 'AAA'

March 4, 2022

Overview

- We expect stronger tax revenue growth will support Täby's operating performance.
- In our view, the municipality's revised investment plan will keep debt accumulation under control.
- We therefore revised our outlook on Täby to stable from negative and affirmed our 'AAA' issuer credit ratings on the municipality.

Rating Action

On March 4, 2022, S&P Global Ratings revised its outlook on the Swedish municipality of Täby to stable from negative. At the same time, we affirmed our 'AAA' long-term foreign and local currency issuer credit ratings, and 'K-1' short-term Nordic regional scale rating on Täby.

Outlook

The stable outlook reflects our view that Täby will be able to finance its infrastructure development program with only modest debt accumulation. In our view, the municipality will maintain structurally sound budgetary performance via a reduced investment plan, efficient cost controls, and projected strong tax revenue growth fueled by the ongoing economic recovery. Consequently, we expect the municipality's deficit after capital accounts to remain below a modest 5% of revenue.

Downside scenario

We could lower the rating if Täby's management significantly loosened its budgetary cost controls or failed to generate projected proceeds from land sales, pushing its tax-supported debt beyond 60% of revenue.

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Rationale

The outlook revision to stable reflects that our downside scenario is less likely. We now anticipate significantly stronger tax revenue growth due to the continuing economic recovery. The municipality's cautious approach to spending expansion is also contributing to its solid budgetary performance. The reduced investments following changed demographic assumptions (mainly lower population growth) are leading to lower capital expenditure (capex) than we forecast. This will lead to only minor after-capex deficits and therefore a modest debt burden, with tax-supported debt well below 50% of operating revenue. The municipality continues to benefit from the supportive institutional framework under which it operates and strong access to liquidity via Kommuninvest and directly.

Täby is benefiting from favorable economic conditions, while sectorwide risks facing Swedish municipalities have lessened

We consider the institutional framework in Sweden extremely predictable and supportive. The framework is very stable and local and regional governments' (LRG) revenue and expenditure management is based on a far-reaching equalization system and tax autonomy. The central government's swift response to the COVID-19 pandemic, partly through the distribution of general grants to the sector, supports our view.

Since the coronavirus' outbreak, the central government has supported LRGs. It has implemented both direct and indirect support packages to boost the operating performances of Swedish municipalities. Although structural challenges persist and budgetary performance could weaken somewhat as extraordinary support is phased out, we see the risk of a significant deterioration of the sector's financial stability as limited. Consequently, we revised the trend on our institutional framework assessment to stable from weakening in December 2021 (see "Institutional Framework Assessment: Swedish Municipalities And Counties," published Dec. 13, 2021, on RatingsDirect).

Täby's wealth levels are exceptionally high, benefiting from attractive housing districts a short distance from central Stockholm. Together with unemployment levels well below both the national and regional average, this will continue to support Täby's broad tax base.

We believe Täby's management, with its strong track record of prudent policymaking, will provide a timely and effective policy response to future financial constraints. The municipality's budgeting is predictable and transparent, with formal rules that stipulate clear processes and high transparency. Its debt and liquidity management is prudent, with uninterrupted access to local financial and capital markets. Furthermore, the municipality's political situation is very stable, supported by a center-right majority holding 75% of the seats in the local parliament.

Stronger tax revenue growth and lower capex alleviate the pressure on Täby's after-capex balances

Substantial central government labor-market support schemes in combination with rapid economic recovery have boosted LRGs' strong tax revenue growth. Täby has also experienced lower cost pressures in, for example, social welfare and elderly care, which also contributes to our forecast of very strong operating results for 2021 and 2022. As pandemic-related headwinds subside, COVID-19-related grants will be phased out and we assume costs relating to demographic changes will somewhat constrain performance metrics. Still, our updated base case is now for stronger operating balances for the municipality, well above 5% over the next

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two-to-three years.

