

CREDIT OPINION

10 May 2024

New Issue

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RATINGS

Bellinzona, City of

Domicile	Switzerland
Long Term Rating	Aa3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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City of Bellinzona (Switzerland)

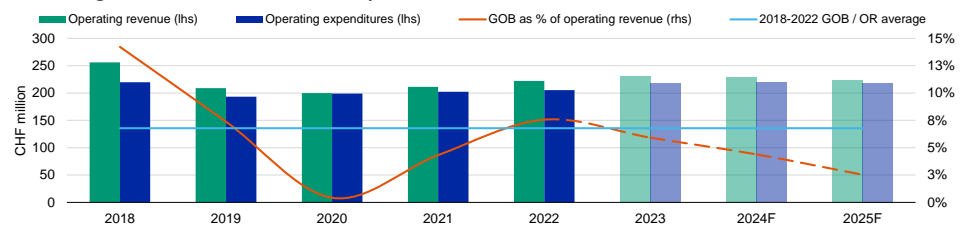
Update to credit analysis

Summary

The credit profile of the [City of Bellinzona](#) (Bellinzona, Aa3 stable) reflects its overall sound operating performance, robust institutional framework, and good governance and management. Steady tax receipts, underpinned by a solid, although small, economic base; a robust equalization system; and the prudent budgetary management and strong commitment to financial equilibrium also support the city's financial results. The credit profile also factors in the municipality's very high debt service and high debt burden, which is likely to gradually increase because of high investment and refinancing needs. Bellinzona's Aa3 rating incorporates a Baseline Credit Assessment (BCA) of aa3 and a moderate likelihood of extraordinary support from the [Republic and Canton of Ticino](#) (Ticino or the Canton, Aa2 stable).

Exhibit 1

Bellinzona's operating performance will remain positive, supported by prudent financial planning and strong stance toward financial equilibrium



The forecasts (F) are our opinion and do not represent the views of the issuer. The merger and the coronavirus pandemic explain the somewhat volatile financial results in 2018-22.

Sources: Issuer and Moody's Ratings

Credit strengths

- » Sound operating performance, supported by steady tax receipts and a robust equalization system
- » Strong cantonal institutional framework, which ensures financial equilibrium
- » Strong commitment to improve organizational efficiency and the territory's attractiveness

Credit challenges

- » High debt burden, which will gradually increase over the next two years
- » Very high debt service

Rating outlook

The stable outlook reflects the city's capacity to manage potential revenue pressure and maintain control over expenditures, which will preserve a positive operating performance over the next two years. Its financial debt will gradually increase because of high investment requirements. However, the debt burden will remain manageable and consistent with the current rating level.

Factors that could lead to an upgrade

A combination of the following could have positive rating implications: a meaningful and structural increase in its gross operating balance; and a sustained material reduction in leverage. An improvement in the credit strength of the Republic and Canton of Ticino could also result in an upgrade of Bellinzona's ratings.

Factors that could lead to a downgrade

Negative pressure on the ratings could be exerted by one or a combination of the following: a significant and sustained deterioration in the city's operating performance; substantially higher-than-expected net direct and indirect debt/operating revenue; and a sustained weakening of its liquidity metrics. The weakening of the credit strength of the Canton or, although unlikely, a sovereign downgrade could exert downward pressure on Bellinzona's ratings.

Key indicators

Exhibit 2

City of Bellinzona

Year ending 31 December

	2020	2021	2022	2023	2024F	2025F
Net Direct and Indirect Debt as a % of Operating Revenue	189.6	179.1	174.7	174.3	183.9	196.9
Financing Surplus (Deficit) as a % of Total Revenue	-13.0	-5.0	-3.0	-3.3	-6.3	-8.4
Gross Operating Balance as a % of Operating Revenue	0.4	4.3	7.6	5.9	4.4	2.5
Interest Payments as a % of Operating Revenue	1.6	1.5	1.4	1.8	2.1	2.4
Intergovernmental Revenue as a % of Operating Revenue	21.7	21.4	22.2	20.3	18.6	19.4
Capital Expenses as a % of Total Expenses	14.1	15.1	14.6	10.7	13.1	13.2
GDP per capita as a % of national average	102.9	110.8	111.2	111.8	112.4	113.0

The forecasts (F) are our opinion and do not represent the views of the issuer. The financing deficit in the table above results from the difference between the gross operating balance and the capital balance. A deficit means that investment needs are not fully covered by operating resources and will be financed with new borrowing.

Sources: Issuer and Moody's Ratings

Detailed credit considerations

The credit profile of the City of Bellinzona, as expressed in a Aa3 stable rating, combines a BCA of aa3 and a moderate likelihood of extraordinary support from the Republic and Canton of Ticino if the city were to face acute liquidity stress.

