Financial Sustainability

Primăria Constanța

THE WORLD BANK

ROMANIA

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DISCLAIMER

This report was delivered in January 2020 under the Reimbursable Advisory Agreement concluded between the Municipality of Constanța and the International Bank for Reconstruction and Development on October 9, 2017. It corresponds to Output 4 under the above-mentioned agreement and represents Deliverable 4.1.1 on "Capital Investment Planning and Management", as per the Inception Report.

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ABBREVIATIONS AND ACRONYMS

A/P	Actual / Plan performance
ANRSC	(National Authority for Regulating and Monitoring the Public Services of Communal Household)
CAPEX	Capital expenditures
CIP	Capital Investment Plan
DC	District of Columbia
DeMPA	debt management performance assessment
Du	Delivery unit
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
FMA	Financial Management Assessment
FUA	Functional Urban Zones
GDP	Gross Domestic Product
GST	Goods and Services Tax,
IDU	Instituto de Desarrollo Urbano
IMF	International Monetary Fund
LG	Local government
MAT	Municipal Accommodation Tax
MFSA	Municipal Finances Self-Assessment
NLDP	National Local Development Program
NYC	New York City
OECD	Organization for Economic Co-operation and Development
OGHA	Ottawa Gatineau Hotel Association
OPEX	Operating expenditures
OSR	Own-source revenue
PEFA	Public Expenditure and Financial Accountability program
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
PIT	PERSONAL Income tax
PIU	Project Implementation Unit
PPP	Public-Private Partnership
PU	Public Utility
PUC	Public Utility Company
RADET.	Regia Autonomă de Distribuție a Energiei Termice
RAEDPP	Regia Autonomă „Exploatarea Domeniului Public și Privat"
RAS	Reimbursable Advisory Services
RDA	Regional Development Agencies
SEE	South-East Europe
SIM	Subscriber Identity Module
SPIT	Public Service for Taxes and Fees / Serviciul Public de Impozite si Taxe
VAT	Value-added tax

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Executive Summary

The current report serves as a key instrument in evaluating the municipality of Constanța's main challenges and opportunities in managing its local budget. An inherent goal is to boost the city's development by increasing revenues and decreasing costs, as needed and where possible. Through the Municipal Financial Self-Assessment (MFSA) tool, this work drives at several key actions that Constanța can take – directly or with the help of the central government – to ensure a better, more effective management of the limited resources available. Equally important, the ongoing and future implementation of the MFSA builds capacity within the local administration to collect and assess critical financial data, which contributes to a better overall performance by the local administration.

The main challenge that Constanța faces in terms of local budget management stems from the lack of predictability and stability in the central government's decisions on funds' allocations. Law 273/2006 on public finances sets out, in theory, what each local administration should receive every year from the central budget. But almost every year the government decides to adopt exemptions to law 273/2006 when drafting the budget for that year, which can lead to major year-on-year discrepancies, particularly on the revenue side. The same goes for local expenditures, which change based on central-level initiatives (e.g., the Administrative Code adopted through Government Emergency Ordinance 57/2019 stipulates new benefits for all local officials elected after the elections of 1992, which would be covered from local budgets). It is a common complaint by Romanian local authorities that the central government burdens then with additional responsibilities without providing them with proper sources of funding or the right tools to access the resources they need to fulfill their broader mandates.

Despite fluctuating revenues and higher expenditures (e.g., personnel costs), Constanța has managed its budget prudently, without registering budget deficits from 2007 to 2019, which can help attract investment partners and development loans at favorable rates. Even in 2018, when the central government reduced the Personal Income Tax and the Value Added Tax (two of the most important revenue sources for sub-national administrations), and moved social expenditures for people with disabilities from the central level to the local level, the Municipality of Constanța managed to keep a balanced budget, despite lower revenues and higher expenditures.

In the context of the coronavirus pandemic, Constanța can expect considerable pressures on the local budget. On the revenue side, the municipality can reasonably forecast a reduction in PIT and VAT quotas, for different reasons. Some firms in Constanța, particularly small and medium-sized enterprises. will have to lay people off due to lack of resources, leading to lower PIT; state institutions will also likely pay less in PIT, as current proposed measures include paying public servants less for the duration of the state of emergency. Moreover, Constanța is Romania's most prominent tourist destination – along with the resort towns along the Black Sea coast. The 2020 summer season may well be compromised, and there is a change that restrictions may also affect future years' demand for tourist services. All this will obviously translate into less PIT funding flowing into the local budget as a result of a reduction in the number of local companies. It is also likely that there will generally be a much lower sales volume, meaning lower VAT sums collected and directed to the municipality.

Pure own-source revenues – i.e., generated from local taxes and fees – may also be affected. It is possible that fewer people and especially businesses will pay their local taxes and fees for 2020 (e.g., property tax), particularly those who own vacation homes in Constanța or Mamaia. They may no longer be willing to invest into such properties, and they may not have sufficient resources available to pay their local taxes on time. The same goes for fees for specific services (e.g., cultural or entertainment activities, tourist services, etc.).

In parallel, Constanța's expenditures are expected to grow substantially in the context of the coronavirus pandemic. This will be needed for covering medical expenses and technical equipment for the local hospitals and family doctors, as well as for purchasing essential goods and services – e.g., higher costs for cleaning, sanitation and disinfection. As the national government gradually opens up the economy, local authorities will be expected to provide some of the necessary safeguards. For instance, military ordinances during the state of emergency already required a range of interventions by local administrations across Romania, including, for instance, special cleaning procedures of common areas in multifamily residences. Also, social assistance costs will also likely increase, considering the economic contraction that is forecasted. None of these expenditures are optional or avoidable. In fact, people's lives depend on them, and the municipality will likely spare no expense in this direction.

What all this will mean for Constanța and for Romania as a whole remains to be seen. The final answers will depend on the magnitude of the pandemic and the corresponding duration of the emergency state and economic crisis. The danger is that budget cuts will focus on investments, which will affect the community's long-term growth prospects. This scenario should be avoided by considering alternative solutions for increasing revenues and reducing expenditures.

To be sure, so far, the Municipality of Constanța has avoided deficits largely because of budget surpluses at the end of each fiscal year, which also points to a key opportunity: leveraging available resources to boost infrastructure investments and enable sustainable growth. As the table below highlights, Constanța has generated relatively high budget surpluses every year. These surpluses, particularly the one from 2017, have helped weather sudden drops in revenue and increases in expenditures, but they also indicate an untapped potential to use those funds for development purposes (e.g., for strategic capital investments in the city, which would then further accelerate growth). What often happens in the budget-making process at the local level is that investment funds are "locked" in the beginning of the year for some infrastructure projects. Still, as the year progresses and delays are incurred in those projects, local authorities move these funds to other budgetary chapters, particularly for projects that allow for quick expenditures on investments with a questionable development impact.

Constanța Budget Surplus by Year (in RON) and share of current revenues

2014	2015	2016	2017	2018
56,940,939	192,614,479	231,862,073	270,309,773	185,305,552
10.1%	26.3%	33.3%	37.2%	37.3%

On the positive side, compared to other Romanian localities, Constanța benefits from a relatively higher share of own-source revenues, which translates into a lower dependency on central government allocations. In fact, own source revenues have increased in recent years, and their share represents one third of total revenues, with approximately RON 7,652 per capita between 2007-2018. Revenues from the main local taxes have grown steadily during the past five years, becoming an important source of discretionary revenue. For the local government of Constanța - on average across the 2014-2018 timeframe - property tax (building and land) and vehicle licenses are making up for approximately 19,1% of the total budget. These are important, predictable, and stable revenue sources that have grown exponentially during the past decade, although their unit value is limited by central-level legal constraints.

At the same time, there is potential to further increase revenues. These in turn could be used for the financing of an ambitious medium and long-term capital investment plan. A higher absorption of EU funds, higher taxes on property, additional taxes and fees, and/or a higher share of Personal Income Tax transfers could help bolster the budget in coming years. It is also worth assessing the level of subsidies granted at the local level; for example, the average cost with subsidies at the level of the municipality of Constanța is double compared to the municipality of Brașov.

A summary of the key actions the Municipality of Constanța could undertake in the coming years is included in the table below. It is certain that this is neither an exhaustive list of potential steps to take, nor a detailed action plan with what is required for each objective. The purpose of the current report is rather to provide local authorities and other interested stakeholders with a baseline assessment of local public finances, including concrete steps for building up administrative capacity at the local level to undertake such evaluations and propose future solutions.

Constanța Municipal Financial Self-Assessment Action Plan

Objective	Specific action	Expected results	Time frame	Cost estimate	Responsible entity
Increase expenditures on local development	Prepare Gantt Chart for Capital Investment Plan, with proposed timeline for the implementation of priority projects/programs	Timeline with clear and firm commitments for project implementation.	Year 1	No cost for preparation of Gantt Chart.	*Local level:* General Directorate for Development
	Enlarge the team of the General Directorate for Development.	Increase capital investments from the current 17% of non-earmarked revenues to 30% of non-earmarked revenues.	Years 1-5	Staff costs to be estimated.	*Local level:* Mayor and General Directorate for Development
	Advocate to central government an increase in the share of PIT allocated to local administrations.	Larger own source revenues.	Year 1	No cost	*National level, with advocacy by local level* – i.e., Mayor through the Association of Municipalities
Increase revenues for the local budget	Advocate to central government to include PIT transfers in the Fiscal Code to avoid sudden changes caused by Emergency Government Ordinances (as in 2018).	More predictability in medium and long-term budget planning.	Year 1	No cost	*National level, with advocacy by local level* – i.e., Mayor through the Association of Municipalities
	Improve absorption of EU funds	Higher grant funds for critical urban development projects	Years 1-5	Costs to be estimated	*Local level:* Mayor and General Directorate for

Objective	Specific action	Expected results	Time frame	Cost estimate	Responsible entity
					Development
	Consider increasing households' property tax for residential buildings	Property tax increased from the current 0.11% to the 0.2% allowed by the Fiscal Code	Years 1-5	No cost	*Local level:* Mayor, the Public Service for Taxes and Fees (SPIT), and the General Finance Directorate
	Consider increasing households' property tax for non-residential buildings	Property tax increased from the current 1% to the 1.3% allowed by the Fiscal Code	Years 1-5	No cost	*Local level:* Mayor, the Public Service for Taxes and Fees (SPIT), and the General Finance Directorate
Better asset management	Establish an asset management system with reliable registers, strategy, and policy	Additional sources of reliable revenues and better development outcomes	Years 1-5	No cost	*Local level:* Mayor, Chief Architect, and Local Patrimony Directorate

Beyond this general plan for the long-term health of the local budget, Constanța will need to develop a range of actions for the short and medium run, in response to the coronavirus pandemic and ensuing economic crisis. The following is a preliminary potential range of actions to be assessed and tailored to the Constanța local administration's preferences, needs, and capacity.

- *Institutional measures: Set up a local taskforce with the best and the brightest specialists to plan and manage post-crisis recovery*. This is – and should be – different than the emergency response team that is handling imminent needs during the health crisis. The team should be coordinated by the top decisionmaker (i.e., the Mayor) or a close aide (e.g., the City Manager), and should include, at a minimum, experts from the following sectors: economics, health, labor (social assistance), education, and transportation. Other key skills are: IT (digitalization expert), data management, communications, and partnerships (someone skilled at connecting with the private sector, civil society, community leaders, etc.).

- *Budgetary measures on the revenue side: Boost revenues with all available tools, including full use of EU funds and new revenue sources from the local level.*
    - Make full use of EU funds. The current government has allowed municipalities to over-subscribe EU funds (for Axis 4 of the ROP there are now project applications worth 170% of initial allocations), which favors cities with a mature project portfolio. Constanța should be among them.

- Increase own revenues from local taxes and fees. Taxes on Property, Land, and Vehicles are the main share of own source revenues, and remain very low in Romania. An economic crisis is usually not the right time to raise taxes, but current levels are so low in most cases that some increase can be manageable and bring very valuable resources for the local budget. Translating tax increases into tangible investments that lead to long-term growth will help make these measures palatable to the community.
- Engage the central government to amend the Fiscal Code to: allow higher thresholds for taxes on property, land and vehicles; 2) allow additional taxes that could be levied locally (e.g., retail tax). The list of innovative taxes in the final chapter of this report is a useful menu of options for expanding the revenue base.

- *Budgetary measures on the expenditure side: Cut all unnecessary spending.* This is not the right time to renew the fleet of vehicles for the City Hall, drastically increase hiring in the public sector, or upgrade the cell phones provided by the local administration to its employees. These examples make a simple point: it would be wise to reevaluate all procurement and all programs financed from the local budget, cut nonessential and nonurgent expenses to a minimum, and redirect resources along two main objectives: protect people's health and jumpstart the local economy. At the same time, it would also be wise to invest in those projects that help save costs, such as IT platforms that modernize the local public administration (e.g., virtual assistants, one-stop-shop for tax payments, online platforms, etc.).

- *Special economic measures: Help put people back to work and support local businesses.* Many of the central government's measures will help in this effort, including furlough support and guaranteed loans. But the local administration can also help in some ways: (i) connect local labor supply and demand by serving as a liaison in the community; (ii) consider supporting local businesses through special programs and measures (e.g., accelerating any due payments, reducing certain local taxes, granting subsidized office space for start-ups, encouraging local production of needed medical supplies, etc.); (iii) evaluate potential workforce training opportunities in the post-coronavirus economy (e.g., digital skills workshops in partnership with local universities, training programs especially for older workers, whose jobs may no longer exist in the community, teleworking seminars, etc.); (iv) double-down efforts to attract key investors to the local community, as a source of jobs, innovation, local supply chain development, etc.; (v) consider demand stimulus packages, including vouchers for various purchases, particularly if this would also help local producers; (vi) drive revenues of local businesses (e.g., purchase and deliver food from local restaurants to local hospitals, stockpiling, etc.).

- *Infrastructure fast-track: Make an inventory of mature public infrastructure projects and accelerate their implementation*. Infrastructure investments support the local economy in the long run, but also in the short term. They provide jobs and inject funds into local firms, as main contractors or subcontractors. Mature projects, i.e., investments that already have detailed technical designs or at least feasibility studies completed, are particularly helpful, as they can move quickly to actual implementation. In addition to the direct economic effect, this will also bolster morale, generating optimism and mobilizing the local community around new plans and joint efforts.

- *Targeted social measures: Put vulnerable communities front and center in all recovery efforts.* Disadvantaged people have a much harder time weathering economic crises, and the coronavirus pandemic will be no different. They often cannot access basic services, have

unstable jobs, and lower income levels, meaning that they cannot support themselves for long periods of time. Their skills are not as easily transferable, and they are generally less prepared for a more digital economy, as is to be expected after the pandemic. Special programs are usually needed to target vulnerable groups and marginalized communities so that nobody is left behind in the economic recovery effort. Indeed, the crisis could be an opportunity to jumpstart efforts for integrating all members of the community in the local economy.

- *Communication measures: Design and implement a communications and consultations plan.* Crises are times of great uncertainty, and the coronavirus pandemic is something the world has never seen before – at least not in recent times. Throughout the process, it is critical to communicate constantly with people in the community, through all available channels (local TV, social media, etc.). Typically, crisis communication is based on brutal honesty, with a hopeful perspective. Put differently, people should be told the truth, avoiding false or unrealistic expectations, but with a clear plan for recovery, giving everyone something to strive for and look forward to.

- *Partnerships: Engage stakeholders and enroll them in a shared vision*. Times of crises require the entire community coming together, including local companies, NGOs, community leaders, unions, student groups, etc. Some of these groups will want to make voluntary contributions of time and/or funds, and such efforts should be well coordinated and encouraged. Constant communication will help maintain unity and accelerate the pace of recovery. Private-public partnerships may also be possible in the new context.

1. Introduction

On October 9, 2017, the Municipality of Constanța and the World Bank signed a Reimbursable Services Agreement (RAS), with the overall purpose of supporting the development of the municipality and its metropolitan area. This builds on the World Bank's broader past and current work in Romania and beyond, particularly focused on the role of cities in supporting economic growth.[1] As the next section shows, Constanța has the potential to bring a unique contribution to Romania's development, provided that it has the vision, the capacity, and the determination to turn wishes into actions and results.

To this end, the agreement includes three interrelated components, as follows: first, strengthening the local administration's capacity for capital investment planning and management; second, assisting with municipal asset management and the urban regeneration framework; and third, boosting the local capacity to implement an economic competitiveness and development strategy for the municipality and the larger metropolitan area. This output corresponds to the first component, as its third and last deliverable, following two key reports: the first focuses on investment program management, including project identification, prioritization, and implementation; the second covers a potential delivery unit (DU) or project implementation unit (PIU) framework, evaluating four different options (internal team, external subcontracting, public-service units with contract-based staff, and strategic partnerships).

Upon providing the Constanța local administration with potential answers to the critical questions of "what to do" (project prioritization) and "how to do it" (institutional mechanisms), the current report offers solutions for "how to finance what is to be done." The main purpose of this work is therefore to ensure sufficient resources to fuel the projects that Constanța needs in order to develop efficiently and effectively, while enhancing the local budget's financial sustainability and overall health, which includes keeping costs under control for completed, ongoing, and planned capital investments. This work deploys tried and tested methods to review key revenue and expenditure categories to identify opportunities for improvement.

Critically, decision makers should adapt this report's approach and recommendations to the local context. Both in terms of budgetary management tools and with respect to solutions for increasing local revenues, there are no universal solutions, and definitive measures have to take into account the fine details of how Constanța's administration functions. For instance, statistics and benchmarks may suggest that particular departments are overstaffed, while in practice the case may be that more people are needed to fulfill key tasks given specific mandates. This is to say that one of the main roles of local public leaders is to evaluate methods and solutions proposed and test them against the hard realities of their administration and community, making rigorous judgement calls at every step of the assessment.

While keeping this disclaimer in mind, the importance of this work can hardly be overstated. For one, without proper financial management, strategies, plans, and investment projects either remain simple wish lists, or become unsustainable burdens for the local budget. Simply put, financial resources are vital for the development of any community. Second, in Romania particularly, the approach to managing capital investment projects has often been ad-hoc and unprofessional; local and central authorities have funded countless projects, frequently in the absence of rigorous criteria, which has let to wasted resources, unfinished investments, and missed development opportunities. Third, there is still relatively little innovation when it comes to finding new revenue sources for local budgets, and knowhow remains limited in this respect among public servants and decisionmakers.

[1] *See*, for instance, the World Bank's reports on *Competitive Cities* (2013) and *Magnet Cities* (2017).

1.1. City Profile

In Romania, as in any other free, market-based economy, cities play the most important role in supporting economic development, due to the forces that favor a greater concentration of economic activity. As the "Magnet Cities" report by the World Bank shows, the functional urban zones (FUAs) of Bucharest and the 40 county capitals in Romania contribute 90% of national firm revenues, 80% of the people with higher education, 67% of commuters in 2011, 66% of the total number of migrants between 2001 and 2011, 61% of overall employment, and 58% of the total population of Romania.

Constanța is also the main growth engine for Romania's South-East Region, with its functional urban area amassing 21% of the regional population and regional employment, and generating 40% of regional firm revenues. It is a key port, second only after Trieste in the region in terms of goods processed, and one of the few locations with the capacity to expand even further in future years. It is also arguably the best-connected Romanian city as the largest port on the Black Sea, as well as a logistics hub with a direct highway and fast railway link to Bucharest and beyond. With 545,000 people, it is the second largest FUA in the country, and experiences continued growth, with around 44,000 new housing units built between 1990 and 2015. In terms of attractiveness, Constanța ranks 5th in terms of the number of migrants attracted between 2001 and 2011 (after Bucharest, Timișoara, Cluj-Napoca, and Iași); 4th on the Index of Magnetism[2] (after Cluj-Napoca, Timișoara, and Brașov); and 5th in terms of cities where Romanians would most like to live in (after Bucharest, Cluj-Napoca, Timișoara, and Brașov). Moreover, it is a very popular tourist attraction, with peaks of over one million overnight stays in the busy summer months, though the share of foreign visitors is much lower than in other Romanian cities (only 5.1% compared to 21.4% in Cluj and 13.1% in Oradea, for instance).

Given its economic performance and key assets, Constanța has a relatively generous budget available for investments of nearly EUR 350 million over 2014-2023, and, in another simulation, of over EUR 425 million for 2021-2031, calculated as a maximum of 30% of total non-earmarked revenues. In absolute terms, it ranks 9th in the nation, if the sectors of Bucharest are counted separately, and 4th if Bucharest is taken as a whole (behind Cluj-Napoca, Timișoara, and Brașov). Like many other Romanian municipalities, however, Constanța has not typically deployed a coherent, multiannual investment management process.

Table 1. Estimated capital investment budget for 2014-2023

	Administrative Unit	Estimated budget available for investment 2014-2023	No. of inhabitants in 2017	Available investments per capita
1	BUCHAREST CITY	€ 2,949,204,688	2,103,251	€ 1,402.21
2	SECTOR 1	€ 807,144,348	243,977	€ 3,308.28
3	SECTOR 2	€ 467,450,696	380,688	€ 1,227.91
4	SECTOR 3	€ 451,405,014	429,063	€ 1,052.07
5	CLUJ-NAPOCA	€ 419,765,525	322,595	€ 1,301.22
6	TIMIȘOARA	€ 417,469,040	331,998	€ 1,257.44
7	SECTOR 6	€ 399,958,427	418,547	€ 955.59
8	BRAȘOV	€ 351,355,206	290,359	€ 1,210.07
9	***CONSTANȚA***	***€ 347,545,474***	***316,303***	***€ 1,098.77***
10	SECTOR 4	€ 302,647,539	328,107	€ 922.41
11	IAȘI	€ 293,573,282	368,866	€ 795.88
12	SECTOR 5	€ 276,936,593	302,868	€ 914.38

[2] See: World Bank. 2017. *Magnet Cities: Migration and Commuting in Romania*

	Administrative Unit	Estimated budget available for investment 2014-2023	No. of inhabitants in 2017	Available investments per capita
13	CRAIOVA	€ 274,330,186	304,176	€ 901.88
14	PLOIEȘTI	€ 271,826,657	231,553	€ 1,173.93
15	GALAȚI	€ 265,953,658	303,268	€ 876.96
16	ARAD	€ 232,769,605	178,392	€ 1,304.82
17	ORADEA	€ 225,901,162	222,240	€ 1,016.47
18	SIBIU	€ 213,315,669	169,360	€ 1,259.54
19	CLUJ COUNTY COUNCIL	€ 200,246,884	725,708	€ 275.93
20	BACĂU	€ 188,467,721	197,089	€ 956.26
21	TÂRGU MUREȘ	€ 184,351,885	149,543	€ 1,232.77
22	PITEȘTI	€ 175,617,591	175,650	€ 999.82
23	CONSTANȚA COUNTY COUNCIL	€ 170,744,238	769,379	€ 221.92
24	TIMIȘ COUNTY COUNCIL	€ 158,867,689	746,795	€ 212.73
25	BRĂILA	€ 149,224,205	208,201	€ 716.73
26	VOLUNTARI	€ 144,830,203	41,299	€ 3,506.87
27	PRAHOVA COUNTY COUNCIL	€ 144,255,311	804,348	€ 179.34
28	IAȘI COUNTY COUNCIL	€ 140,860,468	930,518	€ 151.38
29	BUZĂU	€ 137,931,058	134,498	€ 1,025.52
30	ILFOV COUNTY COUNCIL	€ 131,467,153	407,626	€ 322.52

Source: Ministry of Regional Development and Public Administration (MRDPA)

In terms of its budget structure, including revenues and expenditures, Constanța makes no exception to most other large cities across Romania. Many of the applicable rules are set by the central government, and some key aspects may also change from one year to the next, particularly when it comes to subsidies, equalization transfers, etc. In any case, the main revenue sources include: earmarked transfers and subsidies, discretionary revenues (PIT share, PIT equalization transfers, share of VAT for localities, share of VAT for budget equalization), EU funds, and other revenues. On the expenditure side, the central government covers some costs through earmarked transfers, while others (e.g., staff costs) are fully or mostly covered by the local level. Chapter 3 provides an in-depth analysis of Constanța's revenue and expenditure assignments.

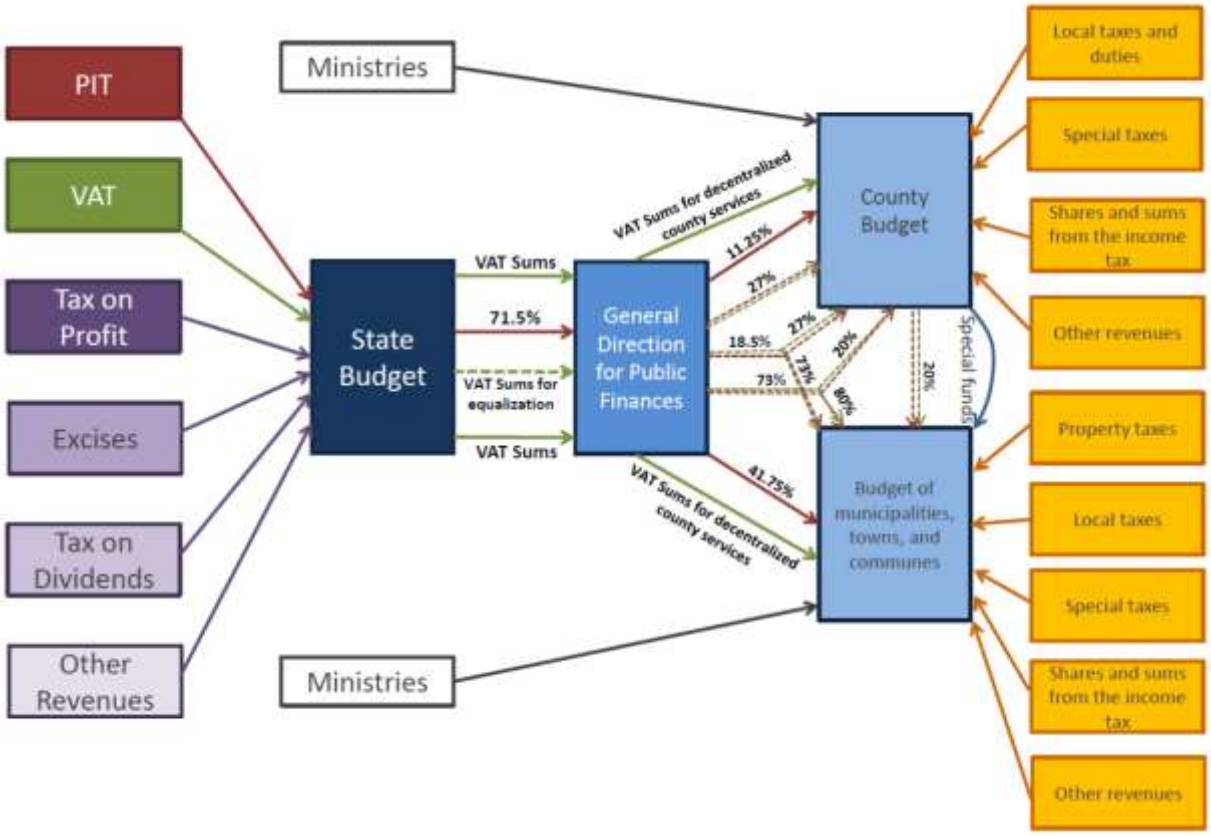
It is important to note that resources available to the local-level authorities are often subject to the central government's intervention. In principle, Law 273/2006 on local public finances sets out clear rules and formulas for revenue distribution. In practice, however, particularly in recent years, governments have tweaked the formula every year, resulting in significant year-on-year variances. This lack of predictability makes financial management even more important, as local authorities need bigger buffers to ensure that they have sufficient resources to plan, implement, and maintain the capital investments that the community needs.

1.2. Central-Local Fiscal and Budgetary Relations

A significant share of local revenues in Romania represent central government transfers. The main categories are: Personal Income Tax (PIT) transfers and transfers from the Value-Added Tax (VAT). In addition, the main taxes and fees that are collected locally (e.g., land and property taxes, vehicle license fees, traffic fines, etc.) have values or brackets imposed by the central government through the fiscal code or other regulations. As such, one could say that the level of fiscal autonomy at the local level is relatively limited, as central government decisions have a significant impact on local revenues. As such decisions change from one year to the next by making exemptions to law 273/2006 through the annual state budget law, major variance is introduced into the system, which makes long-term budgetary planning difficult at the local level, as explained below.

A World Bank report published in 2016[3] presents a chart showing the main taxes collected by the central government, and how the PIT and VAT revenues were channeled to the local level in 2014.

Figure 1. How the PIT and VAT are channeled from the center to the local level (law 273/2006)



According to the Law on Public Finance 273/2006, republished,[4] PIT revenues are supposed to be distributed as follows:

- *41.75% to the local budgets of the communes, cities and municipalities;*
- *11.25% to the county budget;*
- *18.5% in a separate account for balancing local budgets. Out of the 18.5% allocation, a share of 27% is granted to the county level, while 73% is distributed among communes, cities and municipalities.*

The Romanian state budget law shows funds collected at the disposal of the state, their sources of origin, and their directions of use. There are, however, repeated derogations from the law, as noted earlier. This impedes long-term planning and strategic decision-making. The subsequent tables reflect the volatility of allocations and derogations adopted by the central government with impact on the local budgets.

[3] World Bank. 2016. *Romania Decentralization Process.*
4 http://www.dpfbl.mdrap.ro/legislatie/Legea_273_din_2006.pdf

Table 2. Changes in PIT and VAT shares transferred to local administrations

Year	Distribution amount of income tax
2020	*By derogation from the Law on Public Finance, **the distribution of income tax is as follows:*** • *14% to the county budget* • *63% to the local budgets of the communes, cities and municipalities* • *14% in a separate account for balancing local budgets* • *6% for transfers by county council decision to local budgets* • *3% for financing cultural activities at the local level (financed by county-level decisions).*
2019[5]	*By derogation from the Law on Public Finance, **the distribution of income tax is as follows:*** • *15% to the county budget* • *60% to the local budgets of the communes, cities and municipalities* • *17.5% in a separate account for balancing local budgets*
2018[6]	*By derogation from the Law on Public Finance, **the distribution of income tax is as follows:*** • *11.25% to the county budget* • *43% to the local budgets of the communes, cities and municipalities* • *17.25% in a separate account for balancing local budgets*
2017[7]	*By derogation, the amounts deducted from the VAT approved by the state budget law and from the 18.5% share of the income tax for balancing the local budgets, were distributed as follows:* • *27% for the county budget* • *73% for balancing the local budgets of the communes, cities, and municipalities.*
2016[8]	*By derogation, the amounts deducted from the VAT approved by the law of the state budget and from the share of 18.5% of the income tax for balancing the local budgets were distributed as follows:* • *27% for the county budget* • *73% for balancing the local budgets of the communes, cities and municipalities.*

The tables below highlight how the PIT and VAT values have fluctuated, over the years, both in absolute terms and in terms of percentages. This brief evolution over four years creates a potent image of some of the challenges that local administrations in Romania face when it comes to financial sustainability and predictability.

[5] https://static.anaf.ro/static/10/Anaf/legislatie/L_50_2019.pdf
[6] https://static.anaf.ro/static/10/Anaf/legislatie/L_2_2018.pdf
[7] https://static.anaf.ro/static/10/Anaf/legislatie/L_6_2017.pdf
[8] https://static.anaf.ro/static/10/Anaf/legislatie/L_339_2015.pdf

Table 3. Evolution of VAT share allocation to the local budgets (RON)

Year	PIT allocated to local budgets	VAT for balancing local budgets
2019	RON 14.792,3 billion	RON 11,409.9 billion
2018	RON 13,340.6 billion	RON 5,290.4 billion
2017	RON 22,190.5 billion	RON 2.469,5 billion
2016	RON 18,693.9 billion	RON 2.228,1 billion

Table 4. Evolution of VAT and PIT shares

Year	PIT Tax	VAT Tax
2019	10%	19%
2018	10%	19%
2017	16%	19%
2016	16%	20%
2015	16%	24%

Table 5. Evolution of Quotas deducted from PIT and VAT for county capitals (RON)

Year	Quotas deducted from PIT Tax	Quotas deducted from VAT Tax	Total revenues of county capitals
2012	3,195.328.442	2,924.615.531	11,024.162.100
2013	3,406.214.660	3,375.624.547	11,613.820.336
2014	3,456.224.669	4,072.314.472	12,351.928.465
2015	4,050.401.198	4,298.938.605	13,639.192.032
2016	4,199.961.006	4,298.164.978	13,057.161.580
2017	4,728.928.933	5,245.036.534	13,977.798.229
2018	3,866.818.538	1,189.261.952	10,038.903.807

1.3. Objective and Scope

The current report, prepared together with the Constanta City Hall team, seeks to support Constanța in its efforts to achieve greater financial sustainability. This involves several steps, including: a review of the key budget data available, on both the revenue and expenditure sides; an assessment of overall trends, along with factors favoring fluctuations and instability; available resources for capital investments; comparisons with other municipal budget structures; presentation of a methodology for financial self-assessment; identification of potential additional revenue sources for the local budget, based on global good practices and solutions.

The report follows the structure of the Bank's Municipal Financial Self-Assessment (MFSA) methodology. This methodology was developed by the World Bank under the Western Balkans Urban Partnership Program, which has conducted this exercise in over 70 municipalities. It serves to improve the mobilization of local resources, financial management, public spending, public assets management, investment programming, and access to external financing. In short, the MFSA delivers two critical benefits: internally, it helps technical staff in the budget department of the City Hall better manage Constanța's finances; externally, it provides a clearer, more credible picture of the community's available resources, which can help leverage additional funds and investments.

The MFSA performs several functions: (a) reviews municipal budgets (revenues and expenditures), financial management practices, savings capacity, investments efforts, and financial projections for a five-year horizon; (b) provides benchmarking results through a set of simple and comparable key indicators and ratios; and (c) defines key actions to be included in a municipal finance improvement plan aiming for greater accountability, visibility and efficiency in the use of public funds. In line with these activities, the MFSA pursues the following key objectives:

- **Accountability:** promote financial self-assessment as part of the change management process of local administration.
- **Transparency:** help local governments (LG) share information with other LGs, and to inform central government, investors, and citizens about their situation (open data).
- **Prioritization:** encourage municipal financial and technical departments (asset management, urban planning, strategic planning, mayor's office) to work together on strategic and capital investment planning anchored in clear financial data.
- **Efficiency:** monitor and act on a set of key actions to improve the mobilization of local resources, rationalize public expenditures, and enhance financial management practices.
- **Access to external funding:** share common methodologies and international indicators and facilitate negotiations with banking institutions and external donors.

The current work relies on several research methods. Most of the report is based on the World Bank's MFSA methodology, which – as noted before – has been tried and tested in over 70 localities. This provides not only a validation of its usefulness and soundness, but also a rich database of potential benchmarks. The data for Constanța come from a variety of sources at the local, regional, and national level. Finally, the chapter on alternative sources for financing local governments draws from a complex desk research effort, a first-of-a-kind endeavor to find additional sources for local budgets in Romania based on international examples.

1.4. Audience

The main audience of this report is the Municipality of Constanța, particularly its technical staff in the financial and budget departments, along with its key decisionmakers. As mentioned before, this work aims to improve the local administration's overall financial management, providing key tools and ideas for how to increase revenues, reduce costs, and diagnose areas of improvement. Beyond Constanța City Hall, some other key stakeholders may also find this work useful:

- at the *national* level:
  - the Center of Government (the Chancellery and the General Secretariat), as well as the Finance Ministry and the Ministry of Public Works, Development, and Administration, which can disseminate and replicate best practices across the country;
  - associations of municipalities, towns, and communes;
- at the *regional* level: regional development agencies, especially the South-East RDA, which can act as a direct link to other local administrations in the metropolitan area and the entire region;
- at the *county and local* levels: other local and county-level public authorities;

- finally, the *European Commission (EC)* and other *Member States*, particularly those facing similar challenges in terms of budgetary constraints and weak public investment management capabilities.

1.5. Report Structure

The current report includes multiple chapters, each aimed at supporting the Constanța Municipality's efforts to enhance the city's financial sustainability. Beyond this first introductory section, the second chapter is a preliminary, first-of-its-kind evaluation of the potential impact of the coronavirus pandemic and corresponding economic crisis. The chapter lists several assumptions, proceeding to laying out three basic scenarios, including calculations of potential budget deficits. As repeatedly noted throughout this report, these data should be treated with caution, and are subject to rapid changes in the context of the ongoing health and economic crises. Rather than providing exact estimates, the purpose of this section is to encourage local decisionmakers to institute a process for managing the potential consequences of the crisis, to evaluate various scenarios, and plan accordingly.

The third chapter is an in-depth summary of the World Bank's Municipal Financial Self-Assessment (MFSA). In effect, this is a step-by-step guide on how to perform the MFSA, including six basic steps: (1) setting up the core databases; (2) carrying out a historical analysis to reveal key trends; (3) conducting a ratio analysis (from creditworthiness to level of service sustainability and comparison ratios); (4) financial projections; (5) the actual financial management assessment, including also qualitative observations and scoring of: intergovernmental relations; planning, budgeting, and budget implementation; financial management systems and practices; financial reporting, disclosure, and transparency; and (6) the MFSA Action Plan.

The fourth chapter applies the MFSA methodology to Constanța, the fourth chapter presents the overall financial situation of the local administration, and the final chapter provides a summary of potential new revenue sources. Using some of the key data available, chapters 4 and 5 evaluate the revenue side, including overall trends and breakdown of main components – share of PIT, VAT, and Own-Source Revenues (OSR). They also assess expenditures by sector, looking at absolute figures and relative trends.

Finally, chapter 6 is a detailed list of alternative sources to finance local governments, including some of the main success stories from municipalities from around the world. Obviously, these solutions may not work in the case of the Constanța municipality. A detailed analysis is needed before implementing any of these potential options, keeping in mind that they often involve levying a new tax, which can have deep socio-economic and political implications. This is meant more as a starting point for a complex debate and public consultation in Constanța regarding the level of local revenues, whether they are sufficient to cover basic, quality services, as well as whether new, innovative sources may be leveraged at the local level, particularly in the context of the economic crisis caused by the ongoing coronavirus pandemic.

2. The potential impact of COVID-19 pandemic on Constanța's financial health

At the time of this report's writing, the COVID-19 pandemic is in full swing in Romania and in much of the world, and how local governments respond to this new context will shape their current and future financial health. This chapter provides preliminary information on the potential economic impact of the current crisis on local governments in Romania, and particularly on the municipality of Constanța. It is important to note that the situation is volatile, and the insights and recommendations included below are subject to change. What matters, however, is that the local government has a process set up for determining the right course of action, which includes setting up a dedicated taskforce, developing scenarios, analyzing potential outcomes, making decisions, and reassessing the situation constantly. This iterative process is quintessential for managing the crisis, and the current chapter offers a baseline for this complicated endeavor, both as a tool to be deployed by local authorities – indeed, leveraging the World Bank's municipal financial self-assessment (MFSA) tool – and through the data analyzed and presented.

As such, this chapter provides insights on how local governments (LGs) are impacted by the on-going COVID-19 pandemic and the potential effects at local level on streams of revenues and the delivery of public services. Important adjustments will be required depending on the length of the state of emergency. The budgetary planning for the FY2020 needs to be reviewed, while preparing a scenario analysis at least for FY2021 and FY2022 taking into consideration the likely economic drop determined by the ongoing health crisis. To substantiate recommendations, this chapter uses the World Bank MFSA tool – explained at length in chapter 3, and applied in chapter 4 on historical data for the municipality of Constanța – to propose and assess alternative scenarios for FY2020, FY2021, and FY2022, each with its respective conclusions.

The basic starting point is that Constanța, along with essentially all LGs across Romania, will face significant budgetary pressures in the context of the coronavirus pandemic. On the revenue side, it is likely that Constanța will have lower resources available, both from local taxes and fees (e.g., businesses going bankrupt, individuals unable to pay their property taxes, etc.), as well as from PIT and VAT shares (the lower the number of people employed, the lower the PIT collected, and with a lower income level comes lower consumption, hence fewer sales and lower VAT collected). By contrast, expenditures are likely to increase, as the LG is expected to contribute more to health-related expenditures, including for local hospitals and clinics, as well as cleaning operations, social assistance, etc. This will lead to major deficits.

The impact on the municipality of Constanța is even more suggestive as a case study for Romanian LGs, as it is one of the local administrations that had sound financial health before the crisis, including significant room in the budget to manage the current situation. The current analysis uses the municipality's own forecast for FY2020, FY2021, and FY2022 for the zero-option scenario (no COVID-19 impact), as they were published in early 2020, with limited adjustments done based on historical tendencies considering the annual planned and the executed budgets at the level of the municipality. Adjustments were done for the stream of revenues, but also for the operational expenditures and forecasted capital investments of Constanța. For FY2021 and FY2022 this simulation presumed balanced budgets, as also planned in the municipality's forecast.

The scenarios maintain the current level of expenditures forecasted by the municipality for the three years in order to underline the readjustments required due to lower streams of revenues. The municipality may, of course, reassess the budgetary space if key spending programs are to be reviewed and reprioritized.

The alternative scenarios depict different levels of impact (varying between mild, moderate, and severe), directly informed by the risk assessment. In designing the forecast, this report used the municipality's own budgetary planning and took into consideration the historical trends for both streams of revenues and expenditures. The overall financial impact is then quantified by comparing the differences in revenue and expenditures between the zero-option and the two other scenarios.

In the case of Constanța, the negative impact for the three fiscal years combined (2020-2022) could be between RON 222 million (approximately 35% of total revenues of FY2019) and RON 295 million (approximately 47% of total revenues of FY2019). FY2020 will obviously take the largest hit, between RON 106 and RON 142 million. The scenarios assume that the municipality will continue to deliver roughly the same level of public services as originally intended, and hence will need to maintain the same level of expenditures corresponding to these services.

Overall, Constanța has both strengths and weaknesses in its budgetary outlook. On the one hand, it has significant budgetary reserves, as one of the municipalities with the highest revenues per capita in Romania and with sufficient space to adjust expenditure levels. On the other hand, it has reported significant annual budgetary deficits[9] in FY2018 (RON 85 million) and FY2019 (RON 68 million), reversing a four-year trend of budgetary surplus and this is set to continue as it forecasts a record budgetary deficit in FY2020 (RON 116 million). The budgetary planning for FY2021 and FY2022 is based on balanced budgets at the level of the municipality.

Capital investments are at modest levels, with a low uptake of EU funds that could represent in principle a major stream of revenues during 2020-2023, as the municipality has mature projects worth EUR 77 million. An accelerated increase of capital investments is foreseen for all three years in the scenarios under consideration, taking into account a national boost of capital expenditure, in order to support the post COVID-19 economic recovery. The implementation of the capital investments depends on the capacity of the municipality to continue funding the provision of quality local public services without any disruption. Usually, when a shortfall in revenues occurs, public administrations tend to first cut expenditures on capital investments. Also, the municipality has a clear over-dependency on the shared PIT quotas, significantly above the national average, and this trend is set to accelerate – from 45% in 2019 to 56% in 2022. Generally, the revenue forecasts for FY2020 are overly optimistic, with an increase of 21%, mainly derived from the PIT. All this is now likely to change for the worse, and solutions should be identified sooner rather than later.

2.1. Key Assumptions

The current pandemic involves many unknowns, from the length of the state of emergency to the exact set of measures in place and their impact on the economy, on society, and on geopolitical dynamics. The following assumptions and forecasts should therefore be constantly reviewed and improved, based on all incoming data. For one, on local budget revenues, the major impact will derive from the lower PIT share, followed by a lower collection rate of property taxes. As for expenditures, subnational governments across Romania have significantly accelerated their spending in recent years, fueled by legislative changes and by an overly optimistic outlook.

Constanța makes no exception – expenditure levels have shown an upward trend from 2014 to 2017, with a steep decrease in 2018 due to financial allocation changes made at the national level. The decrease in expenditures recorded in 2018 was not enough to compensate for the lower revenues, hence the budgetary deficit of RON 85 million. This trend continued in 2019, with an

[9] In this case, the annual deficit considers only the annual revenues and expenditures of the municipality. Constanta has, however, significant budgetary surplus from previous years.

annual budgetary deficit of RON 68 million, and is planned to further accelerate in 2020 with a forecasted deficit of over RON 116 million. Nevertheless, this record budgetary deficit could have been supported from previous years' reserves, if the pandemic was somehow avoided.

In the short-to-medium term, Constanța will have to divert important funds toward the health sector. This will cover medical expenses and technical equipment for local hospitals and family doctors, as well as for purchasing essential goods and services – e.g., higher costs for cleaning, sanitation and disinfection. Also, social assistance will likely increase, considering the forecasted contraction. These costs will have a major impact on local budgets for FY 2020 and FY2021.

The developed scenarios operate under the assumption that local basic services provided by the municipality will not be disrupted by the pandemic. These include: provision of water, wastewater and solid waste management, provision of social assistance and basic goods, local police, transportation, key departments of the municipality – executive governance, tax collection, social assistance departments, etc. In practice, the coverage and quality of some of them might be reduced. More specifically, services with decreased demand such as local public transport will reduce the number of daily routes, although it may be required in specific cases to expand coverage to support local and regional transport from areas (inside the functional area of the municipality) that were previously served by private operators that might no longer be operating.

A significant drop in revenues might require the local administration to reduce operational expenditures by introducing measures to enhance efficiency. This may require a review of the operating efficiency of public utility companies and assessing their performance and the quality of the service provided to the citizens. The municipality has significant operational expenditures compared to modest capital investments. Also, reducing non-essential public procurement,[10] unrelated to the COVID-19 pandemic, would allow the municipality to use resources to support basic services. In addition, the local administration can map all services provided and identify non-essential ones that could be suspended during the pandemic, as a backup plan in case the state of emergency will carry on for longer than expected.

2.2. The Zero Option (no COVID-19 impact)

Key assumptions: The zero-option scenario considers the historical trends of the municipality and works with limited adjustments for the FY2020-FY2022 period, as it uses mainly the overall budgetary planning put forward by the municipality. There are, however, several adjustments in the context of the ongoing health and economic crisis, taking into account the previous years' executed budgets.

As noted earlier, Constanța demonstrates solid financial health, with high revenues and important cash reserves. In the last five years, with the exception of 2017, it has reported significant budgetary surpluses. At the end of FY2017, it reported a budgetary reserve of RON 270 million that decreased in FY2018 to RON 185 million and at the end of FY 2019 to RON 119 million. The total balance was compensated by budgetary surplus from the previous years, but if this trend is set to continue (FY2020 is set to register a record deficit of RON116 million), the budgetary deficit will grow exponentially and the municipality will have to use all its budgetary reserve to fund it. A fiscal strategy that would limit the forecasted budgetary deficit for the current year and improve the operating margin of the municipality for the next two years would subsequently lower the negative impact of the coronavirus pandemic.

[10] Public procurement in sectors such as entertainment, culture (unless this directly affects livelihoods), advertising, goods and services without immediate need (renewing office supplies, fleet of cars, communication devices), etc.

Table 6. Zero-option scenario simulation

	Items	Calculation	2015 actual	2016 actual	2017 actual	2018 actual	2019 actual	2020 Plan	2021 Plan	2022 Plan
1a	Total Revenues		780.235.593	735.217.392	742.688.101	519.238.489	633.407.275	771.416.000	781.130.000	791.634.000
1	Total Current Revenues		732.632.046	697.116.357	725.902.372	497.046.638	618.389.174	712.770.000	763.956.000	773.601.000
3	**Previous Years Reserves**					270.309.773	185.305.552	116.429.072	0	0
4a	Total Expenditure		639.634.027	695.969.799	704.240.401	604.242.710	702.283.755	887.845.000	781.130.000	791.634.000
4	Operating expenditure		612.718.390	591.251.605	690.153.580	547.204.751	619.917.220	678.620.000	646.130.000	691.634.000
5a	**Operating Margin**	(1-4)	119.913.656	105.864.752	35.748.792	**-50.158.113**	**-1.528.046**	**34.150.000**	**117.826.000**	**81.967.000**
5	Annual Budgetary **Closing Balance**	(1a-4a)	140.601.566	39.247.593	38.447.700	-85.004.221	**-68.876.480**	**-116.429.000**	**0**	**0**
6	Debt interest repayment		214.780	0	0	341.487	2.895.499	11.800.000	2.244.000	2.356.000
7	Net margin	(5a - 6)	119.698.876	105.864.752	35.748.792	-50.499.600	-4.423.545	22.350.000	115.582.000	79.611.000
8	Capital expenditure		63.276.668	107.605.664	22.155.189	65.867.805	67.176.965	133.764.000	135.000.000	100.000.000
9	Financing	(8-7)	-56.422.208	1.740.912	-13.593.603	116.367.405	71.600.510	111.414.000	19.418.000	20.389.000
10	Capital Revenues		25.071.487	13.066.634	6.985.982	12.454.694	15.018.101	15.000.000	20.000.000	22.000.000
11	Subsidies for capital investments							14.260.000	10.000.000	10.000.000
11a	EU funds		12.245.708	14.217.212	3.648.446	217.343	1.788.305	26.865.000	27.000.000	15.000.000
12	Residual/Borrowing Needs	(9- (10+11))	-93.739.403	-25.542.934	-24.228.031	103.695.368	54.794.104	55.289.000	-37.582.000	-26.611.000
13	Investment balance	(8 - (7+10+11+12))	0	0	0	0	0	0	0	0
14	Overall closing balance	(1+10+11+12) - (4+8+6)	0	0	0	0	0	0	0	0

Constanța is one of the municipalities in Romania with the highest revenue per capita levels at the level of subnational governments in Romania, considering both local taxation and revenues derived from PIT quotas. In the last decade, the municipality has managed to collect significant revenues, as part of the top 5 municipalities in Romania. The municipality has, however, significant expenditure levels – especially for the operation section of the budget. The municipality has significant costs also for subsidies and social assistance, above the national average. The variation between planned and actual expenditures has seen an increase in recent years, showing that the municipality should review its budgeting process.

The planning for FY2020 reveals an overly optimistic 21% increase in total revenues, mainly deriving from the share of PIT that is forecasted to grow by 20%. In the next two Fiscal Years, 2021 and 2022, the level of revenues is set to remain at a similar level with the one reached in FY2020, although the share of PIT continues to grow with 17% in 2021 and 4% in 2022. The share of the PIT in the total budget revenues is expected to increase from 48% in 2019 to 56% in 2022, much higher than the national average, ranging around 40%-45% for the rest of municipalities, and underlines a significant budgetary risk if this stream would be negatively impacted. Given the current pandemic, this is a highly probable outcome.

Based on these forecasts, Constanța has budgeted significant expenditure levels in FY2020, with a deficit of over RON 116 million that will significantly decrease the budgetary reserves. The budgetary balance is set to recover in FY2021 and FY2022. The Capital Investment Plan of the Municipality of Constanța is relatively modest in the last few years and also in the forecast for 2020-2023. The uptake of EU funds is limited. The budgetary execution of the last few fiscal years shows capital expenditure of slightly above 10% of total revenues, significantly lower than the national average, but set to increase somewhat in the coming years. The zero-option scenario works with a value for capital investments in line with the national average, although this might be considered optimistic taking into consideration previous' years trends and would require additional funding, possibly from EU funds. The final section of the chapter includes the calculations for this "zero impact" scenario. Obviously, this is just a theoretical baseline, as it is clear by now that the pandemic will have an impact – likely, a considerable one – on Constanța's budget and on the global economy.

2.3. Scenario 1 – Moderate impact of COVID-19 crisis

Key assumptions: Scenario 1 assumes a decrease of 15% in current revenues compared to the zero-option scenario, mainly from the central government transfers (PIT share), 10% in FY2020, and 5% in FY2021, but coupled with similar levels of expenditures – this assumes the city will be able to compensate for the increase in essential service-related expenditures by reducing non-essential costs. Capital investments are assumed to remain at similar levels to the zero-option scenario.

The difference between the zero-option and scenario 1 would be a negative impact of RON 222 million (approximately 35% of total revenues of FY2019) over the three fiscal years, considering the operating margin of the municipality. The most important budgetary impact would be during the FY2020, as expected in the context of the pandemic's evolution, with an additional budgetary deficit of RON 107 million (approximately 17% of total revenues), followed by RON 76 million in FY2021 (approximately 12%) and RON 38 million in FY2022 (approximately 6,25%).

The Constanța Municipality had a budgetary reserve from previous years at the start of FY2020 of RON 116 million, which will have to be used in full in order to support the deficit, coupled with important adjustments to the current level of expenditures. Further adjustments will be required for FY2021 and FY2022. This scenario is based on maintaining the same level of expenditures, but coupled with lower streams of revenues due to the pandemic's impact. An adjustment of expenditure levels for the current year could substantially limit the budgetary deficit.

Table 7. Scenario 1 simulation

	Items	Calculation	2015	2016	2017	2018	2019	2020	2021	2022
			actual	actual	actual	actual	actual	Scenario 1	Scenario 1	Scenario1
1a	Total Revenues		780.235.593	735.217.392	742.688.101	519.238.489	633.407.275	664.500.500	704.734.400	752.953.950
1	**Total Current Revenues**		732.632.046	697.116.357	725.902.372	497.046.638	618.389.174	605.854.500	687.560.400	734.920.950
3	Previous Years Reserves						185.305.552	116.429.072	-106.915.428	-183.311.028
4a	Total Expenditure		639.634.027	695.969.799	704.240.401	604.242.710	702.283.755	887.845.000	781.130.000	791.634.000
4	**Operating expenditure**		612.718.390	591.251.605	690.153.580	547.204.751	602.018.663	678.620.000	646.130.000	691.634.000
5a	Operating Margin	(1-4)	**119.913.656**	**105.864.752**	**35.748.792**	**-50.158.113**	**16.370.511**	**-72.765.500**	**41.430.400**	**43.286.950**
5	Annual Budgetary Closing Balance	(1a-4a)	140.601.566	39.247.593	38.447.700	-85.004.221	**-68.876.480**	**-223.344.500**	**-76.395.600**	**-38.680.050**
6	**Debt interest repayment**		214.780	0	0	341.487	2.895.499	11.800.000	2.244.000	2.356.000
7	Net margin	(5a - 6)	119.698.876	105.864.752	35.748.792	-50.499.600	13.475.012	-84.565.500	39.186.400	40.930.950
8	Capital expenditure		63.276.668	107.605.664	22.155.189	65.867.805	67.176.965	133.764.000	135.000.000	100.000.000
9	Financing	(8-7)	-56.422.208	1.740.912	-13.593.603	116.367.405	53.701.953	218.329.500	95.813.600	59.069.050
10	Capital Revenues		25.071.487	13.066.634	6.985.982	12.454.694	15.018.101	15.000.000	20.000.000	22.000.000
11	Subsidies for capital investments							14.260.000	10.000.000	10.000.000
11a	EU funds		12.245.708	14.217.212	3.648.446	217.343	1.788.305	26.865.000	27.000.000	15.000.000
12	Residual/Borrowing Needs	(9- (10+11))	-93.739.403	-25.542.934	-24.228.031	103.695.368	36.895.547	162.204.500	38.813.600	12.069.050
13	Investment balance	(8 - (7+10+11+12))	0	0	0	0	0	0	0	0
14	Overall closing balance	(1+10+11+12) - (4+8+6)	0	0	0	0	0	0	0	0

Adjustments could mean cutting back expenditures or borrowing money to cover the deficit in the local budget – neither option an easy one. While expenditures are never easy to roll back, particularly when it comes to social costs, borrowing will probably come at a high premium, at a time when Constanța will compete for funds with other LGs, and financial institutions have already signaled a lower appetite for lending, particularly for local authorities. In comparison to other LGs, Constanța can leverage the reputation and resources of a larger community, with more institutional capacity to manage debt.

This scenario operates as a base case. Although the revenues of the municipality will be significantly impacted in the short-to-medium term, the municipality can absorb the initial shock and recover if budgetary adjustments are made, especially with respect to the operational section of the budget. However, the budgetary deficit can be substantially higher keeping in mind the long-term effect of the COVID-19 pandemic. This implies a slow economic recovery, increase of the unemployment rate, and a major reduction in economic activity. As noted earlier, Constanța has a high dependency on the PIT share and very high operational expenditures – including high labor costs, social assistance, and current subsidies to service entities.

To support foreseen capital investments, the municipality should also plan to accelerate the uptake of EU funds and prioritize EU-funded projects. Special attention should be given particularly to those mature investments, which have feasibility studies and detailed technical designs and, therefore, are ready for implementation. Leveraging EU funds would translate into a significant stream of additional revenues for the municipality and less pressure on own revenues for financing capital investments, at least for the next few years.

The budgetary surplus from the past few years and the solid streams of revenues are key strengths for Constanța in the current context. An increase in the local public deficit in a medium term (2-3 years) will not put the fiscal sustainability of the municipality at risk, but will require important adjustments in budgetary policy. Notably, the municipality can reassess the budgetary space if key spending programs are to be reprioritized. The exact level of the potential cutbacks should be determined based on a careful assessment balancing the need to sustain local development in the short term versus the cost of taking on substantial debt for generations to come. The final answer should not be rushed, and ideally it should involve people in the community in a participatory effort to lay out an agreed path.

2.4. Scenario 2 – Serious impact of the COVID-19 crisis

Key assumptions: Scenario 2 assumes a greater decrease of 20% in current revenues, both from central government transfers and local taxation in FY2020, 15% in FY2021, and 5% in FY 2022. This scenario undertakes a longer economic recovery needed for the municipality, but with overall expenditure levels as in the zero-option (i.e., no reduction). This assumes balancing between various line items, as the municipality will divert funds into health and social assistance, while limiting non-essential costs.

The difference between the zero option and scenario 2 would be a negative impact of RON 295 million. This is the equivalent of approximately 47% of total current revenues of FY2019 in the three fiscal years considering the operating margin of the municipality. FY2020 will be the most impacted, as expected, with an additional budgetary deficit of RON 142 million, followed by a deficit of RON 114 million in FY2021 and a deficit of RON 38,6 million in FY2022. These are not small figures, by any means, and even a large municipality like Constanța will face challenges in financing such large deficits. Again, the two alternatives are: (i) to save money by cutting expenditures or (ii) to borrow money to support the local budget.

Table 8. Scenario 2 simulation

	Items	Calculation	2015	2016	2017	2018	2019	2020	2021	2022
			actual	actual	actual	actual	actual	Scenario 2	Scenario 2	Scenario 2
1a	Total Revenues		780.235.593	735.217.392	742.688.101	519.238.489	633.407.275	628.862.000	666.536.600	752.953.950
1	Total Current Revenues		732.632.046	697.116.357	725.902.372	497.046.638	618.389.174	570.216.000	649.362.600	734.920.950
3	Previous Years Reserves						185.305.552	116.429.072	-142.553.928	-257.147.328
4a	Total Expenditure		639.634.027	695.969.799	704.240.401	604.242.710	702.283.755	887.845.000	781.130.000	791.634.000
4	**Operating expenditure**		612.718.390	591.251.605	690.153.580	547.204.751	602.018.663	678.620.000	646.130.000	691.634.000
5a	**Operating Margin**	(1-4)	119.913.656	105.864.752	35.748.792	-50.158.113	16.370.511	**-108.404.000**	**3.232.600**	**43.286.950**
5	**Annual Budgetary Closing Balance**	(1a-4a)	140.601.566	39.247.593	38.447.700	-85.004.221	-68.876.480	**-258.983.000**	**-114.593.400**	**-38.680.050**
6	Debt interest repayment		214.780	0	0	341.487	2.895.499	11.800.000	2.244.000	2.356.000
7	Net margin	(5a - 6)	119.698.876	105.864.752	35.748.792	-50.499.600	13.475.012	-120.204.000	988.600	40.930.950
8	Capital expenditure		63.276.668	107.605.664	22.155.189	65.867.805	67.176.965	133.764.000	135.000.000	100.000.000
9	Financing	(8-7)	-56.422.208	1.740.912	-13.593.603	116.367.405	53.701.953	253.968.000	134.011.400	59.069.050
10	Capital Revenues		25.071.487	13.066.634	6.985.982	12.454.694	15.018.101	15.000.000	20.000.000	22.000.000
11	Subsidies for capital investments							14.260.000	10.000.000	10.000.000
11a	EU funds		12.245.708	14.217.212	3.648.446	217.343	1.788.305	26.865.000	27.000.000	15.000.000
12	Residual/Borrowing Needs	(9- (10+11))	-93.739.403	-25.542.934	-24.228.031	103.695.368	36.895.547	197.843.000	77.011.400	12.069.050
13	Investment balance	(8 - (7+10+11+12))	0	0	0	0	0	0	0	0
14	Overall closing balance	(1+10+11+12) - (4+8+6)	0	0	0	0	0	0	0	0

Scenario 2 considers an exponential decrease in the streams of revenues, both deriving from the PIT share and from own source revenues, and takes into consideration a longer aftershock with a greater impact in years to come. This aftershock is mainly based on a reduction of the PIT share of revenues taking into consideration both the impact of COVID-19 pandemic, but also the overly optimistic forecast of the municipality. Scenario 2 underlines a drastic decrease of current revenues of up to 20% during the FY 2020 (i.e., RON 142 million), up to 15% during the FY2021 (i.e., RON 114 million), and up to 5% in FY2022 (i.e., RON 38,6 million) compared to the zero-option scenario. The negative budgetary impact would be considerable even for a municipality with strong financial health and would require significant adjustments.

The figures in the table above speak for themselves. The municipality will have a challenge in supporting even operational expenditures in the short-to-medium run considering the current level of forecasted expenditures. The simulation considers, in addition, that the municipality of Constanța will be able to attract substantially more EU funds than in 2018-2019. This may be true, because Romania – and the rest of the EU – is nearing the end of the 2014-2020 financing cycle, and is able to implement and finance projects through 2023, benefitting from the "n+3 rule." This allows it to finish up – and seek reimbursements for – any contracted investments by the end of 2023. In the context of emerging budgetary and financing constraints, EU funds will be, indeed, an essential source of revenues to the local budget, and possibly the only solution for continuing investment programs. This is based on the simple insight that when facing economic difficulties governments tend to cut capital investments, as opposed to operational expenditures such as salaries, subsidies, and social assistance. In this context, EU structural funds, dedicated for investment projects by design, may be a lifesaver for local administrations that choose to take a long-term view on economic growth, for which infrastructure development programs are absolutely critical.

Without any further changes to its budget structure, Constanța would have to use the entire budgetary reserve and cut operational expenditures by more than RON142 million for FY2020 alone to balance the local budget. Considering also that the fiscal space for FY2021 could be limited by additional lower streams of revenues, coupled with the high dependency on the share of PIT, this would put even more pressure on the local budget. As such, under scenario 2, Constanța is required to drastically adjust operational expenditures and limit capital expenditures from own source revenues to avoid record budgetary deficits. This assumption should be reviewed further based on the length of the state of emergency and the economic impact it will eventually have. Clearer data should become available in the coming months.

Finally, other scenarios are also possible, and may need to be considered. Constanța may see a much sharper decline in revenues for FY2020, with an equally sudden rebound in FY2021, with a "back to normal" outlook by FY2022. This would be equivalent to a V-shaped evolution. It may also be that revenues will be much lower for many years to come. It matters that Constanța is a major tourist attraction, for instance, and together with Mamaia Resort used to generate substantial economic activity during the summers. It is too early to tell for sure, but never too early to plan and prepare.

3. Methodology for Municipal Financial Self-Assessment

The Municipal Finances Self-Assessment (MFSA) is a dedicated tool developed by the World Bank with the support of international and local experts, with the objective to improve the capacity of local governments. Its methodology evaluates a city's financial sustainability and identifies specific actions to improve the mobilization of local resources, financial management, public spending, public assets management, investment programming, and access to external funding. Since its implementation in the early 2010's, over 70 municipalities, many of them in Southeast Europe, have completed the MFSA, accompanied in some cases by dedicated Urban Audits. The SEE region was assisted by the World Bank and the Austrian Government in this program, which has helped modernize and reform local administration and promote sustainable growth through enhanced urban governance.