Because of updated population growth forecasts and how this aligns with its aim to achieve financially sustainable growth, Täby's political leadership has revised down its previously more ambitious investment plan. Consequently, combined with stronger tax revenue, we see a reduced risk compared to our previous base cases of Täby's deficits after capital accounts falling below -5%. The capex revision goes hand-in-hand with the expectation of lower capital revenues related to land sales. We also note positively that the revised capital plan mitigates the inherent volatility of cash inflows from asset sales, presumably stemming from delays and changing market conditions.

Due to our forecast of stronger cash flows from operations, which help finance a larger share of investments internally, we continue to expect a more moderate debt build-up throughout the forecast period. We now project tax-supported debt will reach 40% at the end of 2024. Our calculation includes guarantees to various associations and the holding company, Täby Holding AB, because we consider the entity's activities to be closely tied to the municipality.

We view Täby's contingent liabilities as limited. The main exposure is guarantees to the jointly owned (with 11 neighboring municipalities) association Käppala, which undertakes core municipal utility services. Furthermore, Käppala benefits from its unlimited fee-setting ability. Täby has recently become a member of the public sector funding agency Kommuninvest. The membership improves Täby's sources of loan funding but also somewhat increases the contingent liabilities via Kommuninvest's joint guarantee structure.

Täby's liquidity position remains very strong, supported by ample cash holdings and limited debt repayments. We estimate the liquidity coverage ratio at 323%. The municipality holds an externally managed portfolio of financial assets, of which 54% is invested in money market mutual funds and the rest in equity. In calculating the liquidity coverage ratio, we apply haircuts to these assets according to their risk levels. In addition to the security portfolio, Täby has a Swedish krona 800 million checking account to meet short-term liquidity needs. Importantly, in line with other Swedish LRGs we rate, we believe Täby benefits from strong and reliable access to external liquidity, even in times of financial stress, as seen during the financially turbulent spring of 2020.

Key Statistics

Table 1

Täby (Municipality of) Selected Indicators

Sek mil.	Fiscal year end Dec. 31					
	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenues	4,672	4,909	5,094	5,239	5,329	5,469
Operating expenditures	4,210	4,417	4,531	4,691	4,837	4,976
Operating balance	462	492	563	548	492	493
Operating balance (% of operating revenues)	9.9	10.0	11.1	10.5	9.2	9.0
Capital revenues	156	556	536	335	285	45
Capital expenditures	920	917	853	784	871	772
Balance after capital accounts	(302)	131	246	99	(94)	(234)
Balance after capital accounts (% of total revenues)	(6.3)	2.4	4.4	1.8	(1.7)	(4.2)

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Table 1

Taby (Municipality of) Selected Indicators (cont.)

Sek mil.	Fiscal year end Dec. 31					
	2019	2020	2021	2022bc	2023bc	2024bc
Debt repaid	188	300	500	400	600	500
Gross borrowings	178	750	300	400	750	850
Balance after borrowings	1	273	(269)	29	6	16
Direct debt (outstanding at year-end)	1,400	1,850	1,650	1,650	1,800	2,150
Direct debt (% of operating revenues)	30.0	37.7	32.4	31.5	33.8	39.3
Tax-supported debt (outstanding at year-end)	1,609	2,059	1,769	1,669	1,819	2,169
Tax-supported debt (% of consolidated operating revenues)	34.4	41.9	34.7	31.9	34.1	39.7
Interest (% of operating revenues)	0.2	0.2	0.3	0.2	0.2	0.2
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	493,600	482,669	513,339	536,068	547,582	562,130

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

Taby (Municipality of)

Key rating factors

Institutional framework	1
Economy	1
Financial management	2
Budgetary performance	2
Liquidity	1
Debt burden	2
Stand-alone credit profile	aaa
Issuer credit rating	AAA

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, Feb. 8, 2022

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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessments For International Local And Regional Governments, Feb. 10, 2022
- Institutional Framework Assessment: Swedish Municipalities And Counties, Dec. 13, 2021

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
Täby (Municipality of)		
Issuer Credit Rating	AAA/Stable/--	AAA/Negative/--

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Ratings Affirmed

Täby (Municipality of)

Nordic Regional Scale K-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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 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; or Stockholm (46) 8-440-5914

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