Baseline credit assessment

Sound operating performance, supported by steady tax receipts and a robust equalization system

Bellinzona's local government, in its present form, was created in 2017 after the merger of 13 neighboring municipalities and became operative in 2018. The city's gross operating balance (GOB) has averaged 6.8% of operating revenue over 2018-2022. Bellinzona posted a sound GOB of CHF13.7 million in 2023, corresponding to 5.9% of operating revenue. Steady tax receipts — underpinned by a solid, although small, economic base — support the municipality's operating performance. The important presence of the public administration and healthcare sectors — which are the main employers in the city — contributes to the stability of own revenue. Bellinzona also benefits from a robust equalization system, given its relatively less abundant fiscal base when compared with that of its cantonal peers¹.

We expect Bellinzona's operating performance to decline in 2024 and 2025 due to a rigid cost structure, forecast decrease in revenue from lower cantonal transfers, and a cut in the cantonal corporate tax rate starting 2025². However, the city's prudent budgetary approach and positive economic prospects should lead to higher-than-expected tax receipts³, similar to the trend observed from 2018

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to 2023. This could enhance the operating balance. While the spending review launched by the local government over 2023-27 will mitigate spending pressures, maintaining the GOB at its historical average level would necessitate additional resources. Bellinzona's strong commitment to expenditure control and financial equilibrium might allow the city to outperform current expectations. We will monitor the measures that the recently elected administration will implement and how realized revenue and expenditures will evolve.

Strong cantonal institutional framework, which ensures financial equilibrium

Bellinzona benefits from a mature and robust institutional framework. The cantonal constitution and law outline the distribution of resources and responsibilities between the canton and municipalities, and define financial rules and principles. Municipalities benefit from a robust equalization system, which provides stability to municipal finances and supports balanced results. The canton exercises a robust oversight on municipalities' financial performance. It monitors the financial performance of local governments and determines the components of the equalization system. Financial statements are audited by external auditors. Speculative practices are prohibited, but the cantonal law does not impose limits on debt burden.

Municipalities are required to achieve financial equilibrium over the medium term and maintain constantly positive equity⁴. If these conditions are not met, the law imposes an increase in the fiscal coefficient⁵ that is large enough to rebalance the financial performance and cover the cumulated deficit⁶. Bellinzona's fiscal coefficient⁷ is relatively high at 93%, conferring a moderate leeway on tax revenue⁸. The local government intends to keep it unchanged to preserve the city's attractiveness.

A reform is currently under discussion in the canton (Ticino 2020), which aims at streamlining the distribution of responsibilities and financial resources between the canton and municipalities. Proposed measures should come into force by 2025 with a limited impact on Bellinzona's finances.

Strong commitment to improve the organizational efficiency and the territory's attractiveness

The city effectively executed the merger without delays in budgetary approvals or disruptions in operating activities, consolidating operations and refining key processes. A commitment to further optimization of municipal procedures to achieve efficiency-gain is part of the ongoing spending review, reflecting the city's commitment to financial equilibrium and controlling expenses.

The local government also aims to enhance the attractiveness of its territory. Bellinzona, the capital of the Republic and Canton of Ticino in southern Switzerland, has a population of over 40,000. It is the second most populated urban area, after the [City of Lugano](#) (Aa3 stable) and a relevant economic center in the Canton, despite its smaller scale compared to international peers. Key employment sectors include public administration, healthcare, retail, transportation, and education, and the city houses renowned life science institutions.

The local government's economic strategy is focused on promoting innovation and attracting new businesses, especially in sectors such as life science and high-tech, which could lead to an increased diversification of the local economy. Bellinzona has outlined an ambitious investment plan to cater to infrastructure needs of its expanded urban area and enhance the territory's attractiveness. The city intends to achieve over CHF25 million of net investments annually until 2026, representing around 11% of its operating revenue. We estimate that around 50% of these investment expenses will be self-financed in 2024, dropping to roughly 30% in 2025, with the rest funded through external borrowing.

High debt burden, which will gradually increase over the next two years

Bellinzona's financial debt, compared to its national and international peers, is high. Net direct and indirect debt (NDID) increased from CHF388 million in 2022 to CHF404 million in 2023, making up 174% of operating revenue. The financial debt will grow over the next two years to fund investment needs and refinancing. We expect the NDID-to-operating revenue ratio to rise to 184% in 2024 and 197% in 2025. While the city plans to boost operating results and the self-financing ratio to curb debt growth, it has not set any specific limits and intends to continue with the planned investment program.