The Municipal Finances Self-Assessment methodology is a capacity development program that requires strong commitment from the municipal leadership and city finance officers' own time to collect data and receive trainings (on analysing data and coming up with feasible actions) and tools (the general accounting framework). MFSA aims to help municipal officers analyse the financial situation of their municipalities in a systematic manner and in ways that are accessible and compelling to their main or potential partners (investors, banks, developers, private service providers, or rating agencies), including indicators or ratios those partners are able to understand and use to assess the financial situation. The outcome of MFSA is the capacitated city finance officer who can update the data in the GAF file and draw updated performance ratios to guide the leadership to make important decisions on service delivery / infrastructure investments.

Traditional financial reporting methods used by municipalities emphasize bookkeeping requirements set by their national legislation, **with little or no data analysis and assessment on future project trends and financial sustainability**. MFSA is a radical departure from traditional methods, used as an international platform to promote a culture of self-assessment based on data analysis, diagnosis, and action. In short, it is a city peer learning and know-how exchange platform. The methodology meets the guidelines of rating agencies and PEFA, providing municipalities with a unified framework that supports evidence-based policy-making and cross-city benchmarking and comparisons.

The principles laid out by the MFSA support the following mutually reinforcing objectives:[11]

- *Accountability*: promoting financial self-assessment in local public administrations as part of the change management process.
- *Transparency in the use of public funds*: encouraging municipalities to share their data with other local administrations, while providing citizens and central governments with clear and accessible information on their finances' status.
- *Prioritization*: encouraging relevant municipal departments to work together on joint investment programs, based on their capacity to put them into practice.
- *Efficiency and transparency*: improving financial management practices through dynamic monitoring and proper allocation of local resources.

[11] Catherine Farvacque-Vitkovic, Mihaly Kopanyi. 2019. "Better Cities, Better World - A Handbook on Local Governments Self-Assessments." World Bank Group.

- *Access to external funding*: using a set of benchmark indicators and methodologies to improve communications and negotiations with international financial institutions and private partners.

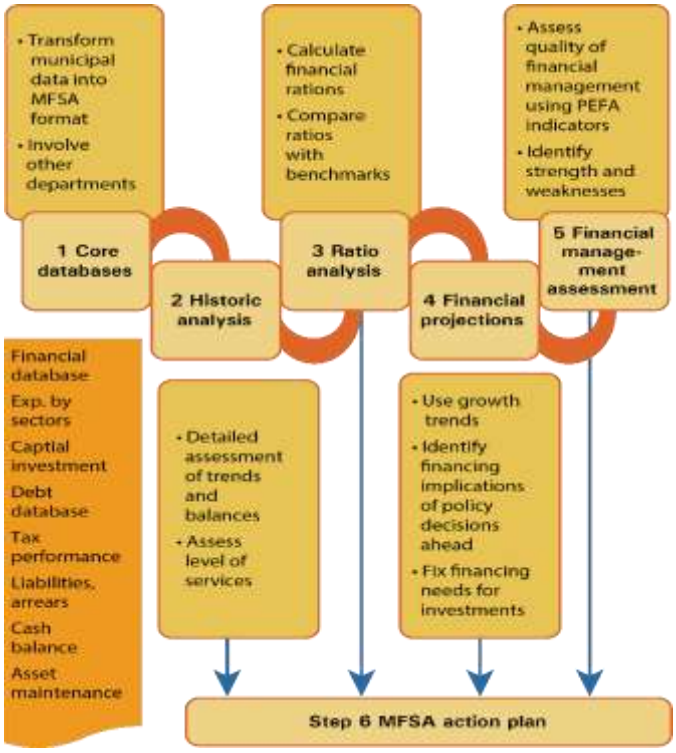
The MFSA methodology includes six different steps and is continually evolving in practice with the validation of all stakeholders involved in the process. This allows the MFSA to act as a platform that connects data inputs from various municipal departments, helping local governments to create a capital investment planning process anchored in financial realism. The six steps of the financial diagnosis are as follows:

Figure 2. The main steps used by the MFSA analysis

The MFSA analysis follows a generic financial framework, set out as a specific structure of the municipal budgets and financial reports, based on segregating current and capital revenues and expenditures. This segregation enables defining important balances such as the current balance, capital balance, and financing balance, which are often overlooked or left unnoticed in regular municipal reports.[12] The step-by-step implementation of the MFSA is performed as shown in the figure below. The figure indicates the rationale behind each step, outlining actions required to complete each phase of the process. Detailed explanations of the steps can be found in the subsequent sections of the current report, as well as in the secondary sources referenced throughout.

[12] Farvacque-Vitkovic, Catherine, and Anne Sinet. 2014. "Achieving Greater Transparency and Accountability: Measuring Municipal Financial Performance and Paving the Path for Reforms." Chapter 8 in Municipal Finances: A Handbook for Local Governments, edited by Catherine Farvacque-Vitkovic and Mihaly Kopanyi, 379–445. Washington, DC: World Bank.

Figure 3. The MFSA framework[13]



3.1. Step 1: Setting Up Core Databases

The MFSA includes two sets of tables called core databases. The first is called the core financial database, which includes standard financial data generated from the municipal financial reports. The second set includes supplementary tables, with items that are not typically recorded within regular budgets or financial reports. The supplementary databases include:

- Actual/plan financial database;
- Expenditures by sectors database;
- Debt database;
- Capital investments database;
- Tax performance database;
- Liabilities and arrears database;
- Cash balance database;
- Asset maintenance database.

For the purpose of providing a clear and accessible assessment of the MFSA methodology, the current report provides simplified templates of all databases. The use of all provided tables is recommended to ensure consistency in the data and benchmarking results that allow for comparing financial performance across municipalities.

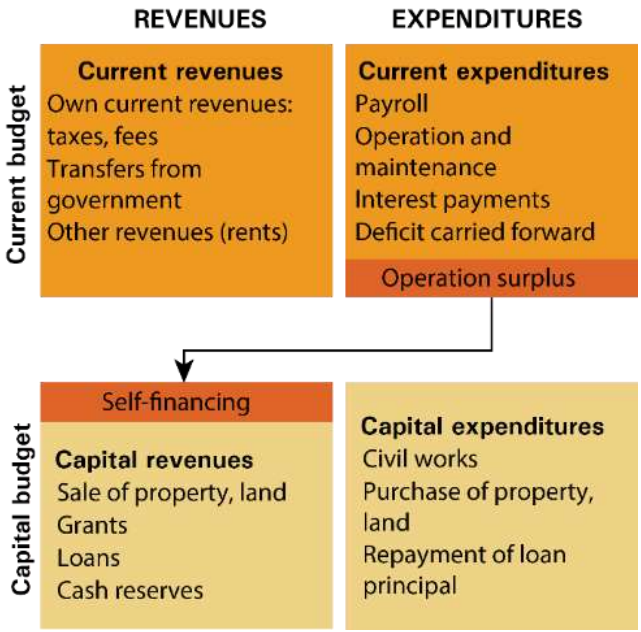
Core Financial Databases

One of the prerequisites of the MFSA is to transpose the financial data generated by the municipality in a standardized format that reflects the logic of the generic financial framework, as explained in the figure below. The standardized formats help bring raw data from different

[13] Catherine Farvacque-Vitkovic, Mihaly Kopanyi. 2019. "Better Cities, Better World - A Handbook on Local Governments Self-Assessments." World Bank Group.

accounting classifications across regulatory frameworks into a consolidated report whose results can be easily compared across cities and provide better access to external financing.

Figure 1. Generic Financial Framework[14]



MFSA Core Financial Database – Revenues. The template table below structures total revenues of the sample municipality into three main categories: current revenues, capital revenues, and financial transactions. For illustrative purposes and for explaining specific issues and challenges that a municipality may face, the table contains examples of data that can be generated from a municipal financial report. All data provided in the table are fictitious, providing a sample of the MFSA Core Financial Database – Revenues.

[14] Farvacque-Vitkovic, Catherine, and Mihaly Kopanyi, eds. 2014. Municipal Finances: A Handbook for Local Governments. Washington, DC: World Bank.

Table 9. MFSA Core Financial Database—Revenues[15]

	Year 1 Actual	Year 2 Actual	Year 3 Actual	Year 4 Actual	Year 5 Actual
Total revenues	**62,955**	**58,735**	**68,131**	**73,511**	**80,250**
I Current revenues	**41,999**	**41,214**	**48,636**	**52,743**	**65,821**
Revenues from central/higher government	**30,300**	**25,162**	**26,120**	**29,933**	**35,984**
1. Shared tax	24,053	22,255	22,747	26,915	35,631
2. Unconditional operation transfers	6,192	2,613	3,076	2,865	0
3. Conditional/earmarked operation transfers	55	294	297	153	353
Own current revenues	**11,700**	**16,053**	**22,516**	**22,810**	**29,837**
1. Local taxes and levies	**4,235**	**4,818**	**6,212**	**7,548**	**8,037**
• Property tax	2,688	3,119	3,979	4,466	4,759
• Business tax	1,443	1,590	2,111	2,952	3,146
• Other local taxes	104	108	122	130	132
2. Fees and charges	**2,496**	**4,389**	**5,571**	**5,397**	**12,347**
• Fees on urban services (city fee, utility charges)	2,402	4,310	4,640	5,289	11,747
• Licenses, permits, fines, other	93	79	931	108	600
3. Revenues from assets	**4,969**	**6,847**	**9,778**	**8,723**	**8,989**
• Interests received	317	674	268	463	540
• Revenues from leasing/renting assets	4,652	6,173	9,510	8,260	8,449
• Other revenues	0	0	0	0	0
4. Revenue from municipal enterprises	**0**	**0**	**955**	**1,142**	**464**
• Dividends, profit shares	0	0	955	1,142	464
• Cash transfers received from enterprises	0	0	0	0	0
5 Other revenues	0	0	0	0	0
Capital revenues without loans and reserves	**12,756**	**9,697**	**9,303**	**8,220**	**7,407**
Capital grants from central/higher government	0	0	0	145	324
Own capital revenues	12,724	9,607	8,938	7,904	7,078
• Proceeds from sale of assets	887	645	546	443	1,354
• Land development fee	11,668	8,893	8,333	7,413	5,604
• Participation of firms and individuals	169	69	59	48	120
Donations/grants from persons or nongovernment organizations	32	90	365	171	5
II. Financing proceeds from reserves and debts	**8,200**	**7,823**	**10,192**	**12,548**	**7,022**
1. Cash reserves from previous years	4,978	2,867	0	0	0
2. Sale of financial assets	0	0	0	0	0
3. Proceeds from domestic loans and bonds	0	883	4,619	2,546	862
4. Proceeds from foreign borrowing	3,222	4,074	5,573	10,002	6,160
Planned total revenues (from initial plan)	60,000	65,000	70,000	75,000	80,000
Actual/Plan variations (%)	104.9	90.4	97.3	98.0	100.3

[15] Note: the numbers generated in this table are sample data for the purpose of showing how the methodology works. Source: Catherine Farvacque-Vitkovic, Mihaly Kopanyi. 2019. "Better Cities, Better World - A Handbook on Local Governments Self-Assessments." World Bank Group.

***The* Current *revenues* section includes revenues received from the central government or at county level, as well as own current revenues**. The methodology recommends adding other unspecified sources to the *own current revenues* section because there could be other types of revenues that do not fit in the proposed categories.

1. ***Revenues from central/higher government*** are also called grants and are divided into three categories, for a simplified outlook. When filling out the database, the MSFA methodology recommends applying the following rules:

- *Shared taxes* are municipal revenues collected by the central government and shared in proportion of the volume collected in the jurisdiction – such as personal income tax or a share of the VAT.

- *Unconditional operation transfers* are municipal revenues or grants received from the central government without attaching usage conditions to them.

- *Conditional/earmarked operation transfers* are municipal revenues or grants received from the national government or other entities that have attached specific conditions to them, therefore they are spent exclusively on specific purposes or projects. These grants are also called earmarked grants and may serve to provide welfare support or subsidize utilities for disadvantaged users.

2. ***Own current revenues*** include income sources obtained by the municipality in the budget year and can be classified in the following categories: taxes, fees, revenues from assets, and revenues from municipal enterprises:

- As local taxes vary from country to country, the *Local taxes and levies* line should be filled according to the municipality's specifics. Should a municipality collect revenues from a source not specified in the table, a new subline can be added or replace one that is not relevant in that municipality (example: tourism tax or rental income tax). The three most significant own tax revenues should be inserted here as sublines, followed by the *other local taxes* line that should include smaller taxes generated.

- *Fees and charges* are local fees corresponding to services provided by the municipal departments and accounted for through the municipal budget. Fees collected by municipal companies are not part of municipal revenues and should be excluded from this table, as they would be accounted for in the fourth section called *revenues from municipal entities*.

- *Revenues from assets* include revenues generated as interest from financial assets (deposits, loans, treasury bills) and revenues incurred from renting or leasing fixed assets. At the same time, revenues obtained from selling or long-term leasing assets should be accounted for as *capital nonrecurrent revenues*.

- *Revenues from municipal enterprises* may include license fees, dividends, or interest received from municipal companies / enterprises. The MFSA core financial database does not capture the financial statements of the independent municipal entities, but it promotes the use of supplementary tables for each independent entity to create a consolidated report in addition to the municipal statement.

- *The Other revenues* subline includes revenues incurred by the municipality that are not found in the four preceding sublines.

The Capital revenues without loans and reserves **section includes several subgroups: grants from the central government, proceeds from sale of assets or land development fees, and donations from persons and nongovernment organizations**.

- *Capital grants from central/higher government* are funds allocated to the municipality with the aim to develop capital and infrastructure projects, such as building roads, schools, or water and sanitation networks. If government entities such as ministries or agencies support the municipality by directly funding the construction of infrastructure facilities that are later handed over to the local administration, these are not accounted for in the local budgets as capital revenues.

- *Own capital revenues* include non-recurrent revenues such as receipts from asset sales, land development fees, and participation charges of firms or individuals:
    - *The sale of assets* may occur when the municipality decides to sell assets it owns (such as land or other types of assets) for debt repayment or for financing other infrastructure projects.

    - *Land development fees* are collected in some cities from real-estate developers for the continual improvement of the nearby infrastructure. For instance, Nairobi charges developers a 1.25 percent fee on the estimated cost of the private project for developing the neighboring infrastructure.

    - *Participation charges* are contributions collected from property owners to finance a specific infrastructure project that benefits them. Such an example can be found in the chapter on *Alternative sources to finance local governments* as "the betterment levy," successfully used for decades in Central America.

- *Financing proceeds from reserves and debts* include surplus of cash accumulated over the years, proceeds from *financial* assets, domestic loans and foreign borrowing, as explained below:
    - Cash reserves are accumulated reserves from previous years, used to cover future expenditures or operating costs.

    - The sale of financial assets are divestments made by the municipality in treasury bills or government bonds, which have been generating interest over the years, to finance public infrastructure works. The annual interest on financial assets is recorded in the current revenues section of the financial report, while the sale of financial assets should be accounted for in this section.

    - The domestic debt includes proceeds from loans and bonds made throughout the financial year. Loans that are originated from development partners such as the World Bank or other international banks should be accounted for here as domestic debt.

    - Foreign debts are accounted only if the municipality managed to mobilize funds from foreign markets, in a different currency. As for the nature of the fluctuation of currency exchange, it is important to reflect this information here.

For the Romanian municipalities general accounting framework, the direct equivalent to *Capital revenues without loans and reserves* is Capital Revenues (economic indicator 0015). This is a distinctively stipulated section, which includes proceeds from sale of assets, special deposits for

development projects and other income from capitalization of goods. In the same sense, the *Subsidies* section was introduced as a customization from the initial methodology into Chapter 4. The changes brought to the initial methodology, as explained in the guideline, are a good addition to the end result and do not interfere with supplemental databases or the ratio analysis.

MFSA Core Financial Database – Expenditures. The template table below structures total expenditures of the municipality into three subsections: current expenditures, capital expenditures, and financing items corresponding to the revenue section analyzed above. The MFSA follows the *economic* classification of expenditures, followed by supplementary tables to reflect the *functional* classification of expenditures. The table below contains examples of data that can be generated from a municipal financial report. All data provided in the table are illustrative only, providing a sample of the MFSA Core Financial Database – Expenditures.

Table 10. MFSA Core Financial Database—Expenditures

	Year 1 Actual	Year 2 Actual	Year 3 Actual	Year 4 Actual	Year 5 Actual
Total expenditures	**60,088**	**62,546**	**70,872**	**75,848**	**84,702**
I. Current expenditures	**33,818**	**38,286**	**41,883**	**46,060**	**59,105**
1. Labor (wages, salaries, taxes and charges)	6,592	7,635	8,141	9,075	10,034
•Administrative staff					
•Technical, service, and other staff					
2. Goods and services	13,008	14,151	14,199	16,209	18,984
• Office supply	0	0	0	0	0
• Electricity	0	0	0	0	0
• Fuel and gas	0	0	0	0	0
• Repair and maintenance	2,956	3,234	2,813	3,472	3,940
• Other goods and services	10,052	10,917	11,386	12,737	15,044
3. Interest and borrowing costs	321	502	695	1,450	2,212
4. Current subsidies to service entities	7,606	6,023	9,134	8,612	11,242
5. Current grants and transfers	3,128	5,466	4,582	5,549	11,577
6. Social care/welfare support	1,946	3,274	3,827	3,774	3,492
7. Other current expenditures	1,217	1,236	1,305	1,392	1,563
II. Capital expenditures	**25,845**	**23,770**	**28,222**	**29,100**	**22,614**
1. Purchase/development of assets/ infrastructure	18,901	21,005	24,040	26,903	20,584
2. Capital subsidies to PU/PUC	3,437	1,491	3,207	1,295	987
3. Capital transfers to other level of government	3,507	1,275	974	902	1,043
4. Investments or lending	0	0	0	0	0
III. Financing	**425**	**490**	**768**	**687**	**2,982**
1. Debt principal repayment	425	490	768	687	2,982
2. Purchase of financial assets					
IV Balance total with loan proceeds	**2,867**	**–3,812**	**–2,741**	**–2,337**	**–4,452**
Planned total expenditures (initial plan)	60,000	65,000	70,000	75,000	80,000
Actual/Plan variations (%)	100.1	96.2	101.2	101.1	105.9

Current expenditures **are operating expenditures of the municipality, listed out in the following sequence**:

- *Labor costs include salaries for operating staff and the tax paid on labor costs. The division between the labor costs for administrative staff and direct staff for various services provides useful insights on the cost of labor. All labor costs related to investment projects should be accounted for under capital expenditures, as they are non-recurring.*
- *The costs of goods and services are in practice the largest item among expenditures and are therefore divided into distinct subcategories. MFSA users may add more sublines to capture large expenditure items incurred in the financial year, if those appear to be substantial.*
- *Interest and borrowing costs are straightforward categories and represent all costs and additional charges paid for loans and other liabilities.*
- *Current subsidies to service entities represent the financial support provided for entities to help their operation by subsidizing the tariffs or service charges for specific groups of beneficiaries. Some of these examples could include: public transportation, water, electricity, district heating, etc.*
- *Current grants and transfers include various forms of support provided without connection to tariffs, fees, or charges formalized as a performance grant, to support a specific action or to cover the annual deficits.*
- *Social care/welfare support are expenditures provided by the municipality to specific disadvantaged groups as subsidies and social assistance programs.*
- *Other current expenditures include any small-sized current expenditures that do not fit into the preceding categories. If other types of expenditures account for over 10 percent of total current expenditures, than the classification should be revised to reflect the specific costs.*

Capital **expenditures and** ***financing*** **together represent capital budget expenditures**. Capital expenditures include expenses on developing infrastructure, capital subsidies or transfers to other levels of government, or investments and lending costs.

- *Purchase or development of physical assets or infrastructure is often considered as the most significant part of the capital budget and includes all transactions that constitute capital development or physical asset acquisition. These include, but are not limited to purchasing land, buildings and equipment, developing land or buildings. Major rehabilitations of assets (roads, building, or equipment) should be accounted for as investment, found in later sublines.*
- *Capital subsidies to public utilities or public utility companies are often provided by municipalities to expand networks and develop municipal services and support affordability. These subsidies are indirect investments made on behalf of the municipality, so they should be accounted for in the capital budget.*
- *Capital transfers to other levels of government are transactions where capital investments are transferred to either lower or higher government tiers to contribute to specific joint investment projects.*
- *Investments or lending occur when a municipality forms a joint venture with another municipality or a private partner and invests into a joint company. Municipalities may also lend money to municipal companies instead of providing them with subsidy for investments, and these transfers should be accounted for in this line.*

Financing activities **includes costs for financial transactions, namely debt principal repayment or purchasing of financial assets**:

- *Debt repayment is a self-explanatory activity, which is reported in the financing expenditures and its monitoring is particularly useful for managing the capital budget in the years ahead.*
- *As municipalities may also purchase financial assets (bonds, treasury bills, or shares) to set aside funds for future use with gains above regular bank deposits, the financial investments should be accounted for in the capital budget because they are not related to operations and are a form of assets.*

Balance total with loan proceeds **is an important item to monitor to ensure the consistency between the** MFSA **financial table and the official financial reports issued by the municipality**.

Supplementary Databases

The supplementary tables play an important role for the MFSA because they provide key clarifying information and data to the budgets and support financial projections and planning. The tables presented in this section include the most important sources of supplementary data, however, municipalities may develop additional supportive tables to cover their specific types of operations. *The Actual/Plan Analysis* is important for analyzing the reliability of the budget and the efficiency of the budget planning and execution by comparing the actual revenue and expenditure data by each line and identifying areas that need attention, which will be outlined in the last plan of the MFSA: *Step 6: Action Plan*.

The template table below show how the actual budget (filled out at the end of the fiscal year) differed from the planned budget (filled out at the beginning of the fiscal year). All items in the table correspond to the lines presented in the MFSA Core Financial Database – Revenues and should be filled out for all core financial databases. If the municipality is also using a revised budget that was amended throughout the fiscal exercise, the table headings would include Plan, Revised Plan, and Actual. This is a common practice that provides more insights about the budget planning and execution process. Nevertheless, it is advisable to use initial plans from the beginning of the year for the A/P analysis.

Table 11. Supplementary Database Actual/Plan Analysis

	Year 1		
	Plan	Actual	A/P%
Total revenues	**60,000**	**62,955**	104.9
I. Current revenues	**42,400**	**41,999**	99.1
Revenues from central/higher government	**30,200**	**30,300**	100.3
1. Shared taxes	23,000	24,053	104.6
2. Unconditional operation transfers	7,000	6,192	88.5
3. Conditional/earmarked operation transfers	200	55	27.4
Own current revenues	**12,200**	**11,700**	**95.9**
1 Local taxes and levies	**4,600**	**4,235**	92.1
• Property tax	3,000	2,688	89.6
• Business tax	1,500	1,443	96.2
• Other local taxes	100	104	103.8

The next table shows specific areas that cause deviations between plans and actual figures, emphasizing the importance of monitoring the actual/plan performance not only for the total budget but also for each line and year by year.

Table 12. Actual/Plan Analysis Measured by Average Absolute Deviation

	Year 1 A/P%	Year 2 A/P%	Year 3 A/P%	Year 4 A/P%	Year 5 A/P%	Average absolute deviation from 100%
Total revenues	104.9	90.4	97.3	98.0	100.3	3.9
I. Current revenues	99.1	85.6	99.7	98.1	102.0	3.9
Revenues from central/higher gov.	100.3	83.3	91.6	101.5	104.3	6.2
Shared taxes	104.6	92.7	94.8	107.7	118.8	8.7
Unconditional operation transfers	88.5	43.5	76.9	71.6	0	43.9
Conditional/earmarked						27.4
Operation transfers		147.0	59.4	30.6	70.6	51.8
Own current revenues	95.9					
Local taxes and levies	92.1	89.5	110.9	94.1	99.3	6.4
Property tax	89.6	86.0	88.7	100.6	95.7	7.6
• Business tax	96.2	89.1	99.5	99.2	91.5	6.2
• Other local taxes	103.8	79.5	84.4	118.1	104.9	12.6
• 2. Fees and charges 104.0	107.0	107.9	24.3	26.0	66.1	39.1
Fees on urban services 104.5		107.7	132.6	98.1	123.6	13.8
(city fee, utility charges)			116.0	105.8	123.8	11.6
Licenses, permits, fines, other	93.3					
Revenues from assets	101.4	79.1	465.4	21.6	120.0	98.3
Interests received	105.7	85.2	132.1	85.6	84.8	15.6
Revenues from leasing/	103.4	96.3	89.5	92.6	108.0	7.1
renting assets		85.3	135.9	86.1	84.5	16.7
Other revenues	0					
Revenue from municipal	0	0	0	0	0	0
Enterprises		0	86.8	113.1	45.9	56.1
Dividends, profit shares	0					
Cash transfers received from	0	0	95.5	114.2	46.4	54.5
Enterprises		0	0	0	0	0
Other revenues	0					
II. Capital revenues without	114.0	0	0	0	0	0
Loans and reserves		86.9	83.1	73.1	87.7	16.7
Capital grants from central/	0					
higher government		0	0	289.8	161.9	110.3
Own capital revenues	113.9					
Proceeds from sale of assets	177.4	86.5	80.5	71.2	86.3	17.9
Land development fee	110.4	64.5	54.6	44.3	1353.7	293.5
Participation of firms and individuals	169.1	88.9	83.3	74.1	70.1	18.8
Donations/grants from persons or nongovernment	319.8	69.4	59.2	48.2	120.5	42.5
III. Financing proceeds from reserves and debt	127.9	180.1	730.3	171.0	9.6	218.3
Surplus or cash reserves from previous year	100.0	137.3	101.9	125.5	100.3	18.6
Sale of financial assets	0	106.7	0	0	0	61.3
Proceeds from domestic loans & bonds	0	0	0	0	0	0
Proceeds from foreign borrowing	226.6	176.5	92.4	127.3	86.3	45.0

The table above reflects how the sample city has low predictability in different areas of its budget, which could be assessed and handled in the MFSA planning. The table also shows that the absolute deviation of total revenues from 100 percent is only 3.9 percent, which can suggest a good planning and revenue management of the municipality. However, the highlighted figures on the last column show extremely high deviations calculated as five-year averages, emphasizing the problems that may trigger corrective measures. One good practice on the A/P would be to avoid the inclusion of revised results in the table, emphasizing the efficiency of the municipality in assessing its yearly budget. Another successful practice used by MFSA cities is to identify areas of persistent deviation between the plans and actual figures, proposing corrective measures to improve planning reality.

The Expenditures by Functions table is a useful supplementary dataset that helps monitor the municipality's performance on various services and public functions. The MFSA methodology provides a table based on the Classification of Functions of Governments initiated by the United Nations and widely used by the OECD, the IMF, and the World Bank. The sample template can be viewed below:

Table 13. Expenditures by Functions

	Year 1	Year 2	Year 3	Year 4	Year 5
	Actual	Actual	Actual	Actual	Actual
General administration					
Urban services					
• Roads and drainage					
• Public transport					
• Water and wastewater					
• Solid waste					
• Street lighting					
• Fire protection					
• Police, crime prevention					
• Environmental protection					
Social services					
• Health					
• Education					
• Culture and religion					
• Housing					
• Recreation and sport					
• Social welfare					
Commercial services					
• Parking Markets					
• Commercial places					
• Land development					
• Local economic development					
Total expenditures					

The data as structured in the table above makes it very easy for municipalities to communicate its results and plans with relevant stakeholders, as the categories are self-explanatory and easy to

understand. Current and capital expenditures are both accounted under this table, providing a transparent way of the total funds spent by the municipality on functional areas. The municipality may also choose to generate a consolidated report on services in another table with similar structure, with data gathered from service providers in the municipal jurisdiction. Consolidation should cover direct municipal expenditures, cost incurred by independent municipal entities (such as water, waste management, or transport companies), and private providers.

The Debt Database paints out a consistent picture of municipal debts, in view of their monitoring and multiannual planning. A good debt database supports medium to long-term planning, budget planning, and execution by providing reliable data for policy decisions. The database may include two related tables, as found below, namely: the summary list of debts and the aging list of debts. For one, *the summary list of debts and terms* provides information on the various debt forms and sources used by the municipality. The information from the table should be filled out from the original loan agreements and should capture all key terms and conditions for each debt item.

Table 14. Summary List of Debts and Terms[16]

List of debts	Bank or institute	Year of loan subscription	Initial amount	Duration	Currency	Maturity	Grace period	Interest rate (fixed, variable)	Rate %
1. Loan/on lending from central government	IBRD	2001	7,500	18 years	local	2019	5 years	Fixed	4.25
2. Direct loans	ADB	2013	11,000	20 years	local	2033	3 years	Fixed	3.00
- Commercial bank	Credit Bank	2011	4,500	8 years	local	2019	2 years	Floating	13.8
- State development bank, municipal fund									
3. Municipal bond									
Short-term debt									
1. Treasury facility from state									
2. Loan/overdraft from commercial bank									

The aging list of debt summarizes each debt instrument over the years from their first disbursement year to the final repayment. As for previous tables, the following provides an illustrative example of a list of loans that includes detailed data on yearly outstanding principal payments and projected figures for upcoming years. Both tables are useful instruments for providing a consistent record of all local-level debts.

Table 15. Aging List of Debt[17]

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Items	**Conditions**	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Projected**				
1. IBRD Water development 2001-2018	**Fixed 4.75%**										
- Outstanding		**3,045**	**3,580**	**3,667**	**3,091**	**2,822**	**2,216**	**1,696**	**1,084**	**1,096**	**1,108**
- Principal repayment		425	490	537	531	591	591	622	636	643	650
- Interest charge		151	190	157	150	159	102	72	49	37	28

[16] Note: the numbers generated in this table are sample data for the purpose of showing how the methodology works. Source: Catherine Farvacque-Vitkovic, Mihaly Kopanyi. 2019. "Better Cities, Better World - A Handbook on Local Governments Self-Assessments." World Bank Group.
[17] idem

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Items	**Conditions**	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Projected**				
2. ADB road development 2013-2033	**Fixed 3.00%**										
- Outstanding						**1,670**	**3,503**	**10,615**	**10,467**	**10,206**	**9,678**
- Principal repayment						0	0	0	367	371	350
- Interest charge						0	45	203	318	272	268
Credit Bank (domestic)											
3. Market/Malls 2011-2019	**Floating rate 13.80%**										
- Outstanding				**3,757**	**4,523**	**3,733**	**2,828**	**1,924**	**1,019**	**155**	**13**
- Principal repayment				0	0	790	905	905	905	102	13
- Interest charge				0	517	507	449	328	214	100	14
Several loan lines are omitted from display for simplicity											
Total											
- **Outstanding debt**		**8,599**	**13,820**	**24,705**	**37,320**	**45,295**	**47,228**	**55,215**	**51,229**	**49,181**	**47,614**
- **Principal repayment**		**425**	**490**	**768**	**687**	**2,982**	**4,084**	**4,423**	**5,039**	**5,309**	**7,198**
- **Interest charge**		**321**	**502**	**695**	**1,450**	**2,212**	**2,144**	**2,213**	**2,187**	**1,849**	**1,661**
Debt services		**746**	**992**	**1,464**	**2,138**	**5,194**	**6,228**	**6,636**	**7,226**	**7,158**	**8,859**
Borrowing disbursement		3,197	5,645	11,375	13,383	8,662	5,115	11,871	438	2,991	3,741

The Capital Investment Plan helps municipalities put their development plans into a medium-term perspective, helping them make progress from the typical short-term annual plans. The objective of using a capital investment plan in MFSA is to support medium-term planning, investment financing, and budgets for multiannual perspectives. The next table provides the summary of a potential Capital Investment Plan. Municipalities may adapt the contents of the summary to accommodate their actual capital investment needs, as needed.

Table 16. Capital Investment Plan Summary, Year 6 to Year 10[18]

			Budgeted	CIP Expenditure Plan					Total by projects
No.	**Project name/description**	**Status**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**	
1.	Road	Ongoing	13,584	6,000	3,000	3,000	3,000	3,000	18,000
2.	Water extension and connection	Ongoing	4,000		5,000	4,000	4,000	3,000	16,000
3.	Compactor trucks/vehicle	Plan approved and budgeted		5,000					5,000
4	Shopping arcade	Plan approved and budgeted	3,000	4,000	3,000				7,000
5	Housing development	Draft plans CAPEX subsidy to water PUC			2,000	2,000	2,000	2,000	8,000
6	Water network development	Transfers from roads	987		1,000	1,000	1,000	1,000	4,000
7	Support districts and wards	Implemented by the transport PUC	1,043		1,000	1,000	1,000	1,000	4,000
8	Fleet expansion		3,000	3,000	2,000				5,000
9	**Total expenditures**		**25,614**	**18,000**	**17,000**	**11,000**	**11,000**	**10,000**	**67,000**
10	**Source of financing**								
11	Budget own-source		15,268	11,500	7,000	7,500	7,500	7,500	41,000
12	Budget – grants		324	1,500	1,000	1,500	1,500	500	6,000
13	Loan		7,022	2,000	7,000	1,000	1,000	1,000	12,000
14	PUCs fund		3,000	3,000	2,000				5,000

[18] ibid

			Budgeted	CIP Expenditure Plan					Total by projects
No.	Project name/description	Status	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
15	Private		-	0		1,000	1,000	1,000	3,000
16	**Total sources by years**		**25,614**	**18,000**	**17,000**	**11,000**	**11,000**	**10,000**	**67,000**
17	**Total budgeted expenditures**	Financed from budget	**22,614**	**15,000**	**15,000**	**10,000**	**10,000**	**9,000**	**59,000**

The Tax Performance Database measures tax performance by revenue source and helps municipalities properly forecast tax revenues. The document should be adapted to the tax structures of each municipality, in order of their importance (volume of generated revenues). The table below provides a simplified summary of tax performances to help municipal MFSA officers start their work on detailed reports, based on their tax registers.

Table 17. Tax Performance Database[19]

I. Property tax - households (Rate 6%)					
1. Tax base (amount billed)	1,526	1,650	1,800	2,000	2,200
2. Tax collected	1,075	1,248	1,592	1,786	1,903
3. Tax performance % (2/1)	**70.5**	**75.6**	**88.4**	**89.3**	**86.5**
4. Stock of arrears	3,000	3,200	3,300	3,250	3,120
5. Arrears collected	280	300	250	300	250
6. Tax performance % (5/4)	9.3	9.4	7.6	9.2	8.0
II. Property tax - business entities (Rate 8%)					
7. Tax base (amount billed)	1,650	1,900	2,400	2,700	3,000
8. Tax collected	1,613	1,872	2,388	2,680	2,855
9. Tax performance % (7/6)	**97.7**	**98.5**	**99.5**	**99.2**	**95.2**
10. Stock of arrears	153	170	168	140	130
11. Arrears collected	25	30	40	30	30
12. Tax performance % (10/9)	16.3	17.6	23.8	21.4	23.1
III. Business tax (Rate 3%)					
13. Tax base (amount billed)	1,500	1,600	2,150	3,000	3,200
14. Tax collected	1,443	1,590	2,111	2,952	3,146
15. Tax performance % (17/16)	**96.2**	**99.4**	**98.2**	**98.4**	**98.3**
16. Stock of arrears	40	43	33	42	30
17. Arrears collected	10	20	30	20	15
18. Total tax billed	**4,676**	**5,150**	**6,350**	**7,700**	**8,400**
19. Total tax collected	**4,131**	**4,710**	**6,090**	**7,418**	**7,905**

The scope of the table above depends on the available taxes charged by the municipality and should include the most relevant ones. If the municipality charges other taxes with a significant proportion of the total income generated, it is recommended to add new table lines to the corresponding areas. It is useful to attach comments to all taxes added into this table to help MFSA readers better understand underlying issues and specific situations. Such information may include changes to tax rates, the tax base, and exemptions, and change of rules for collecting arrears or tax penalties. Tax base or policy information is especially important when this table is used for projecting future revenues.

The financial liabilities table includes all bills or valid demands for payments left unpaid at the end of the fiscal year. Due to common international fiscal legislative practices, some transactions have

[19] ibid

payment terms within a certain number of days after receiving the invoice/bill (30-90 days). All these bills received in the last days of the year shall be accounted for in the table example found below (table 10). By contrast, liabilities that are overdue and whose delay for payment is beyond the legally accepted payment time period are considered overdue liabilities, often called arrears, and are treated separately, as noted in the next paragraph. The sample table below gives examples of typical unpaid dues to municipal entities, ordered by largest volumes. MFSA officers within the municipality may develop a more detailed list by indicating different items within the main categories. The cash reserves line in the table is important for showing how remaining bank deposits can cover short term liabilities included in the table, or to signal hidden budget deficits or imbalances.

Table 18. Total Financial Liabilities—City Dues, End of the Fiscal Year[20]

	Year 1	Year 3	Year 3	Year 4	Year 5
Water PUC	1,000	1,200	1,300	1,400	1,500
Solid waste PUC	500	800	900	1,000	1,100
Transport PUC	800	1,000	1,100	1,200	1,300
Schools	50	–	120	140	160
Kindergartens	10	10	10	10	10
Culture or sport entities	500	550	600	650	700
Private contractors (city dues to private)	2,700	3,000	3,400	3,800	4,000
Labor (wages, salaries)	500	400	550	600	650
Total liabilities (city dues)	6,060	6,960	7,980	8,800	9,420
Cash reserves end of fiscal year	4,300	2,980	2,500	2,400	2,300

The MFSA methodology recommends recording Arrears (overdue financial liabilities) as a different section to monitor if there is a shortage of funds resulting in overdue liabilities in relation to private contractors or suppliers. The annual percentage of arrears is indicative of the municipality's financial health and creditworthiness – e.g., the table below shows a 7 percent total growth index for arrears. The database is not only important to highlight overall financial health, but also to potential suppliers that should be aware if the municipality fails to meet contractual requirements.

Contingent liabilities are types of liabilities that may be incurred depending on the outcome of a future event such as the inability of the public utility company to repay a loan.[21] To this end, the table below shows liabilities that do not appear in the form of payment requests, but those included in loan agreements on the city's commitments to pay in case of default of a public utility company (PUC). In short, if a municipality provides financial guarantees to support the debt of various independent municipal entities, the guarantees assigned to the PUC and countersigned by the municipality are recorded in the table below.

[20] ibid

[21] OECD (Organisation for Economic Co-operation and Development). 2006. "Explicit Contingent Liabilities in Debt Management." Chapter 6 in Advances in Risk Management of Government Debt. Paris: OECD Publishing. https://dx.doi.org/10.1787/9789264104433-7-en.

Table 19. Arrears—Overdue Financial Liabilities[22]

	Year 5	Year 6	Year 7	Year 8	Year 9	Growth indexes (%)
Water PUC	200	220	260	230	210	1.2
Solid waste PUC	50	50	50	50	50	0
Transport PUC	100	110	120	130	140	8.8
Schools						
Kindergartens						
Culture or sport entities						
Private contractors (city dues to private)	1,100	1,200	1,300	1,400	1,500	8.1
Labor arrears (wages, salaries)						0
Total arrears	1,450	1,580	1,730	1,810	1,900	7.0

Table 20. Contingent Liabilities[23]

	Year 5	Year 6	Year 7	Year 8	Year 9
Water PUC paying electricity bill	900	800	800	700	700
Solid waste PUC					
Transport PUC loan guarantee	5,000	4,000	3,000	2,000	1,000
Culture or sport entities					
Total contingent liabilities	5,900	4,800	3,800	2,700	1,700

The Monthly Cash Balances table provides a clear list of cash movements on a monthly basis, documenting the municipal liquidity. The example given below shows cash inflows and outflows from various revenue sources such as taxes, fees, and asset transactions proceeds, but they also include disbursements of longer-term investment loans, and cash received from short-term liquidity loans, overdrafts, or lines of credit.

Table 21. Monthly Cash Balance[24]

Cash receipts	Cash payments	Cumulative inflow	Cumulative outflow	Stock of cash	Fiscal year 5
Carried over from previous	0	0	1,234	0	1,234
fiscal year					
January	3,456	2,560	4,690	2,560	2,130
February	2,800	4,600	7,490	7,160	330
March	4,300	3,800	11,790	10,960	830
April	5,120	4,330	16,910	15,290	1,620
May	4,500	4,100	21,410	19,390	2,020
June	7,230	4,500	28,640	23,890	4,750
July	3,800	4,700	32,440	28,590	3,850
August	3,300	4,500	35,740	33,090	2,650
September	4,600	4,700	40,340	37,790	2,550
October	2,500	3,900	42,840	41,690	1,150
November	3,800	3,950	46,640	45,640	1,000
December	5,300	4,000	51,940	49,640	2,300

[22] ibid
[23] ibid
[24] ibid

The Asset Investment and Maintenance table prepares a reliable picture of investment and maintenance expenditures by the main functional categories of assets to help planning, communication, and implementation of investments. In this sense, the table below follows the OECD Classification of the Functions of Government introduced earlier in this section.

Table 22. Municipal Assets—Investment and Maintenance[25]

Service sectors and functions	Year 1		Year 5		Growth indexes (%) development	Growth indexes (%) maintenance
	Development	Maintenance	Development	Maintenance		
General administration						
• Office buildings						
• Other assets (vehicle, equipment)						
Urban services						
• Roads and drainage						
• Public transport						
• Water and waste water						
• Solid waste						
• Street lighting						
• Fire protection						
• Police, crime prevention						
• Environmental protection						
Social services						
• Health						
• Education						
• Culture and religion						
• Housing						
• Recreation and sport						
• Social welfare						
Commercial services/investments						
• Parking						
• Markets						
• Commercial places						
• Land development						
• Local economic development						
Total expenditures						

3.2. Step 2: Historical Analysis

The second step of the Municipal Finance Self-Assessment focuses on the practice of historical analysis of data. Although national regulations do not typically stipulate historical analyses, the MFSA, by contrast, puts a high emphasis on comparing revenues and expenditures by historical trends. The recommended collection of data stems on at least five years to help draw valuable lessons, explore trends, and quantify indexes for future projections. The historical analysis is based on the core financial and supplementary tables generated in Step 1, but also introduces new summary tables to communicate results. Most summary tables can be generated from the MFSA core Financial Database, making them easy to analyze without changing or repeating them. To this extent, the tables that contain similar headings will only be referenced to their previous iterations,

[25] ibid

with the mention that they should only include historical data and new columns to highlight the average annual growth index.

Historical Analysis: Core Summary Tables

For the purpose of this summary, all core summary tables that are part of the historical analysis will be presented in this section, highlighting the differences between the data presented on Step 1. All tables will contain the same items as presented in the first step, with the introduction of two new columns in the heading section, as follows: *the average annual growth index* (calculated as the average annual percentage over the timeframe) and *the percentage of the total financial position per item*.

The four tables to be introduced in this section are as follows:

- Financial Position Snapshot
- Main Revenue Sources
- Main Current Expenditures (line items)
- Capital Investment Financing

The Financial Position Snapshot helps communicate financial trends of the municipality from the perspective of capital market players or other relevant stakeholders (as the finance committee or the city council). It is recommended to draft a brief summary report together with this table and present it to key stakeholders. The table below presents a summary historical financial snapshot of the sample municipality over the past five years, followed by historical tendencies.

Table 23. Financial Position Snapshot and Historical Tendencies[26]

Items	Calculation/ source	Year 1 Actual	Year 2 Actual	Year 3 Actual	Year 4 Actual	Year 5 Actual	Growth indexes (%)	Structure (% of current revenues) Year 5	Structure (% of current revenues) Year 1
1 Current revenue		41,999	41,214	48,636	52,743	65,821	11.9	100.0	100.0
2 Operating expenditure		33,498	37,785	41,187	44,610	56,893	14.2	86.4	79.8
3. Gross operating margin/ balance	(1–2)	8,501	3,430	7,449	8,132	8,927	1.2	13.6	20.2
4. Interests and borrowing costs		321	502	695	1,450	2,212	62.1	3.4	0.8
5. Current margin/balance	(3–4)	8,181	2,928	6,753	6,682	6,715	–4.8	10.2	19.5
6 Debt principal repayment		425	490	768	687	2,982	62.7	4.5	1.0
7. Net margin - net current balance	(5–6)	7,756	2,438	5,985	5,995	3,733	–16.7	5.7	18.5
8. Capital revenues	(9+10+11)	17,734	12,564	9,303	8,220	7,407	–19.6	11.3	42.2
9. Own capital revenues		12,724	9,607	8,938	7,904	7,078	–13.6	10.8	30.3
10. Investment grants and donations		32	90	365	316	329	79.0	0.5	0.1
11. Cash reserve from previous years	Bank reconciliation	4,978	2,867	0	0	0	–100.0	0.0	11.9
12. Capital investment expenditures		25,845	23,770	28,222	29,100	22,614	–3.3	34.4	61.5
13. Investment balance before loan	(7+8–12)	–355	–8,768	–12,933	–14,886	–11,474	138.4	–17.4	–0.8
14. Loan proceeds (disbursed)	Actual	3,222	4,956	10,192	12,548	7,022	21.5	10.7	7.7

[26] ibid

15. Overall closing balance with loans	**(13+14)**	**2,866**	**–3,812**	**–2,741**	**–2,337**	**–4,452**	**–6.8**	**6.8**

The MFSA analysis approaches tendencies by using geometric averages/means to calculate annual growth indexes, and linear trends to establish trends for analysis and fore- casting. The first two lines of the table compare operating revenues and expenditures that establish the *gross operating margin* from line 3, which is arguably the most important health test of a municipality. A substantial operating margin shows financial strength; in contrast, a low or especially a negative operating margin could signal an unsustainable long-term operation of the municipality. As for the third line of the table, the *calculation/source* column provides insight on how to calculate specific items. The key lesson from this sample table is that the municipality is running well in terms of financing operations, but it has overinvested before and is presumably overly indebted, which has led to budget deficits. The growth indexes in the last columns show how the data on various line items grew from year 1 to year 5 and offer important lessons.

The purpose of the historical analysis of the Main Revenue Sources is to summarize the revenue source data by looking at the share of main sources of municipal funding. The workload on this table can be reduced if the MFSA team will focus on large items that generate substantial revenues rather than to analyze every single line of the table. Based on the findings from this table on the growth indexes, relevant stakeholders can draw conclusions on different revenue-generating tendencies.

Table 24. Main Revenue Sources[27]

	Year 1	Year 2	Year 3	Year 4	Year 5	Avg. annual growth %	
Items	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**index (%)**	**(total revenue)**
Total current revenue	**41,999**	**41,214**	**48,636**	**52,743**	**65,821**	11.9	82.0
1 Revenues from central/higher government	**30,300**	**25,162**	**26,120**	**29,933**	**35,984**	4.4	44.8
• Shared taxes	24,053	22,255	22,747	26,915	35,631	10.3	44.4
• Unconditional transfers	6,192	2,613	3,076	2,865	0	−100.0	0
• Conditional transfers	55	294	297	153	353	59.4	0.4
2 Own revenue	**11,700**	**16,053**	**22,516**	**22,810**	**29,837**	26.4	37.2
• Local taxes and levies	4,235	4,818	6,212	7,548	8,037	17.4	10.0
• Local fees, charges	2,496	4,389	5,571	5,397	12,347	49.1	15.4
• Local asset revenues	4,969	6,847	9,778	8,723	8,989	16.0	11.2
• Revenues from municipal enterprises	0	0	955	1,142	464	N/A	0.6
• Local other revenues	0	0	0	0	0	N/A	0
3. Total noncurrent revenue without loan	**17,734**	**12,564**	**9,303**	**8,220**	**7,407**	−19.6	9.2
1. Capital grants from central/higher government	0	0	0	145	324		0.4
2. Own nonrecurrent revenues	12,724	9,607	8,938	7,904	7,078	−13.6	8.8
• Asset sales' proceeds	887	645	546	443	1,354	11.1	1.7
• Land development fee	11,668	8,893	8,333	7,413	5,604	−16.8	7.0
• Participation/transfers of individuals	169	69	59	48	120	−8.1	0.2
Donation	32	90	365	171	5	−37.7	0
4 Financing	**8,200**	**7,823**	**10,192**	**12,548**	**7,022**	−3.8	8.8
• Surplus or cash reserves from	4,978	2,867	0	0	0	−100.0	0

[27] ibid

previous years							
• Sale of financial assets	0	0	0	0	0	N/A	N/A
• Loans/bonds' proceeds (disbursements)	3,222	4,956	10,192	12,548	7,022	21.5	8.8
Total revenue	**62,955**	**55,778**	**67,766**	**73,340**	**80,245**	6.3	100.0
1. State transfers/grants	30,300	25,162	26,120	30,078	36,308	4.6	45.2
2. Own revenues	29,434	25,660	31,454	30,714	36,915	5.8	46.0
3. External revenues	3,222	4,956	10,192	12,548	7,022	21.5	8.8

As the case for the main revenue sources table, the historical analysis of Main Current Expenditures briefly summarizes and comments on the lessons learned from the data provided by the municipality in previous years. Starting from the main database found in Step 1, the table below shows the historical tendencies of expenditures of the sample municipal data. The main methodology advice is again to focus on the large items and substantial movements and draw a big picture of the current expenditures rather than to analyze every single line of this table.

Table 25. Main Current Expenditures[28]

Items	Year 1 Actual	Year 2 Actual	Year 3 Actual	Year 4 Actual	Year 5 Actual	Avg. Annual Growth index (%)	TOTAL Revenue
1. Operating expenses	**33,498**	**37,785**	**41,187**	**44,610**	**56,893**	14.2	96.3
Labor (wages, salaries, taxes and charges)	6,592	7,635	8,141	9,075	10,034	11.1	17.0
• Administrative staff							0
Technical, service, and other staff							0
2. Goods and services	13,008	14,151	14,199	16,209	18,984	9.9	32.1
• Office supply							0
• Electricity							0
• Fuel and gas							0
• Repair and maintenance	2,956	3,234	2,813	3,472	3,940	7.4	6.7
• Other goods and services	10,052	10,917	11,386	12,737	15,044	10.6	25.5
3. Current subsidies to service entities	7,606	6,023	9,134	8,612	11,242	10.3	19.0
4. Current grants and transfers	3,128	5,466	4,582	5,549	11,577	38.7	19.6
5. Social care/welfare support	1,946	3,274	3,827	3,774	3,492	15.7	5.9
6. Other current expenditures	1,217	1,236	1,305	1,392	1,563	6.5	2.6
Interest and borrowing costs	321	502	695	1,450	2,212	62.1	3.7
Current expenses total	**33,819**	**38,286**	**41,883**	**46,061**	**59,105**	15.0	100.0

The Capital Investment Financing table uses data to highlight future trends of main expenditures in total capital expenditures, drawing conclusions and plans from growth indexes. To reach the best outcome, it is recommended to put the table found below in a summary report that would be suitable to inform the council's finance committee, the mayor, or the council of historical capital investment financing. The main methodology advice is again to focus on the large items and substantial movements and draw a big picture of the capital expenditures rather than to analyze every single line of this table.

[28] ibid

Table 26. Capital Expenditures and Financing[29]

Items	Year 1 Actual	Year 2 Actual	Year 3 Actual	Year 4 Actual	Year 5 Actual	Avg. annual growth index (%)	% Structure (total revenue)
Capital investment expenditure	**25,845**	**23,770**	**28,222**	**29,100**	**22,614**	–3.3	100.0
Purchase/development of assets/infrastructure	18,901	21,005	24,040	26,903	20,584	2.2	91.0
Capital subsidies to PU/PUC	3,437	1,491	3,207	1,295	987	–26.8	4.4
Capital transfers to other level of government	3,507	1,275	974	902	1,043	–26.2	4.6
Investments/Lending	0	0	0	0	0		0
Financing	**28,711**	**19,958**	**25,480**	**26,763**	**18,162**	–10.8	100.0
Capital transfers/grants from government	0	0	0	145	324	N/A	1.8
Capital grants (international/other)	32	90	365	171	5	–37.7	0
Capital revenue (sales of assets, etc.)	12,724	9,607	8,938	7,904	7,078	–13.6	39.0
Self-financing (Net margin)	7,756	2,438	5,985	5,995	3,733	–16.7	20.6
Cash reserve from previous years	4,978	2,867	0	0	0	–100.0	0
Sale of financial assets	0	0	0	0	0	N/A	0
Loan/bond proceeds (disbursement)	3,222	4,956	10,192	12,548	7,022	21.5	38.7
Financing gap after loan proceeds	–2,866	3,812	2,741	2,337	4,452	N/A	24.5

Historical Analysis: Supplementary Tables

As mentioned at the beginning of this subchapter, the content of most supplementary tables is identical to those presented in Step 1 of the methodology and can be generated from the MFSA core Supplementary Database. The only differences from the first MFSA Step is that the data contained here is historical (for the last 5 years), and the tables have two more columns that represent the average annual growth index (calculated as the average annual percentage over the timeframe), and the percentage of the total financial position per item. All tables will contain the same items as presented in the first step, with the introduction of two new columns in the heading section, as follows:

- Actual/Plan Analysis (corresponding to tables 3 and 4);
- Expenditures by Function (corresponding to table 5);
- Indebtedness Situation (corresponding to tables 6 and 7);
- Capital Investment Plan (corresponding to table 8);
- Tax Potential and Performance (corresponding to table 9);
- Liabilities and Arrears (corresponding to tables 10-12);
- Cash Balances (corresponding to table 13);
- Municipal Assets Maintenance (corresponding to table 14).

[29] Ibid.

3.3. Step 3: Ratio Analysis

The third step of the Municipal Finance Self-Assessment aims to use a mix of financial ratios to adopt a municipal finance benchmark and foster a better understanding of its financial position compared with other cities in the region. This chapter introduces a series of key financial ratios and benchmarks presented in table below, which are based on international standards and are in harmony with those used by rating agencies.[30] The ratios included in table below are indicative and not mandatory targets.

Table 27. Key Financial Ratios

Indicator (definition)	Comparative index (benchmark)	Actual				
		Year 1	Year 2	Year 3	Year 4	Year 5
1. Creditworthiness						
Operating savings before interests/Current revenue	> 30%	**20%**	**8%**	**15%**	**15%**	**14%**
Net operating surplus (after debt service)/ Current revenue	> 20%	**19%**	**7%**	**14%**	**13%**	**10%**
Investment balance before loan/Total revenue	> –15%	**–1%**	**–16%**	**–22%**	**–24%**	**–16%**
Financing gap after loan proceeds/Total revenue	> –5%	**5%**	**–7%**	**–5%**	**–4%**	**–6%**
2. Indebtedness						
Debt outstanding/Operating surplus (capacity to clear its debt)	< 10 years	**1**	**4**	**3**	**5**	**5**
Debt service/Total current revenue	< 10%	**2%**	**2%**	**3%**	**4%**	**8%**
Debt outstanding/Budget total	< 60%	**14%**	**24%**	**36%**	**51%**	**56%**
Borrowing/Current revenues	< 15%	**8%**	**14%**	**23%**	**25%**	**13%**
Operating margin/Interest payment	> 15	**27**	**7**	**11**	**6**	**4**
Debt outstanding/Total current revenue	< 100%	**20%**	**34%**	**51%**	**71%**	**69%**
3. Fiscal autonomy						
Own (taxes + fees + unconditional grants)/Total current revenue	> 80%	**85%**	**93%**	**93%**	**94%**	**99%**
4. Capital investment effort						
Capital investment expenditure/Current revenue	> 40%	**61%**	**56%**	**56%**	**54%**	**30%**
Capital investment expenditure/Total expenditure	> 30%	**43%**	**38%**	**40%**	**39%**	**25%**
Current margin/Capital investment expenditure	> 25%	**32%**	**13%**	**25%**	**24%**	**34%**
Capital investments from earmarked grants/Total investment expenditure	< 50%	**0%**	**0%**	**1%**	**1%**	**1%**
5. Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15%	**9%**	**9%**	**7%**	**8%**	**7%**
Taxes collected / Taxes levied	> 90%					
Fees collected/Fees billed	> 90%					
6. Quality of operations						
Salaries and wages/Operating actual expenditures	< 40%	**20%**	**20%**	**20%**	**20%**	**18%**
Number of municipal employees/1,000 citizens	< 25	**22**	**22**	**22**	**22**	**23**
Actual revenue/Planned revenue	95%<A/P<105%	**105%**	**90%**	**97%**	**98%**	**100%**
Arrears amount/Net cash (end of the year)	< 1	**34%**	**53%**	**69%**	**75%**	**83%**
Financial resources (cash + cash like) / Financial obligations (due liabilities + arrears)	> 1	**71%**	**43%**	**31%**	**27%**	**24%**

[30] Farvacque -Vitkovic, Catherine, and Anne Sinet. 2014. "Achieving Greater Transparency and Accountability: Measuring Municipal Financial Performance and Paving the Path for Reforms." Chapter 8 in Municipal Finances: A Handbook for Local Governments, edited by Catherine Farvacque-Vitkovic and Mihaly Kopanyi, 379– 445. Washington, DC: World Bank.

The MFSA guidelines recommend using this set of financial ratios regardless of the development or income level of a country or of a municipality, because they convey important messages for long-term recommendations and creditworthiness. The use of different ratios may indeed compromise the comparability of MFSA performances with other municipalities and would create space for subjective judgements. Most ratios can be calculated from the core financial tables presented in previous steps. However, some additional information presented in the table (such as population or average national capita revenue and expenditure indicators) can be obtained from finance ministries or from the National Institute of Statistics.

The ratio analysis tables can be generated automatically by linking the information from the core and supplementary tables if users generate in Excel or other accounting instruments. The charts and figures presented in the following sections to showcase the tendencies of these ratios can also be easily generated in Excel or other data-processing software. The following sections of this chapter will focus on detailing the six main ratios indicated in the table above, with the aim to enhance the knowhow of a potential MFSA operator for Romanian municipalities.

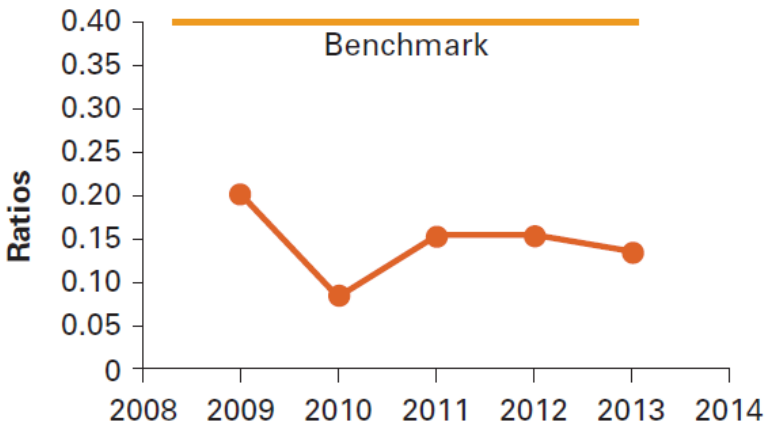
Creditworthiness ratios

Creditworthiness reveals whether the investment balances and finances gaps are under control. The MFSA guide provides four different financial ratios for measuring creditworthiness, which are self-explanatory:

- Operating savings before interests/Current revenue
- Net operating surplus (after debt service)/ Current revenue
- Investment balance before loan/Total revenue
- Financing gap after loan proceeds/Total revenue.

For the purpose of this methodology, the first creditworthiness indicator is measured by the ratio between the operating savings and the current revenues in gross and net form. If the municipality achieves operating savings over the analyzed timeframe, it is a positive outlook for creditworthiness. However, if the recorded targets are below the benchmark score, it suggests the need for improvement to support the foundation for future borrowing. The chart below shows that the sample city is in this exact situation:

Figure 2. Operating Savings/Current Revenues[31]



[31] Note: the numbers generated are sample data for the purpose of showing how the methodology works. Source: Catherine Farvacque-Vitkovic, Mihaly Kopanyi. 2019. "Better Cities, Better World - A Handbook on Local Governments Self-Assessments." World Bank Group.

The same analysis will be performed by MFSA operators for the next three creditworthiness ratios, followed by charts that compare the ratio trends to the defined benchmarks.

Indebtedness ratios

The MFSA guide includes six different benchmarks for indebtedness ratios, measuring the debt repayment capacity under certain regulatory rules applied in many countries. To have a clear view of the current situation, the methodology suggests using visual charts for all indicators, as presented in the previous section. In the table included above, we can see that the sample municipality has a strong indebtedness position and could repay all outstanding debt from a 5-year operating surplus (in view of the comparative benchmarks). The generated data also show that the city's outstanding debt has quickly grown in previous years and could suggest a red flag in the eyes of regulators and rating agencies, which should be of importance for municipal operators.

Fiscal autonomy ratio

The fiscal autonomy ratio captures the financial sovereignty of the city by measuring the dependency of local funds generated by the municipality to the total current revenues earned in a fiscal year. Lenders, investors, or other market partners are interested in the autonomy of local decision makers when making strategic investments. The illustrative data provided in the table above show that the municipality has strong fiscal sovereignty, with figures well-above the index benchmark. This index is important for investors because it shows that the municipality had boosted its own-revenue sources in the last years.

Capital investment effort ratios

The four capital investment effort ratios are also indicative of a city's financial health, as capital investments above benchmarks signal good investment policies in place. In contrast, low capital investments signal that a city manages financing operations, but fails to generate enough revenues to fund the level of capital investments, or simply chooses to direct resources elsewhere. The two ratios focus on two aspects:

- total investment efforts, as measured by capital investments against current revenues, total expenditures, and current margins;
- and investments financed from earmarked grants, which are mainly attributed to the national government.
- The ratios generated by the sample city in the table above show strong investment performance, well over 40 percent benchmark in some years, corroborated with negligible reliance on earmarked investment grants.

Level of service sustainability ratios

The level of service sustainability is based on a set of three ratios that capture both the expenditure and the revenue sides. There are two conclusions that can be drawn from the illustrative data generated in in the previous table for these ratios:

- The city puts high emphasis on investments and gives low priority to maintenance, based on the recorded maintenance expenditures; and
- The lack of information provided for the last two ratios is indicative of a financial management and a lack of focus on service sustainability, which may potentially reduce a

city's creditworthiness scores regardless of the level of other ratios, despite the its robust and increasing own-revenue collection.

Quality of operation ratios

The quality of operation ratios consists of five distinct indicators that signal the quality of the city's management, as follows:

- Salaries and wages over operating expenditures is an important sign of expenditure composition and good management.
- Number of employees per thousand citizens does not have direct financial implications, but it is still a good indicator of potentially sound management and service efficiency.
- Actual revenue over planned revenue is a very important ratio that signals the quality of revenue management.
- Arrears over net cash signals the financial strength of a city if the ratio is below one, which means arrears accumulated are less than the cash reserves available.
- Financial resources over financial obligations indicates good financial health if it is greater than one, meaning that financial resources exceed total financial liabilities and that the city can pay out all obligations from cash reserves.

Comparison ratios

Beyond the data provided in the table above, there are other important ratios that measure the per capita financial results of a city. These ratios are useful for comparing the city's performance to the national averages or to other cities. They can be calculated in local currency for national comparison, or in international currencies for broader international comparison purposes. The table below showcases key comparison ratios for the sample municipality chosen as a case study.

Table 28. Key Comparison Ratios[32]

Comparison ratios in local currency	National average	Year 1	Year 2	Year 3	Year 4	Year 5
Total revenue per capita	32	27.2	24.6	27.7	29.0	30.9
Total expenditure per capita	31	25.9	26.2	28.8	29.9	32.6
Current actual revenue per capita	22	18.1	17.3	19.8	20.8	25.3
Debt outstanding per capita	10	3.7	5.8	10.0	14.7	17.4
Capital investment expenditures per capita	9	11.1	10.0	11.5	11.5	8.7
Comparison ratios in Euros						
Total revenue per capita	4.6	3.9	3.5	3.9	4.1	4.3
Total expenditure per capita	4.4	3.7	3.7	4.1	4.2	4.5
Current actual revenue per capita	3.1	2.6	2.4	2.8	2.9	3.5
Debt outstanding per capita	1.4	0.5	0.8	1.4	2.1	2.4
Capital investment expenditures per capita	1.3	1.6	1.4	1.6	1.6	1.2
Exchange rate		7.00	7.05	7.10	7.15	7.18

[32] ibid

Summary of ratio analysis

After analyzing the ratios provided in these sections, this brief summary comprises information for all main indicators and drafts a set of policy recommendations that would be included in the MFSA Action Plan as part of Step 6 of the process. For the sample municipality, the first recommendation is related to improving the creditworthiness ratios by expanding own current revenues. Secondly, an MFSA auditor can recommend improving the management of fees and taxes, corroborated with a thorough analysis on revenue administration, capacities, and performances to find options for boosting own revenues. Another recommendation would be to put more emphasis on asset maintenance, as the current levels of expenditures are far below recommended benchmarks. The fourth recommendation would be to improve information on tax and fee arrears, which is a vital precondition for attracting institutional funds.

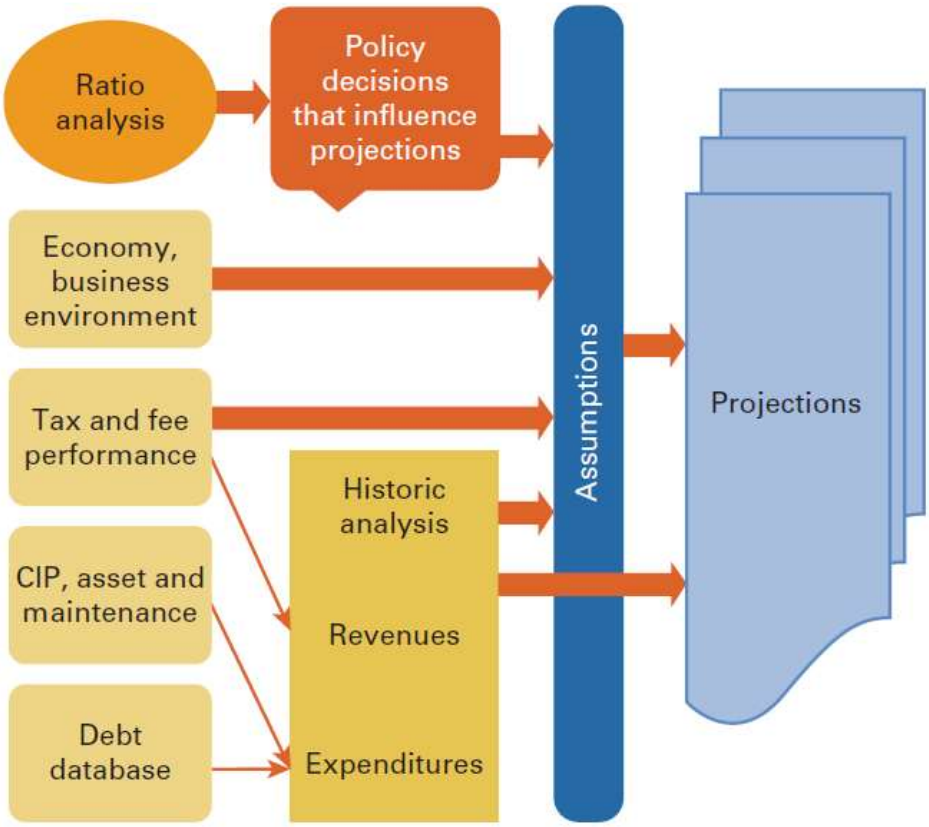
3.4. Step 4: Financial Projections

As opposed to the second step of the MFSA that focuses on historical trends, the overarching objective of the Financial Projections is to support a preliminary analysis of the future financial situation of a municipality in a timespan of five years. The role of the analysis is to explore the main driving factors and challenges to local financial sustainability, identifying corrective policy measures that could help improve final outcomes. The fundamental principles of good financial projections include the following:

- Start from the data analysis performed in previous MFSA steps to create a robust workflow;
- Use explicit assumptions to avoid implicit/indirect assumptions;
- Introduce known policy decisions and foreseen policy changes into the assumptions;
- Insert known / previous steps' data into the projections and then use historical trends to project financial figures;
- Make conservative and realistic estimates for projections;
- Test for consistency after the first complete set of projections;
- Assess distinct financial projections, in both optimistic and conservative scenarios;
- To provide a complete outlook of projections, start by predicting the table sublines, followed by the calculation of main lines from the results;
- When external data are required, use reliable national sources as the National Institute of Statistics or the Ministry of Finance for accuracy;
- The guide recommends starting with supplementary tables and then factoring key results into the core financial tables.

The financial projections require a turnkey procedure that contains 10 key steps building upon each other. The results found in the projections largely rely on the core and supplementary databases covered in Step 1, the historical analysis performed in Step 2, and the ratio analysis from Step 3. The sequence of steps to be followed for the financial projection is summarized in the figure below. All key building blocks and the framework for the financial projections found in the figure are covered in the section below.

Figure 3. Financial Projections Framework[33]



1. **Socio-economic environment.** The process starts with the collection of data for a summary of the socio-economic environment, which includes demographic (population, age groups, education, main areas) and economic trends (GDP growth, inflation, main economic sectors, number of companies, wages and job opportunities). As mentioned earlier as part of the fundamental principles of financial projections, external data can be sourced from the National Institute of Statistics or the Ministry of Finance.

2. **Tax and fee performance.** The summary of the tax performance database (table 9) contains factors that the municipality will use to change future volumes of tax or fee revenues. The tax changes will be noted in the projection for each year when they are likely to occur. Some examples of tax performance changes can lay in the tax base, number of taxpayers, reevaluation of taxes, new fees.

3. **Asset management (Capital Investment Plan, asset and maintenance).** If the municipality has adopted a Capital Investment Plan (table 8) or is undergoing an Urban Assessment during the projection period, the results should be included into the respective capital expenditure lines on the financial projections tables instead of using trend forecasts. Maintenance expenditures may be projected from historic changes, unless specific challenges in existing infrastructure are known at the time of the projections.

4. **Debt database.** In this phase, the MFSA officer will include the five-year debt projections (disbursements, principal, interest, and debt service total) from the respective financing lines

[33] Note: DeMPA = debt management performance assessment; FMA = financial management assessment; MFSA = Municipal Finances Self-Assessment; PEFA = Public Expenditure and Financial Accountability; PIMA = public investment management assessment.

of the financial projections. It is not recommended to use simple trend projections for disbursement or debt service, because the data should accurately project future debt service commitments for the forecasted years. In a nutshell, the debt database is a review of the municipal financial position with a focus on creditworthiness.

5. **Ratio analysis.** Select key results from the ratio analysis walked through in the MFSA Step 3 and propose policy decisions that will influence the financial projections at specific points in the forecasted period. Critical assumptions should be accounted for at least one of the projection scenarios.

6. **Policy decisions with impact on the projections.** A short list of policy decisions with direct and substantial influence on the five-year financial projections should be listed and accounted for in the assumptions. Some examples of policy decisions could be changing fees or establishing plans for reevaluating properties. The method will be adjusted depending on the size of the municipality and the issues it currently faces.

7. **Assumptions.** One important step before starting the financial projections is to ensure a well-defined and explicit list of assumptions during the five-year forecast. It is recommended to use explicit assumptions to gain the most realistic outcome. Hidden or implicit assumptions may downgrade the perspective on presented results. The main objective is to formalize the impact of policy decisions (expenses, borrowing, tax pressure) on the financial position of the municipality through assumptions. Usually, several assumptions and scenarios are tested: past trends projections and forecasts based on significant changes.

8. **Historical analysis of core financial tables.** Using the key findings from *Step 2: Historical Analysis*, the MFSA user will corroborate them with the assumptions from the previous section if there is a divergence of data from historical trends.

9. **Projections.** The projections will be filled at this stage by factoring in all results mentioned in earlier stages.

10. **Analyzing financial projection results.** The last step is to analyze the results and test them for consistency and reliability. If the results project large and persistent financial gaps between databases, MFSA users may need to revise some projections to make sure the forecasted financials will be met. A good practice for the financial projections is to carefully review both revenue and expenditure projections to achieve a feasible scenario of the future financial situation of the municipality. The process is concluded with a brief note to be included in the MFSA summary.

The Financial Projections in practice

The Handbook on Local Governments Self-Assessments[34] created by World Bank experts provides a thorough analysis of the financial projections for a sample city.

[34] Catherine Farvacque-Vitkovic, Mihaly Kopanyi. 2019. "Better Cities, Better World - A Handbook on Local Governments Self-Assessments." World Bank Group.

Table 29. Simplified five-year financial projections[35]

Items	Trends for previous 3 years	Main assumptions	Index	Specific calculation	Year N-1	Year N	Year N+1	Year N+2	Year N+3	Year N+4	Year N+5
					Actual	Estimated	Projection	Projection	Projection	Projection	Projection
A TOTAL CURRENT REVENUES											
Own tax revenues											
- Property tax											
- Business tax											
- Others (development fee)											
State transfers											
- Shared tax											
- Unconditional grants											
- Conditional grants											
Other revenues											
- Asset rent, interest											
B TOTAL OPERATING EXPENDITURES											
Payroll (including employees' benefits and misc.)											
- Administrative staff											
- Technical department staff											
- Other staff (specific …)											
Operating costs											
- Office supplies											
- Electricity											
- Communication (telephone, etc.)											
- Fuel and gas											
- Maintenance costs											
- Others											
C GROSS OPERATING SAVINGS (A – B)											
D DEBT SERVICE											
Existing debt											
- Interest charge											
- Loan repayment											
New debt											
- Interest charge											
- Loan repayment											
Total debt service											
- Interest charge											
- Loan repayment											
E NET SAVINGS (C – D)											
F CAPITAL EXPENDITURES											
G INVESTMENT FINANCING (F – E)											
- Investment grants											
- Own capital revenues excl. operation surplus											
- Loans											
H OVERALL CLOSING BALANCE (CASH FLOW) (A + G) – (B + D + F)											

In view of the framework explained in the previous section, the process for the sample city starts with formulating assumptions on the socio-economic environment, the tax performance and capital investment plan, debt databases, ratio analysis, and policy decisions. All core assumptions are formulated in a conclusive summary.

[35] ibid

The second step of the process is to complete financial projections based on the set assumptions and the data gathered in previous steps of the MFSA (core and supplementary databases). The conservative estimates scenario for the sample city provide financial projections under two sections: (1) operating revenues, expenditures, and gross margin; and (2) debt service, capital expenditures, capital financing, and overall balance. The conservative scenario is followed by the optimistic scenario, based on three policy assumptions used on the sample municipality: tax administration improvements, efficiency in development fee revenues, and borrowing against increased revenue and surpluses. The lines and headings used for projecting both the conservative and optimistic scenarios are found on table above on *Simplified five-year financial projections*. Financial ratios are also included to project the creditworthiness and borrowing capacity of the municipality. Using the financial projections framework, the sample city process concludes with the analysis of the two scenarios, providing the perspectives for the MFSA Action Plan found on Step 6.

3.5. Step 5: Financial Management Assessment

The MFSA is a combination of quantitative (financial) and qualitative assessments (called Financial Management Assessment - FMA). It has been developed following the models and methodology of assessments successfully introduced by multinational organizations to review the quality and guide improvements in the areas of public financial management for better sustainability. The Financial Management Assessment is a customized version of the Public Expenditure and Financial Accountability assessment (PEFA),[36] which has grown out of the standard financial analyses and audits that analyze largely numeric results of national accounts and public sector entities.

As depicted in figure 2, the MFSA framework has a dual approach: it starts with a detailed and projected analysis of the past, present and future; followed by the qualitative assessment of the financial management system. Given that the financial part of the MFSA approach can indicate the financial challenges faced by the municipality in numeric terms, the FMA part handles the underlying causes behind the financial challenges and provides solutions that can be traced via a detailed qualitative assessment. The Financial Management Assessment aims to analyze the quality of the financial management system and practices of the local government, identifying specific areas of concerns and potential options for improvement. In the process, FMA explores the underlying institutional, organizational, and management factors and capacities that determine the performance of the public sector, by using best practices developed over the years in collaboration with more than 80 municipalities.

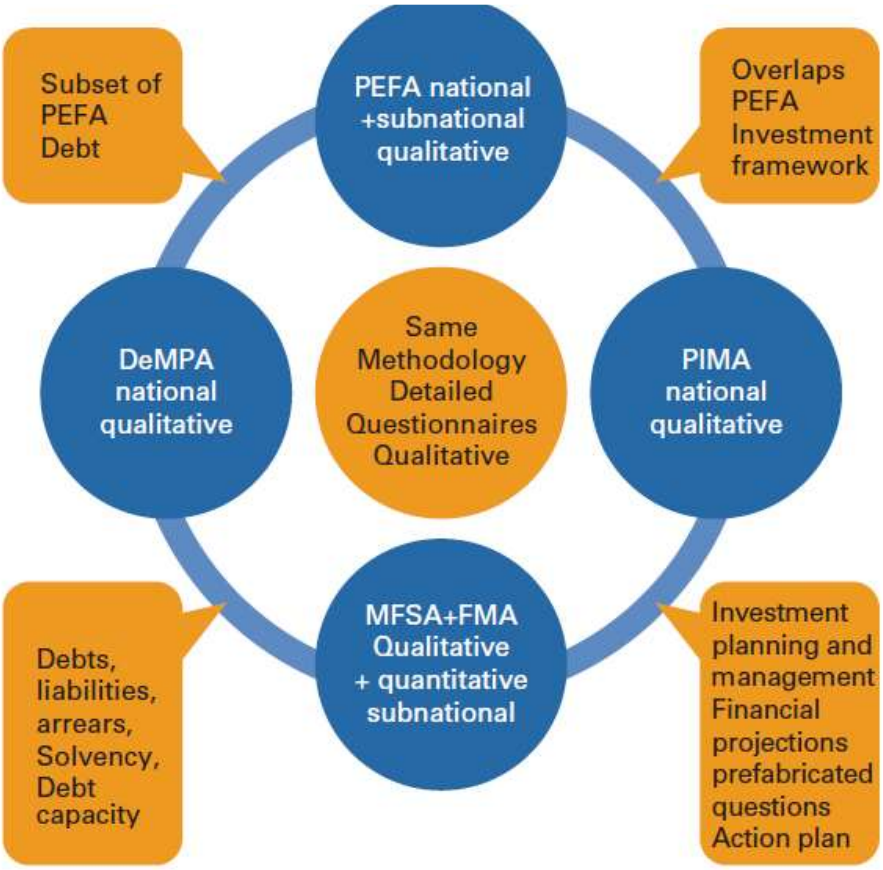
The FMA methodology is different from the PEFA in three ways:

- The self-assessment uses questionnaires with pre-made alternatives, allowing the MFSA users to select those that are most relevant to reflect the current situation.
- The MFSA financial assessment (Steps 1-4) are completed before the FMA, providing a solid ground of financial information to help provide the most accurate answers.
- The self-assessment modality used by the FMA does not require a strong self-discipline on the part of users, leaving little space for subjectivity effects.

The figure below presents the different systems and models used around the world for assessing the public financial management performance, followed by a summary of the most relevant programs.

[36] The next section will include a summary of the PEFA Program. More information of PEFA can be found on http://www.pefa.org/about.

Figure 4. Systems and Models for Assessing Public Financial Management Performance[37]



Public Expenditure and Financial Accountability (PEFA) Assessment

The Public Expenditure and Financial Accountability (PEFA) program was initiated in 2001 by seven international development partners: The European Commission, International Monetary Fund, World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom. The PEFA program provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time. Through the success generated throughout the world, PEFA has become an international benchmark of assessing financial accountability in the public sector and multiple other tools stemmed from it, including the MFSA.

The PEFA assessment uses detailed questionnaires and scoring methodology in 31 thematic areas, and it requires several weeks of work by a dedicated expert team, as explained in the PEFA Handbook.[38] PEFA results are summarized in a very detailed and thorough report that helps beneficiaries adopt corrective actions after PEFA. In contrast to in-depth PEFA reports that take months to generate, the MFSA FMA is designed to be a self-assessment made by one city officer or a

[37] Note: DeMPA = debt management performance assessment; FMA = financial management assessment; MFSA = Municipal Finances Self-Assessment; PEFA = Public Expenditure and Financial Accountability; PIMA = public investment management assessment.

[38] PEFA Secretariat. 2016a. PEFA Handbook Volume I: The PEFA Assessment Process—Planning, Managing and Using PEFA. PEFA Secretariat, Washington, DC. https://www.pefa.org/sites/default/files/PEFA%20Handbook %20Volume%201%20-%20second%20edition_1 .pdf

small team of municipal officers, to be completed in only a few hours with only a small requirement for guidance, resulting in a short report that aims to signal key challenges and outline solutions to be included in the MFSA Action Plan.

Debt Management Permanence Assessment (DeMPA)

The debt management performance assessment (DeMPA) framework, tool, and methodology introduced by the World Bank emulates and supplements the PEFA framework.[39] DeMPA is fully consistent with and focuses on only one critical segment of PEFA - debt management. It uses the same methodology of detailed questionnaires and scoring to support aggregate results on strength and weaknesses.

Public investment management assessment (PIMA)

The Public Investment Management Assessment (PIMA) is an International Monetary Fund tool for assessing infrastructure governance over the full investment cycle and supporting institution building.[40] The process identifies and assesses 15 institutions in three groups: planning, allocating resources, and implementing investments. PIMA summarizes the strengths and weaknesses of country public investment processes, setting out a prioritized and sequenced reform action plan. PIMA overlaps with PEFA in the area of public investment systems and frameworks, and it overlaps with DeMPA in areas of debt management in public investment. The PIMA methodology is very similar to the PEFA and DeMPA with detailed questionnaire and scoring; however, PIMA uses multiple-choice questions instead of the open-ended questions used in PEFA. Unlike PEFA and DeMPA, PIMA also supports preparation of a detailed Action Plan with time-bound corrective measures.

MFSA–FMA Thematic Areas

The FMA covers 4 thematic areas, as follows:

- Intergovernmental Relations;
- Planning, Budgeting, and Budget Implementation;
- Financial Management Systems and Practices;
- Financial Reporting, Disclosure, and Transparency.

Each thematic area covered by the FMA contains four or five sets of questions that can be found in the next sections of this document. From international practices, the thematic areas aim to highlight the underlying causes of the good or poor financial performance of a local government. Corrective measures to adjust the identified weaknesses in this Step will be used later in the MFSA Action Plan. For the purpose of this guide, each question contained in the following sections is modeled with the answers provided for the sample city (based on the financial assessment covered in Steps 1-4), in order to show how the solutions found in the MFSA Action Plan were reached.

[39] World Bank. 2015. "Debt Management Performance Assessment (DeMPA) Methodology." Washington, DC.
[40] IMF (International Monetary Fund). 2018. "Public Investment Management Assessment (PIMA)." Fiscal Affairs Department, Washington, DC.

MFSA–FMA Analysis and Scoring

Regardless of the thematic areas, each question found in the FMA template provides four potential answers. The MFSA operator will select the answer that reflects the precise situation found at the municipal level. However, it should be noted that answers often include several conditions and each of these conditions should be sufficiently met in the local situation in order to support a specific scoring. The scores for each question are marked with A, B, C, or D (with A being the highest score and D the lowest). At the end of this chapter, am illustrative scoring matrix is summarized by thematic areas (there are 4-5 question for each area). The overall results will reflect the dominant score in the assessment, aggregated by all thematic areas. The short summary report may also help by addressing the lowest scores in each area, proposing corrective actions for the MFSA Action Plan found in the last step of this methodology.

This section introduces the complete questionnaire found in the FMA template, divided by thematic area. The subchapter will conclude with the score recorded by the sample city for all questions in a summarized matrix, drawing the conclusions for the municipality. The same procedure should be followed in practice by all municipalities participating in the MFSA process.

Intergovernmental Relations

The intergovernmental relations area includes five questions related to: predictability of transfers, intergovernmental mandate, debt regulations, own revenue self-confidence, and expenditure spending flexibility. The thematic area assesses how the legal and regulatory framework at national level has an impact on the quality of local financial management. It is important to list all challenges found in this area and to be aware that potential external investors and lender banks are keen to learn if the intergovernmental framework is stable and supportive of the municipal financial capacity and stability.

Table 30. FMA Analysis – Intergovernmental Relations[41]

1. Intergovernmental Relations	
Predictability of transfers	There is a mature and robust framework for the LG sector with clear definition of transfers. Any changes are made at a deliberate and predictable pace. Transfers are stable and predictable, regulated, timely transmitted; no ad hoc grants. CG transfers are predictable annually, regulated, but delivery times may vary during the year; no ad hoc grants. Transfers are not regulated but are by and large stable; ad hoc grants appear. Transfers are unpredictable, and/or not regulated, and/or ad hoc grants are common.
Intergovernmental mandate arrangements	Revenue and expenditure mandates are clearly stipulated by law and are respected. Any changes are made at a deliberate and predictable pace. Revenue and expenditure mandates are stipulated, but not in harmony, rules are respected with some exceptions. Intergovernmental finance changes are mostly discussed with LGs. Revenue and expenditure mandates are not well regulated, but rarely change. Revenue and expenditure mandates are unclear, not fully respected, and subject to changes without prior announcement or discussions.
Debt regulations	Debt financing is clearly regulated with market-based rules and insolvency framework; LG debt service is stable.

