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Key rating assessment factors

## ACRA affirms BBB(RU) to Tomsk, outlook Stable, and BBB(RU) to bond issues

The credit rating of [Tomsk](#) (hereinafter, Tomsk, or the City) is based on the stable indicators of the City's economy, limited opportunities to manage the revenue base of the City's budget, and a moderately low debt load. The rating is supported by growing available liquidity. The rating is limited by the dependence of the City's budget on transfers from the budget of the Tomsk Region, whose internal revenues depend on the situation in the commodities markets, and an increased need for debt financing.

Tomsk is the administrative center of the Tomsk Region, which is part of the Siberian Federal District. The City had a population of 590,000 in 2020. ACRA estimates that the City accounts for about 30% of the Tomsk Region's shipped products annually.

**Last year's deficit was financed using the proceeds from a bond issue.** In 2020, the City's budget revenues amounted to RUB 16.6 bln, down 10% compared to 2019. Furthermore, tax and non-tax revenues (TNTR) declined by 4%, which accounts for almost a sixth of the total decline in revenues of the budget of Tomsk. TNTR decreased mainly because individual property tax revenues declined by more than four times compared to the year before due to refunds on this type of tax as a result of recalculation. However, personal income tax revenues — the main source of income for the City — grew by 8% compared to 2019. Transfers from the budget of the Tomsk Region fell by 14% in 2020 and amounted to RUB 9.6 bln, including subsidies, which almost halved. Tomsk's expenses totaled RUB 17.0 bln in 2020, which is 8% lower than for the year before. The biggest decline in absolute terms (RUB -1.2 bln) was recorded in the City's expenses on education. Tomsk's budget deficit amounted to RUB 441 mln (6% of TNTR) and was completely financed using the proceeds from a bond issue.

According to the updated plan, as of May 1, 2021, the planned total budget revenues of the City for 2021 are expected to amount to RUB 18.8 bln (a 14% increase compared to 2020). TNTR will grow by 4% year-on-year according to the plan, while transfers are expected to grow by 20%. In addition, the budget expenses of Tomsk should increase considerably (by 17%). Current expenses are expected to increase by 8% while capital expenses should grow by more than 1.5x. Tomsk expects its budget deficit to amount to RUB 1.1 bln in 2021 (15% of TNTR; calculated before deducting balances of budget accounts and expenses for addressing the consequences of the coronavirus pandemic) and will finance it mainly using borrowed funds.

ACRA believes that in 2021 the City's budget revenues may not grow as much as the year before, as the Decision on the Budget suggests. In this case, the budget deficit will also increase when the planned level of expenditures is achieved. The deficit will be financed using credit facilities and through the placement of securities, and also partly using balances in accounts. Despite this, the debt load of Tomsk remains at a moderately low level.

The City's modified budget deficit is negative and expected to decline further in 2021. The averaged<sup>1</sup> share of the current account balance in operating revenues should equal 2% for this year, however, the operating balance may turn negative due to expected growth in the City's expenses, which in combination with the negative modified budget deficit will increase the need for debt financing. The averaged share of TNTR in total revenues (excluding subventions) for 2017 to 2021 should amount to 57%. The share of capital expenses in Tomsk's budget is high: the averaged value of this indicator for 2017–2021

<sup>1</sup> Hereinafter, averages are calculated according to the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#).

should amount to 23%. However, it should be noted that the budget of the Tomsk Region finances more than two-thirds of capital expenses.

**Moderately low debt load with moderate refinancing risks.** As of the end of 2020, the City's total debt increased by 18% (+RUB 652 mln) and was RUB 4.2 bln as of January 1, 2021. Unused interbudgetary transfers received by the City's budget in 2020 resulted in an increase in budget account balances. The City's debt portfolio included bonds (63%), part of which (around 10%) were internal borrowings, while the rest of the portfolio was made up of bank loans. Most of this debt (76%) was to be repaid in 2021–2023. The peak in repayments was scheduled for 2021, when the City was supposed to repay or refinance 38% of its debt obligations (RUB 1.6 bln).

As of May 1, 2021, the debt of Tomsk had fallen by RUB 1.0 bln to RUB 3.2 bln due to the repayment of part of the bank loans due in 2021–2022. Funds from the City's autonomous and state-funded enterprises were used to repay this bank debt, as well as available funds held in budget accounts. The volume of bonds has declined slightly. The peak payment period is still 2021, however the amount to be repaid has fallen to RUB 1.0 bln (32% of the City's total debt).

The debt load on the City's budget is moderately low — ACRA expects the City's debt to grow to 35% of its current revenues, or 77% of TNTR, as of the end of this year. Interest expenses are not burdensome and should amount to no more than 2% of expenditures (excluding subventions) this year.

As of January 1, 2021, balances of the City's accounts amounted to a little less than RUB 0.5 bln. Account balances of Tomsk's budget, excluding the funds of autonomous and state-funded organizations, have covered around 12% of its monthly expenditures since the start of 2020. In addition, Tomsk had open credit lines with maturities of over one year to a total of more than RUB 2 bln.

Tomsk has not yet used short-term loans from the Federal Treasury Department this year.

**Economic development indicators are driven by major enterprises based in the City.** Tomsk is home to major industrial enterprises, including Tomskneftekhim LLC (production of chemical organic substances), Gazprom Transgaz Tomsk LLC (pipeline transportation of gas), Gazpromneft-Vostok LLC (oil production), Tomskgazprom JSC (natural gas production), KDV Group LLC (wholesale trade of foodstuffs), and Tomskoye Pivo OJSC (production of beer). Highly diversified manufacturing accounted for the largest share (around 78%) in the structure of shipped products in 2020.

In 2020, the average nominal wage for all organizations based in Tomsk was almost 3.5 times higher than the subsistence wage in the City. The average official unemployment rate in the City, which in past was usually almost two times lower than unemployment in the Tomsk Region, grew significantly in 2020. Registered unemployment in Tomsk reached 5.4%, almost equaling the indicator in the Tomsk region, which stands at 5.9%.

## Key assumptions

- Aggregate revenues growing by at least 10% in 2021 compared to 2020;
- Transfers growing by at least 18% compared to 2020;
- Budget deficit of no more than 25% of TNTR (calculated before deducting balances of budget accounts and expenses for addressing the consequences of the coronavirus pandemic);
- Resorting to borrowing to finance a large part of the budget deficit;
- Growth of debt by no more than 26% year-on-year.

## Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

**A positive rating action may be prompted by:**

- Reduced need for debt financing;
- Execution of the budget without recording a deficit in 2021;
- Lower debt load at the end of this year;
- Considerable growth of balances in the City's accounts.

**A negative rating action may be prompted by:**

- Further decline in operating efficiency due to planned growth of the City's current expenses;
- Increased debt load and short-term debt.

**Issue ratings**

[Tomsk, 34006 \(ISIN RU000A0JWZ10\)](#), maturity date: November 14, 2021, issue volume: RUB 1 bln — **BBB(RU)**;

[Tomsk, 34007 \(ISIN RU000A1018A2\)](#), maturity date: December 22, 2024, issue volume: RUB 1 bln — **BBB(RU)**;

[Tomsk, 34008 \(ISIN RU000A102LR1\)](#), maturity date: December 27, 2025, issue volume: RUB 1 bln — **BBB(RU)**.

**Rationale.** In ACRA's opinion, the bonds of Tomsk are senior unsecured debt instruments, the credit ratings of which correspond to the credit rating of [Tomsk](#).

**Regulatory disclosure**

The credit ratings have been assigned to Tomsk and the bonds issued by Tomsk (ISIN RU000A0JWZ10, RU000A1018A2, RU000A102LR1) under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The [Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments Under the National Scale for the Russian Federation](#) was also applied to assign credit ratings to the above issues.

The credit ratings of Tomsk and the issues of government securities of Tomsk (ISIN RU000A0JWZ10, RU000A1018A2, RU000A102LR1) were published by ACRA for the first time on June 17, 2020, June 17, 2020, June 17, 2020, and December 29, 2020. The credit rating of Tomsk and its outlook, as well as the credit ratings of the issues of government securities of Tomsk (ISIN RU000A0JWZ10, RU000A1018A2, RU000A102LR1) are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on data provided by Tomsk, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), and ACRA's own databases. The credit ratings are solicited and the Administration of Tomsk participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to the Administration of Tomsk. No conflicts of interest were discovered in the course of credit rating assignment.

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