The low average interest rate and simple debt profile mitigate risks stemming from the high debt burden. The city's direct debt, primarily made up of bank loans with fixed rates and capital repayment at maturity, accounts for 98% of NDID in 2023. The remaining 2% of NDID is indirect debt, which corresponds to guarantees provided to third parties. Of the direct debt, 92% is long-term, and a minor part (0.2% in 2023) consists of amortizing and interest-free cantonal or federal loans. The city's interest expenses are moderate and constitute less than 2% of the operating revenue.

Bellinzona's credit profile incorporates rather low exposure to contingent liabilities, which represent around 7% of operating revenue. Contingent liabilities comprise the financial debt of Azienda Multiservizi Bellinzona (AMB), the city's multi-service utility. Exposure to pension liabilities is not significant.

Very high debt service

Bellinzona has a significant debt service due to a large debt stock with relatively short maturity, primarily composed of bullet loans. From 2019 to 2023, the debt service² was on average a high 45% of operating revenue. This percentage will remain high over the next two years due to coinciding debt maturities of merged municipalities, with peaks in repayment anticipated in 2024 and 2026. The future debt service level will hinge on the city's borrowing strategy. The management expertise tempers risks stemming from the absence of clear guidelines or thresholds on debt burden and annual repayment levels.

In 2023, Bellinzona had CHF43.8 million on hand. Cash on hand represented an average of 18% of operating revenue from 2019 to 2023, and about 40% of debt service. The city's operating activities generate positive cash flow. To manage cash flow imbalances caused by mismatches in cash inflow and outflow as well as its sustained investment plan, Bellinzona regularly employs short-term debt. The city's good access to external borrowing under favorable conditions and a diversified pool of borrowers, combined with prudent treasury management, mitigates the risks tied to high debt service.

Extraordinary support considerations

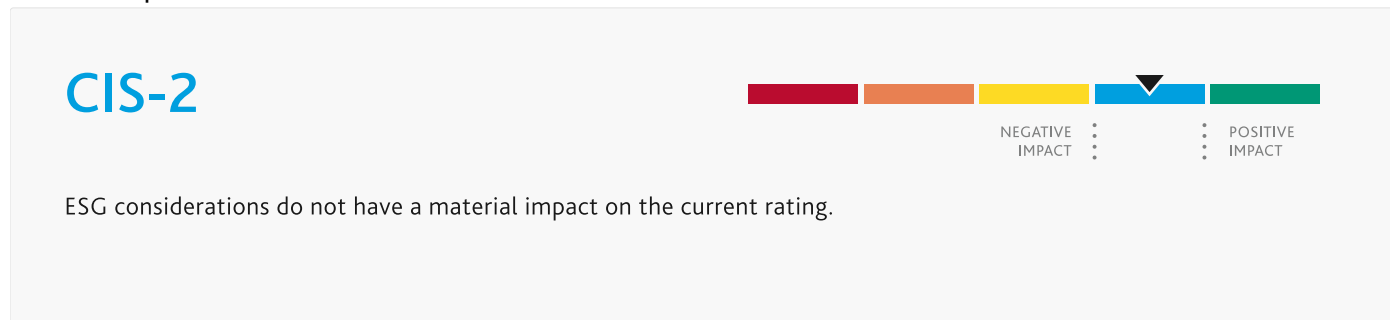
We assign a moderate likelihood of extraordinary support from the Republic and Canton of Ticino, which reflects the robust oversight of the Canton and the status of the capital city of Bellinzona, counterbalanced by no evidence of the timeliness and scope of a cantonal intervention if the city were to default.

ESG considerations

Bellinzona, City of's ESG credit impact score is CIS-2

Exhibit 3

ESG credit impact score

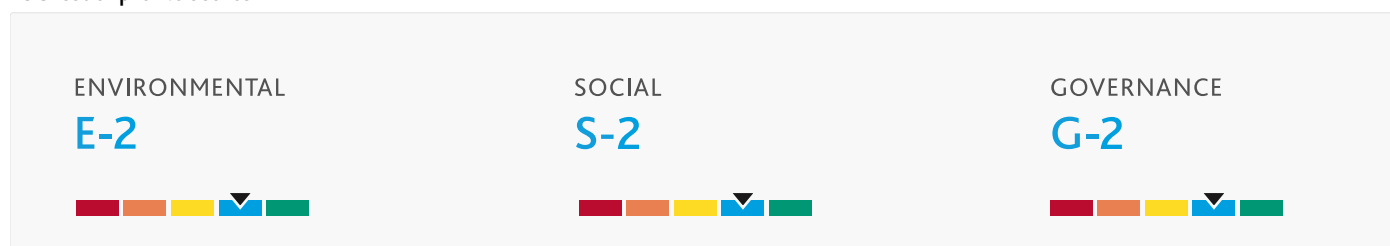


Source: Moody's Ratings

Collectively, environmental, social and governance considerations do not have a material impact on the Aa3 rating assigned to Bellinzona, as captured by Moody's assignment of a **CIS-2** ESG Credit Impact Score.