[41] Ibid.

1. Intergovernmental Relations	
	Debt financing is regulated; LG debt service is mostly timely. Ministry (of finance) approves loans with no clear rules for debt financing. Payments may be delayed. Debt financing is unregulated, loans may roll over, ad hoc short-term liquidity borrowing is common OR no borrowing is allowed.
Own revenue self-confidence	LG has the flexibility to change taxes/fees on a significant share of operating revenues, and increases are politically acceptable at the local level. LG has good collection power and capacities. Own revenues are predictable with clear visibility of future revenues. LG has the flexibility to change base or rate of some taxes/fees, but increases are politically challenging at the local level. Collection power and capacity are reason- able with low incentives to increase revenues. Own revenues are substantial and somewhat predictable. LG has no power to change base or rate of taxes/fees, may propose changes to the government/ministry. Own revenues are somewhat predictable. LG has no power to change rates or base of taxes and fees. Own revenues are not predictable or are very low.
Expenditure spending flexibility	Spending responsibilities are highly stable and predictable over time. LG has the flexibility to change the level and nature of spending, such as by cutting public services or changing service standards, on a significant share of operating expenditures. These cuts are politically acceptable at the local level. LG has the legal power to change the level and nature of spending, such as by cutting public services or changing service standards, on a significant share of operating expenditures. These cuts are conceptually acceptable at the local level, but rarely occur and only under extreme situations. LG has the legal power to change the level and nature of spending, but this occurs on an ad hoc basis against shortages of cash, and it is not a common practice. Overspending occurs time and again. LG can change the level and nature of spending, but this happens as quick fixes without long-term plans. Overspending is very common.

Planning, Budgeting, and Budget Implementation

This thematic area analyzes the quality of the local financial management system in the process of planning, allocating and implementing budgets. It addresses four specific questions on: strategic plan and capital improvement plans, budget planning, scope of budget, and budget implementation. The development of a strategic and multiannual financial plan has become a best practice in developed countries, signaling the quality of municipal financial management systems. The underlying aim of this thematic area is to self-assess if the city can show discipline in the budget planning and execution process.

Table 31 FMA Analysis – Planning, Budgeting, and Budget Implementation

2. Planning, Budgeting, and Budget Implementation	
Strategic plan and CIP	LG adopts, in line with a strategic plan, 3–5-year capital improvement plans (CIPs) on a rolling basis, whereas the first year becomes the budget plan and a new year is added to the CIP every year. The CIP is developed in participatory process and substantially implemented in the annual budgets. LG adopts CIPs every 3–5 years. The CIPs are substantially included in planning the annual budgets. LG adopts strategic plan or CIP, some actions are considered in planning the annual budgets, but changing circumstances reduce the scope or use of strategic planning.

2. Planning, Budgeting, and Budget Implementation	
	LG has no strategic plan or CIP; the planning is limited to annual budgets.
Budget planning	LG budgeting is clearly regulated, budget process is mature, iterative, and participatory based on predictable forecast for transfers, clear and robust national guidelines, and local budget circulars. Budget plans are completed on time and approved. Revised budgets are well regulated and timely planned and adopted at the midpoint of the fiscal year. LG budgeting is clearly regulated; budget process is timely completed based on clear national guidelines and local budget circulars. Revised budgets are adopted as deemed necessary. LG budgeting is regulated by national guidelines; budgets are completed mostly on time. Revised budgets are adopted several times a year if and when necessary. There are general rules for local budgets; multiple changes occur because of unforeseen circumstances at central or local government level.
Scope of budget	Extrabudgetary entities, PUCs, and/or funds play substantial role in local service delivery; but financial transactions are regulated, clear, and require low operating subsidies (5%). LG prepares both regular and consolidated budget/financial reports. Extrabudgetary entities, PUCs, and/or funds play substantial role in local service delivery; but financial transactions are regulated, clear, and require low operating subsidies (max 10% of current revenues). LG does not prepare consolidated budget/financial reports. Extrabudgetary entities, PUCs, and/or funds play substantial role in local service delivery and require substantial operating subsidies (over 10%). Financial transactions are accounted but not regulated and not consolidated in financial reports. Extrabudgetary entities, PUCs, and/or funds play substantial role in local service delivery and require substantial operating subsidies (15%). Financial transactions to and from entities are not regulated, accounted in various forms, but not consolidated in financial reports.
Budget implementation	Expenditures adhere to budget appropriations; variations of actual and planned total expenditures and variation of structures of main lines are within 5% of plans. Expenditures adhere to budget appropriation; variations of actual and planned total expenditures and variation of structures of main lines are within 10% of plans. LG actual expenditures and revenues and revenue and expenditure variations and main line structures are within 15% of plans. LG actual expenditures and revenues and revenue and expenditure main line structures are over 15% of plans.

Financial Management Systems and Practices

Financial management systems and practices are the cornerstones of any local government authority, as the main driver of day-to-day operations and future development projects. This thematic area includes a questionnaire on the following areas: the financial management framework, revenue management, expenditure management, cash and debt management, and oversight and internal control systems and practices. Although some finance officers may find it subjective to make judgments on the quality of their financial systems, the questions are designed are designed to make the responses and the selection of the relevant scores straightforward.

Table 32. FMA Analysis – Financial Management[42]

3. Financial Management	
Financial management framework	Financial management framework is well regulated and supported by IFMS/FMS software system with standard templates and reporting forms, and sufficient number of qualified staff in key positions are assigned to financial management with clear segregation of functions.

[42] ibid

3. Financial Management	
	Financial management is controlled and supported by IFMS/FMS system with clear templates and segregation of functions, and qualified staff are assigned to many key positions with some vacant positions. Financial management is supported by some software, and some qualified staff are assigned to financial management. Financial management is computer enhanced with various software solutions, but staff have varying levels of knowledge in financial management area.
Revenue management	LG has effective fiscal cadastre and/or tax and fee payer registration and assessment system with up-to-date and transparent records on bases, rates, and payers' obligations and responsibilities; revenue collection efficiency is high (95%). LG has effective tax and fee payer registration and assessment system with up-to-date and transparent records on payers' obligations and responsibilities; revenue collection efficiency is good (80%). LG has several tax and fee payer registration systems with records on payers' obligations and responsibilities in various qualities; revenue collection efficiency is moderate (60–80%). LG has no or has several tax and fee payer registration systems with records on payers' obligations and responsibilities in varying qualities; revenue collection efficiency is low (60% or below).
Expenditure management	LG has effective commitment control system, clear segregation of duties, internal controls for non-salary expenditures, and public procurement procedures to ensure value for money. LG has commitment control system, expenditures are accounted mostly on time, public procurement procedures support investments. LG has computerized systems for managing and recording expenditures. D Expenditure recording and management are fragmented.
Cash and debt management	LG has an effective framework for cash and debt management with reliable records on cash balances, debts, guarantees, other liabilities, and payment arrears. LG has an effective framework for cash and debt management with records on cash balances, debts, and guarantees; but guarantees are not valuated in debt management. LG has some procedure for cash and debt management with some records on cash balances and some debts. LG has no debt management framework, but cash balances are reconciled or neither cash nor debt management procedure is in place.
Oversight and internal control	LG has reliable internal audit system, effective procedures for account reconciliations, and for oversight and analysis of the aggregate fiscal risk born from subordinated legally independent entities (PUCs) based on consolidated financial reports. LG has reliable internal audit system, some procedures for accounts' reconciliations, and for oversight and analysis of the aggregate fiscal risk born from subordinated legally independent entities (PUCs) without consolidation. LG has internal audit system, accounts reconciliations are intermittent, and LG receives the annual reports from the subordinated legally independent entities (PUCs). LG has no formal internal audit unit or system, and there are no records about the subordinated legally independent entities (PUCs).

Financial Reporting, Disclosure, and Transparency

This area covers critical elements of good financial management systems. Answers can reflect strong commitments, policies, and procedures for transparency set out by the municipality to inform and receive feedback on the adequacy and results of the financial reports. The four key areas of focus are the following: financial reporting, external audit, financial disclosures, and public procurement.

Table 33. FMA Analysis – Financial Reporting, Disclosure, and Transparency[43]

4. Financial Reporting, Disclosure, and Transparency	
Financial reporting	The LG has a reliable computerized financial reporting system consistent with generally accepted accounting principles and standards. Daily, monthly, quarterly, and annual reports are generated timely in automated procedures (e.g., by IFMS); results are disseminated to respective governing bodies, discussed, and corrective measures commenced timely. The LG has a reliable financial reporting system and procedures in compliance with national legislation; reports are generated and disseminated mostly on due courses. The LG has rules and various templates for financial reporting in various LG entities, reports are generated separately, and delays may occur because of missing information. LG entities do generate some reports.
External audit	The LG annual financial reports are audited by external auditor; audit reports are obtained within 8-12 month following a fiscal year. The LG audit committee discusses the audit results and commences corrective measures as may deem necessary AND the LG has obtained unqualified audits in the last 3 years. The LG annual financial reports are audited by external auditor; audit reports are obtained within 2 years following a fiscal year. The LG audit committee discusses the audit results and commences corrective measures AND the LG has obtained unqualified audits in the last year. The LG annual financial reports are audited by external auditor; audit reports are obtained within 2–3 years following a fiscal year. The LG audit committee discuss- es the audit results. The LG has obtained qualified audits in the last 2 years. The LG has no external auditor, or the LG has failed to obtain audits or has obtained qualified audits or one or more adverse external audits in the last 3 years.
Financial disclosures	The annual financial reports, the audit report, and short briefs on quarterly or monthly reports are made available for public scrutiny (e.g., posted on the LG website, readable at city hall, shared with key stakeholders in print or electronic forms). Town hall meeting is held to discuss results and future plans. The annual financial reports are made available for public scrutiny (e.g., posted on the LG website, readable at city hall, shared with key stakeholders in print or electronic forms). The annual financial reports are made available for public scrutiny on demand. Financial reports are not shared with the public.
Public procurement	LG has started procedures that asset divestitures, all investment construction projects, and bulk purchases are procured by open competitive tendering published in various media and adhere to value-for-money principles. LG has standard procedures supporting that large construction projects are procured by open competitive tendering published in various media. Some projects are published and procured by competitive tenders. LG has no public procurement procedures.

MFSA–FMA Analysis and Scoring: Summary

Each thematic area of the process can be viewed as individual an functional area of the municipal financial management assessment, deserving close attention and detailed improvement solutions in the Action Plan section. At the end of the questionnaire, it is recommended to create a short summary of the results under a matrix and signal the overall strengths of the financial management system. As noted earlier, it is also important to highlight and address the lowest scores in each thematic area, i.e., key weaknesses, regardless of the general results. The table found below

[43] ibid

illustrates how to summarize the FMA results by using and interpreting the data generated for the sample municipality. The table will be followed by a brief analysis of the result and a short list of recommendations for the sample municipality.

Table 34. Financial Management Assessment Scoring Results

Financial management assessment themes	Scores				
Intergovernmental relations	B	B	C	C	C
Planning, budgeting, and budget implementation	A	D	B	C	
Financial management systems and practices	B	D	C	B	B
Financial reporting, disclosure, and transparency	B	C	C	B	
Summary	C				

The overall result of the FMA for the sample municipality is C, because C is the dominant (statistical mode) score in the assessment. The lowest score for each thematic area is marked in a different color, to highlight the focus for immediate action. The score recorded by the sample municipality is worrisome, because C is less than ideal for the FMA (while D is a critical score that requires major changes in the municipal financial management area). Under this result, it is required to commence corrective measures that can be included in the MFSA Action Plan found on Step 6.

- The *Intergovernmental relations* area may often be beyond the competencies of municipalities, but joint efforts with central authorities or national associations of local governments can be put in place to initiate amendments to the national legislation and encourage central governments to provide better practices for cities.

- For the *Planning, budgeting, and budget implementation* area, the sample municipality has obtained different scores because it has good systems in place and follows adequate practices—except in controlling revenues and expenditures, which results in persistent budget deficit. This shortcoming requires immediate action and should be included in the short-list of the MFSA Action Plan.

- The scores recorded by the sample city in the *Financial management systems and practices* area are very diverse and highlight that most financial management systems are in place. Even so, the matrix shows that revenue management faces serious gaps and weaknesses for the sample municipality. The D score for revenue management is the lowest in the entire assessment and requires urgent actions in the MFSA Action Plan.

- Finally, the sample city has a good financial reporting system according to the *Financial reporting, disclosure, and transparency* area, but has shown restricted disclosure policy in recent years.

3.6. Step 6: The MFSA Action Plan

The final and the most important step of the MFSA process is to draft and execute a specific Action Plan, which will enable the municipality to complete the loop of self-assessment by capturing key actions for the issues and bottlenecks identified. The Action Plan translates the results and lessons learned from previous steps of the MFSA into specific actions that help improve the city's financial health for the short and medium term. This final step focuses on the actions that include specific

policy targets and actions, responsible stakeholders, timeframe and budgets, followed by expected results.

MFSA Action Plan: Guiding Principles

The MFSA Action Plan typically takes place over one to five years. Previous work on the MFSA show that the best results have been obtained during this timeframe, as it can easily account for the evolving reality on the ground and unexpected market changes. The Action Plan will make a clear distinction between the short-list (high priority – short-term implementation) actions and the long-list (lower priority – medium-term implementation) activities, with a dichotomy between the direct or indirect implementation (requiring the decisions of upper levels of government).

The Action Plan Consultation Process should start at the beginning of the MFSA process to ensure the success of the proposed agenda. The consultation process should involve all relevant stakeholders from the early stages to understand the process and to make their contributions in identifying appropriate and well-defined solutions. The Expected Results of the MFSA Action Plan will focus on several policy objectives based on the findings from the diagnostic stages. Although the sample provided to this summary of methodology is indicative, the list can be expanded to meet the needs of the municipality. Some typical expected results of the MFSA Action Plan can be to improve revenue sources, to better manage expenditures, to improve the financial management practices for realistic budgeting, to increase the creditworthiness and service sustainability.

The MFSA Action Plan must clearly define the Roles and Responsibilities of each relevant stakeholder.

- The Action Plan is usually drafted by the same administrative department that has carried out the MFSA analysis, together with contributing departments and partners.
- The Action Plan is then made public upon its approval by the mayor and the city council. The experience in SEE shows that MFSA achieves a higher level of accountability and institutional commitment if it is made public on the municipality's website, the press, or on social media platforms.
- When the results of the MFSA Action Plan are dependent on the central government, previous experiences show that best results have been achieved if the municipality enters into partnership agreements with the respective higher-level authorities. This approach has proved to be very successful in reaching quantifiable targets on local revenue mobilization, intergovernmental transfers, shared taxation, and other reforms.

The following section summarizes the results of the MFSA diagnostic in a formal Action Plan, with priority actions derived from the analysis. The table below shows the short-list of actions (priority actions) that can be implemented in the shortest time frame for the sample municipality. Appendix D of the MFSA Methodology[44] provides over 50 specific possible actions (long list), and a detailed guidance for outlining a long list of potential actions based on a systematic reading of the results of previous steps.

[44] Catherine Farvacque-Vitkovic, Mihaly Kopanyi. 2019. "Better Cities, Better World - A Handbook on Local Governments Self-Assessments." World Bank Group.

Table 35. MFSA Action Plan: example of sample municipality[45]

Objective	Specific action	Expected results	Time frame	Cost estimate	Responsible entity
Increase creditworthiness	Reorganize tax administration with computerized databases, easy payment systems, and collection, billing, and enforcement procedures.	Tax revenues start increasing third year and reach 25%, 60%, and 100% increase, respectively, on 2013 results by 2018.	Years 1-5	Sh$20,000 million	Council to approve plans; revenue department to implement
	Lobby with municipal associations to increase central government transfers at least to the level of inflation (73% in last 5 years).	Increase transfers from 4.4% per year to 7.3%.	Year 1-5 continues	No cost	Mayor to lobby
Increase service sustainability	Increase expenditures for repair and maintenance (R&M) to double gradually by 2018. Additional 10% increase on year above the trend.	Better services, more reliable assets.	Year 1-5 continues	Increase R&M expenditure from Sh$3,900 million to Sh$7,800 million	Council to approve; service departments to implement
	Maintain revenues from land development fee by charging developers for off-site infrastructure; improve monitoring and enforcement.	Maintain revenue in the range of Sh$5,000 million per year or even above if possible.	Year 1-5 continues	Sh$5,000 million	Planning and revenue departments
	Increase investments.	Infrastructure investment on-budget increased to 20,000 (from 10,000 plan) and additional 3,000-5,000 off-budget investments per year.	Year 1-5 continues	Sh$10,000 million additional budgeted expenditure with Sh$5,000 million loan disbursement	Planning and finance departments to plan; council to approve
Control expenditure	Revise the system and procedures for subsidizing current expenditures of service entities, measure performance, and introduce rules for performance-based subsidization.	Reduce amount spent on subsidizing service and subordinated entities, while improving performance.	Year 1-5 continues	No cost	Finance department and service entities
Improve budget reality	Increase budget reality by good analyses, conservative forecasting, and disciplined planning.	Balanced budget maintained in planning and implementation, actual/plan ratios within (+/-) 5% of plans.	Year 1-5 continues		Planning and finance departments to plan; council to approve

The Solution Package provided is indicative of what an Action Plan can entail, but is not restricted to those actions. In practice, municipalities may identify other potential actions that would be specific to the local context and particularities. Best practices show that the short list of actions should only include the activities that can be realistically achieved in the short-to-medium term, given the municipality's financial and human resource capacity. The short list table can be customized and expanded by each municipality to accommodate all possible actions required for achieving the best results possible.

[45] ibid

4. MFSA Analysis for Constanța

Continuing the in-depth general MFSA methodology presented in the previous section, this chapter provides a preliminary model of work for the Constanța Municipality. The preliminary analysis stems from the data provided by the municipality and the tables have been completed with the assistance of the Constanta team. Even if this preliminary MFSA model for Constanța follows a generic financial framework modeled by international best practices, it is however important to note that a deep-dive factual analysis into the main local revenues and expenditures of Constanța are presented in Chapter 4 of this document.

This analysis pertains to the first three steps of the MFSA methodology as presented in *Figure 1 - The main steps used by the MFSA analysis*. While the financial projections and the financial management assessment will be exclusively operated by the financial officers of the Constanța City Hall, the MFSA Action Plan (Step 6) results will be provided in the conclusions section of this document.

By using the guidelines of rating agencies and PEFA, this preliminary MFSA analysis aims to provide a unified framework that will support future evidence-based policy-making for the Constanța Municipality, allowing it to benchmark its financial ratio results with more than 70 South-Eastern European cities, as presented in Annex 2.

4.1. Step 1: Constanța Core Databases

The first step of the MFSA analysis for Constanța includes the core and supplementary financial databases, aimed to provide an outlook of the local government revenues and expenditures. The core financial databases include standard financial data generated from the municipal reports, structuring the municipality's revenues and expenditures by current, capital, and financial sources. The second set includes supplementary tables, with items that are not typically recorded within regular budgets or financial reports.

Core Financial Databases

The prerequisite of this MFSA preliminary analysis is to transpose the financial data generated by the municipality of Constanța in a standardized international format, which could then be benchmarked to other municipalities. The standardized format help bring raw data from different accounting classifications into a consolidated report whose results can be easily compared across cities and provide better access to external financing.

The Constanța MFSA Core Financial Database – Revenues table below structures total revenues of the municipality into four main categories: current revenues, capital revenues, financial transactions, and subsidies. The data used in the structured financial report has been generated from the Constanța local budget implementation account – revenues (Annex 12). Given that this analysis for Constanța is preliminary, the table contains an additional column to the right, which accounts for the actual cells used in Budget Annex 12 to gather the information for the year 2018 (cells may differ for previous years).

Table 36. Constanța MFSA Core Financial Database—Revenues[46]

Item	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	Anexa 12
Total revenues	**673,320,624**	**780,235,593**	**735,217,392**	**742,688,101**	**519,238,489**	**L9**
I. Current revenues	**563,629,614**	**732,632,046**	**697,116,357**	**725,902,372**	**497,046,638**	**L11**
Revenues from central/higher government	**196,180,868**	**179,631,335**	**225,689,688**	**252,973,777**	**78,028,845**	**L43**
1. Shared tax	175,759,728	176,503,926	193,329,132	226,384,875	65,200,687	**L45**
2. Unconditional operation transfers	-	-	-	-	-	**L44**
3. Conditional/earmarked operation transfers	20,421,140	3,127,409	32,360,556	26,588,902	12,828,158	**L46 + L47 + L48**
Own current revenues	**372,825,095**	**578,072,198**	**484,493,303**	**479,914,577**	**431,472,487**	
1. Local taxes and levies	**340,198,191**	**534,327,197**	**446,274,969**	**450,166,312**	**390,570,959**	
- Personal income tax	161,196,068	349,913,638	269,876,967	272,408,610	196,559,534	**L13**
- Property tax	103,140,460	106,851,421	113,501,693	116,046,377	123,867,432	**L31**
- Business tax	30,199,641	32,055,193	31,523,430	33,546,421	35,441,590	**L42 - L43**
- Administrative taxes and permits	11,015,984	11,952,633	11,047,203	12,736,463	14,972,904	**L85**
- Special taxes	12,545,522	12,201,427	19,762,705	14,477,751	19,004,982	**L97**
- Other local taxes	22,100,516	21,352,885	562,971	950,690	724,517	**L60**
2. Fees and charges	**12,290,425**	**13,413,550**	**19,667,764**	**17,069,253**	**20,471,706**	
- