

## CREDIT OPINION

20 October 2023

### 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)

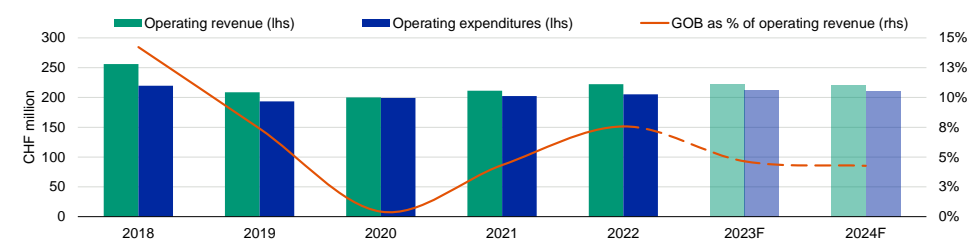
### New issuer

### 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 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 sound, supported by prudent financial planning and strong stance toward expenditure control and 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 Investors Service

### 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 the 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 rating outlook reflects the city's capacity to manage potential revenue pressure and maintain control over expenditures, which will preserve a sound operating performance over the next two years. Its financial debt will gradually increase because of high investment requirements. However, 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 (GOB); 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 rating.

## Factors that could lead to a downgrade

Negative pressure on the rating 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 (NDID)/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 downgrade pressure on Bellinzona's rating.

## Key indicators

Exhibit 2

### City of Bellinzona

Year ending 31 December

	2020	2021	2022	2023F	2024F
Net Direct and Indirect Debt as a % of Operating Revenue	189.6	179.1	174.7	175.7	184.2
Financing Surplus (Deficit) as % of Total Revenue	-13.0	-5.0	-3.0	-6.7	-7.2
Gross Operating Balance as a % of Operating Revenue	0.4	4.3	7.6	4.6	4.3
Interest Payments as a % of Operating Revenue	1.6	1.5	1.4	1.9	2.0
Intergovernmental Revenue as a % of Operating Revenue	21.7	21.4	22.2	22.8	20.6
Capital Expenses as a % of Total Expenses	14.1	15.1	14.6	14.1	14.2
GDP per capita as a % of national average	104.2	104.7	105.6	106.5	107.4

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 GOB 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 Investors Service

## Detailed credit considerations

On 17 October 2023, we assigned a Aa3 long-term issuer rating, a aa3 BCA and stable outlook to the City of Bellinzona.

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 in the event that the city faces 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. Since 2018 – the first financial year of the new entity — Bellinzona's GOB has averaged 6.8% of operating revenue, and the municipality complies with the financial equilibrium requirement set by the cantonal law. The merger and the coronavirus pandemic explain the somewhat volatile financial results in 2018-22 (see Exhibit 1). The city posted a sound GOB of CHF16.8 million in 2022, corresponding to 7.6% of operating revenue.

Tax proceeds are the main source of revenue (54% of operating revenue in 2022, see Exhibit 3) and mainly derive from personal tax<sup>1</sup> and corporate tax<sup>2</sup>. Steady tax receipts — underpinned by a solid, although small, economic base — support the city's operating

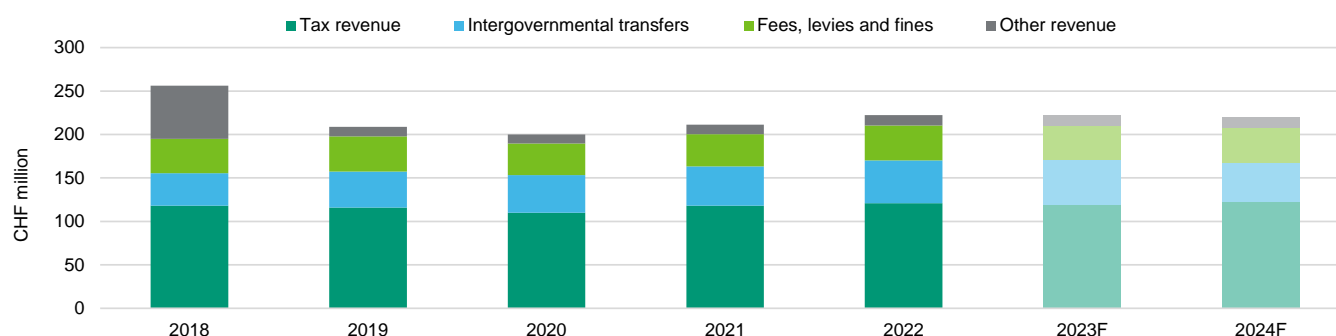
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performance. The important presence of the public administration and healthcare sectors — which are the main employers in the city — contributes to the stability of own revenue. Bellinzona also benefits from a robust equalization system because of its relatively less abundant fiscal base compared with that of its cantonal peers. This mechanism contributes to Bellinzona's sound financial results through an equalization contribution<sup>3</sup>, which was equal to 8% of operating revenue in 2022; a greater share of cantonal transfers to finance public services; and, on the expenditure side, a lower contribution to cantonal expenditures.

We expect the GOB to exceed 4% of operating revenue over 2023-24. Our expectation is underpinned by Bellinzona's prudent financial planning and strong stance toward expenditure control and financial equilibrium. Because of the city's prudent budgetary approach and favorable economic prospects, we expect realized tax receipts to exceed forecasts<sup>4</sup>. These additional resources will fuel the realized operating balance, as usually observed over 2018-22. On the expenditure side, the spending review launched by the local government over 2023-26 (see Strong commitment to improve the organizational efficiency and the territory's attractiveness) will mitigate upward pressure stemming from a rigid cost structure and offset the revenue decrease expected from 2024 onward - particularly because of the end of cantonal merger-related transfers and, from 2025, because of the reduction in the cantonal corporate tax rate<sup>5</sup>.

Exhibit 3

### Steady own revenue and the robust equalization system support Bellinzona's operating performance



The forecasts (F) are our opinion and do not represent the views of the issuer.

Source: Issuer and Moody's Investors Service

### Strong cantonal institutional framework, which ensures financial equilibrium

Bellinzona benefits from a mature and robust institutional framework. Swiss municipalities have autonomy within the limits set by the canton<sup>6</sup>. 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 collects budgets and financial statements, and may request any additional information. Based on collected data, it monitors the financial performance of local governments and determines the components of the equalization system. The canton can intervene in the budgetary process in the event of approval delays. Financial statements are audited by external auditors. Speculative practices are prohibited, but the cantonal law does not impose limits on debt burden.

Municipalities can increase taxes up to a level set by the canton. Bellinzona's fiscal coefficient<sup>7</sup> is relatively high at 93%, conferring a moderate leeway on tax revenue<sup>8</sup>, and the local government intends to keep it unchanged to preserve the city's attractiveness. Bellinzona's stance toward financial equilibrium is driven by a requirement embedded in the cantonal law. Municipalities are required to achieve financial equilibrium over the medium term and maintain constantly positive equity<sup>9</sup>. If these conditions are not met, the law imposes an increase in the fiscal coefficient that is large enough to rebalance the financial performance and cover the cumulated deficit<sup>10</sup>.

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 neutral-to-low impact on Bellinzona's finances.

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

The municipality has successfully implemented the merger with no delays in budget or financial statement approvals, and no significant disruptions in its operating activities or service delivery. The city consolidated merged municipalities' operations and redefined key processes and databases. It is committed to further streamline municipal processes and procedures to achieve efficiency-gain targets, as part of the spending review launched over 2023-26. Bellinzona aims to achieve an average annual saving corresponding to 1.4% of operating revenue<sup>11</sup>. This plan demonstrates the city's commitment to expenditure control and financial equilibrium.

Another key goal of the local government is to increase the attractiveness of its territory, which has the potential to reinforce the municipality's tax revenue. Bellinzona is the capital of the southern Switzerland Republic and Canton of Ticino and the headquarter of its public administration. With more than 40,000 inhabitants, it is the second most populated urban area, after the [City of Lugano](#) (Aa3 stable), and a relevant economic center in the Canton. Bellinzona's service-based economy is solid, despite being small compared with that of international peers. The largest sectors, in terms of employment, are public administration, healthcare, retail, transportation services and education. The city benefits from the presence of renowned institutions in the field of life science.