Exhibit 4

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The city's environmental issuer profile score (IPS) is **E-2**, reflecting some, albeit limited, exposure to physical climate risk, owing to increasingly volatile weather conditions and a growing number of heat stress episodes. This climate change-related environmental trend may cause losses in productivity, weigh on investment and exert pressure on the city's revenue base, although the economy is only moderately sensitive to weather conditions.

Social

The **S-2** social IPS assigned to Bellinzona reflects the absence of material social risks. Residents benefit of good access to basic services, water management and health and safety. Bellinzona's service-based economy is solid, despite being small in size. The city has a moderate exposure to demographic risks, notably population ageing, with budgetary pressure that can emerge from increased social spending.

Governance

Bellinzona's governance IPS of **G-2** reflects the absence of material risks. Bellinzona's management and governance practices are good, as demonstrated by the successful implementation of the merger, prudent financial planning and strong stance toward expenditure control. The management expertise tempers risks stemming from the absence of clear guidelines or thresholds on debt burden and annual repayment levels. The city also benefits from a mature and stable institutional framework, which ensures financial equilibrium.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of aa3 corresponds to the suggested BCA. The suggested BCA reflects an Idiosyncratic Risk score of 4 (presented below) on a scale of 1 to 9, where 1 represents the strongest relative credit quality and 9 the weakest; and a Systemic Risk score of Aaa, as reflected in the [Swiss bond rating](#) (Aaa stable).

The principal methodology used to rate Bellinzona is the [Regional and Local Governments](#) rating methodology, published in January 2018.

Exhibit 5

Bellinzona, City of Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				3.60	20%	0.72
Economic Strength [1]	3	111.46%	70%			
Economic Volatility	5		30%			
Factor 2: Institutional Framework				3	20%	0.60
Legislative Background	1		50%			
Financial Flexibility	5		50%			
Factor 3: Financial Position				4	30%	1.20
Operating Margin [2]	3	6.17%	12.5%			
Interest Burden [3]	3	1.60%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	7	174.28%	25%			
Debt Structure [5]	5	25.38%	25%			
Factor 4: Governance and Management				5	30%	1.50
Risk Controls and Financial Management	1					
Investment and Debt Management	5					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						4.02 (4)
Systemic Risk Assessment						Aaa
Suggested BCA						aa3
Assigned BCA						aa3

[1] Local GDP per capita as % of national GDP per capita

[2] Gross operating balance/operating revenues

[3] Interest payments/operating revenues

[4] Net direct and indirect debt/operating revenues

[5] Short-term direct debt/total direct debt

Source: Moody's Ratings; Fiscal 2023.

Ratings

Exhibit 6

Category	Moody's Rating
BELLINZONA, CITY OF	
Outlook	Stable
Baseline Credit Assessment	aa3
Issuer Rating -Dom Curr	Aa3
Senior Unsecured -Dom Curr	Aa3

Source: Moody's Ratings

Endnotes

- [1](#) As part of the cantonal equalization system, Bellinzona benefits from an equalization contribution (contributo di livellamento), a larger portion of cantonal transfers to finance public services, and, on the expenditure side, a lower contribution to cantonal expenditures.
- [2](#) Per the cantonal fiscal reform, the cantonal corporate tax rate will decrease from 8% to 5.5% starting in 2025.
- [3](#) The tax collection system, based on a multi-annual process of tax assessment managed by the canton, implies a three-or-more-year period to collect taxes due in each fiscal year. This results in a recurrent deviation between forecast and realized tax receipts each year (sopravvenienze d'imposta)
- [4](#) Art. 151, 159 Legge Organica Comunale (LOC) and Art. 2 Regolamento sulla gestione finanziaria e sulla contabilità dei comuni (RGFCC).
- [5](#) Moltiplicatore d'imposta.
- [6](#) Art. 178 LOC.
- [7](#) Moltiplicatore d'imposta.
- [8](#) We estimate that Bellinzona's tax potential corresponds to around CHF7 million, or 3% of its operating revenue in 2022. This value is calculated as additional tax revenue if the city increases the fiscal coefficient up to 100%.
- [9](#) Including short-term and long-term debt repayment and interest expenses.

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