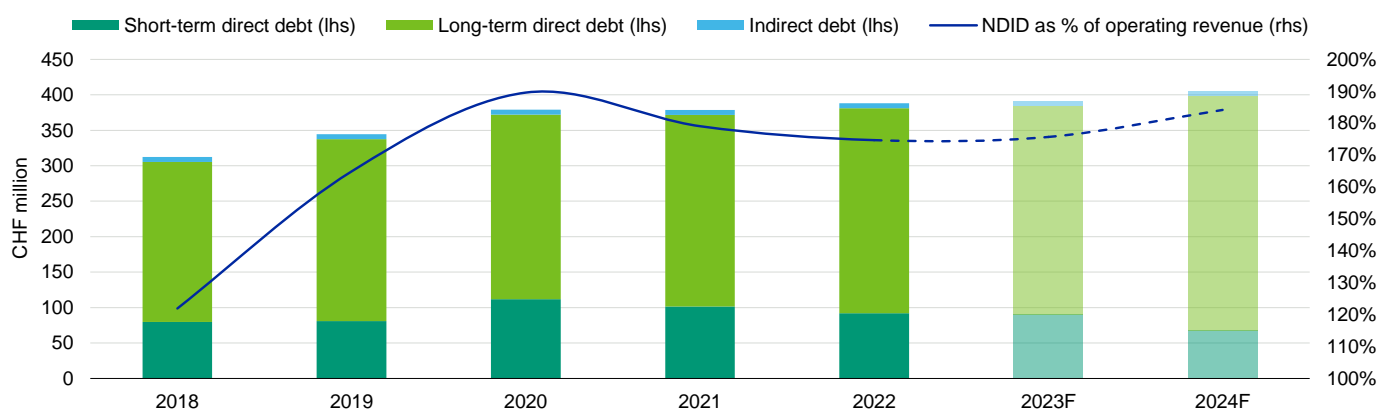
The local government's economic strategy is focused on promoting innovation and attracting new businesses, especially in sectors such as life science and high-tech, which could lead to an increased diversification of the local economy. Bellinzona has defined an ambitious investment plan to meet the infrastructure needs — stemming from the enlarged urban area — and investments required to increase the attractiveness of the territory. The city plans to achieve CHF25 million (more than 11% of 2022 operating revenue) of net investments per year until 2026. According to our estimation, Bellinzona's self-financing ratio<sup>12</sup> will range between 45% and 50%, which means that around half of these expenses will be funded by internal resources, while the remaining will be financed through new borrowing.

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

Bellinzona's debt burden is high compared with that of its national and international peers. NDID amounted to around CHF388 million in 2022, accounting for 175% of operating revenue. It will gradually increase over the next two years to fund Bellinzona's high investment requirements and refinancing needs. We expect NDID to increase to 176% of operating revenue in 2023 and 184% in 2024 (see Exhibit 4). The city would like to improve operating results and, thus, the self-financing ratio, to limit debt increase. Nevertheless, the local government did not set any thresholds in terms of the self-financing ratio or debt increase, and is committed to pursue the investment program as planned.

Exhibit 4

#### Debt burden is high, but manageable



The forecasts (F) are our opinion and do not represent the views of the issuer. The short-term direct debt includes the portion of long-term debt to be paid in the short-term.

Sources: Issuer and Moody's Investors Service

The very low average interest rate, at 0.8% as of year-end 2022, and the simple debt profile make the municipality's high debt burden manageable. NDID is mainly composed of the city's direct debt (98% of NDID in 2022), while indirect debt represents a residual part (2% of NDID in 2022) and corresponds to guarantees provided to third parties. Direct debt - of which 84% is long term<sup>13</sup> - mainly consists of loans with banks or financial institutions (99.7% of direct debt in 2022), which are of fixed rates, denominated in Swiss

francs and with capital repayment at maturity. The remaining part (0.3% in 2022) is composed of amortizing and interest-free cantonal or federal loans. Interest expenses represented a moderate 1.4% of operating revenue in 2022.

Bellinzona's credit profile incorporates rather low exposure to contingent liabilities, which represent 7.4% 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.

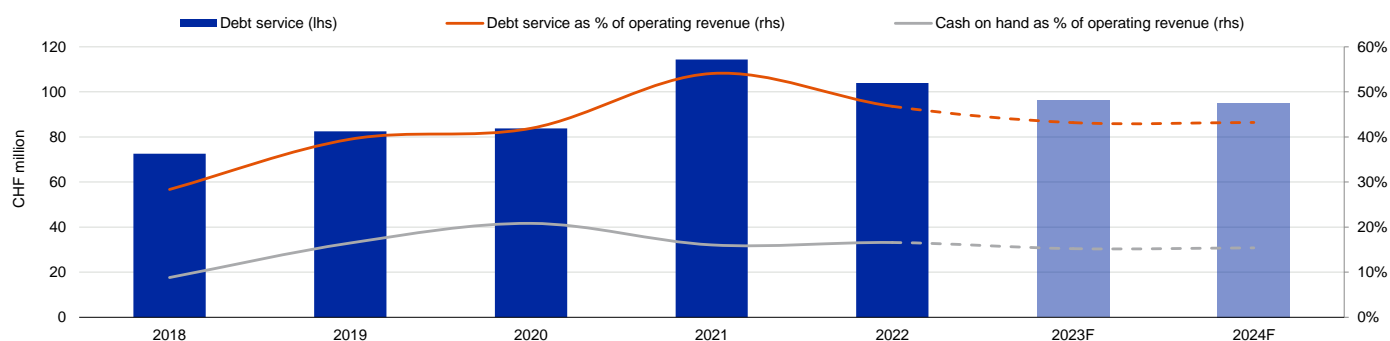
### Very high debt service

Bellinzona has a very high debt service, owing to its high debt stock with a relatively short maturity and mainly composed by bullet loans. Between 2019 and 2022, debt service as a percentage of operating revenue averaged a very high 46%. It is likely to remain very high over the next two years due to the coincidence of maturities of merged municipalities' debt (see Exhibit 5). Two peaks in the long-term debt repayment are expected in 2024 and 2026. The future level of debt service will depend on the borrowing strategy that the city will implement. Bellinzona does not have clear guidelines or thresholds on debt burden and annual repayment levels, which is a credit weakness tempered by the strong expertise of management.

Cash on hand was CHF36.9 million in 2022 and operating activities generated positive cash flow. Cash on hand was, on average, 16% of operating revenue in 2018-22 and corresponded, on average, to 38% of debt service. Bellinzona regularly uses short-term debt to finance in-year cash flow imbalances as a result of cash inflow-outflow mismatches and its sustained investment plan. Nevertheless, the city has good access to external borrowing at favorable conditions and a diversified panel of borrowers. This, along with careful treasury management, also mitigates the risks associated with high debt service.

Exhibit 5

### Very high debt service likely to remain above 40% in 2023F and 2024F



The forecasts (F) are our opinion and do not represent the views of the issuer.

Sources: Issuer and Moody's Investors 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

### City of Bellinzona's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 6

#### ESG Credit Impact Score

# CIS-2

## Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

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

Exhibit 7

#### ESG Issuer Profile Scores

ENVIRONMENTAL

# E-2

## Neutral-to-Low



SOCIAL

# S-2

## Neutral-to-Low



GOVERNANCE

# G-2

## Neutral-to-Low



Source: Moody's Investors Service

### 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** also 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 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 Moodys.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 8

### City of Bellinzona

#### Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
<b>Factor 1: Economic Fundamentals</b>				<b>3.60</b>	<b>20%</b>	<b>0.72</b>
Economic Strength [1]	3	105.15%	70%			
Economic Volatility	5		30%			
<b>Factor 2: Institutional Framework</b>				<b>3</b>	<b>20%</b>	<b>0.60</b>
Legislative Background	1		50%			
Financial Flexibility	5		50%			
<b>Factor 3: Financial Position</b>				<b>4</b>	<b>30%</b>	<b>1.20</b>
Operating Margin [2]	3	5.62%	12.5%			
Interest Burden [3]	3	1.42%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	7	174.70%	25%			
Debt Structure [5]	5	24.12%	25%			
<b>Factor 4: Governance and Management</b>				<b>5</b>	<b>30%</b>	<b>1.50</b>
Risk Controls and Financial Management	1					
Investment and Debt Management	5					
Transparency and Disclosure	1					
<b>Idiosyncratic Risk Assessment</b>						<b>4.02 (4)</b>
<b>Systemic Risk Assessment</b>						<b>Aaa</b>
<b>Suggested BCA</b>						<b>aa3</b>
<b>Assigned BCA</b>						<b>aa3</b>

[1] Local GDP per capita as a percentage of national GDP per capita.

[2] GOB/operating revenue.

[3] Interest payments/operating revenue.

[4] Net direct and indirect debt/operating revenue.

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

Source: Moody's Investors Service; Fiscal 2022

## Ratings

Exhibit 9

Category	Moody's Rating
<b>BELLINZONA, CITY OF</b>	
Outlook	Stable
Baseline Credit Assessment	aa3
Issuer Rating - Dom Curr	Aa3

Source: Moody's Investors Service

## Endnotes

1 Persone fisiche (PF) — Personal tax represented 81% of tax receipts in 2022.

2 Persone giuridiche (PG) — Corporate tax represented 13% of tax receipts in 2022.

3 Contributo di livellamento.

4 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).

[5](#) From 2025, the cantonal corporate tax rate will decrease to 5.5% from 8%, per the cantonal fiscal reform.

[6](#) Article 50 of the Swiss constitution.

[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](#) Art. 151, 159 Legge Organica Comunale (LOC) and Art. 2 Regolamento sulla gestione finanziaria e sulla contabilità dei comuni (RGFCC).

[10](#) Art. 178 LOC.

[11](#) CHF2.5 million in 2023, CHF3 million in 2024, and CHF3.4 million in 2025 and 2026.

[12](#) Grado di autofinanziamento.

[13](#) It includes the portion of long-term debt to be paid in the short-term.



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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454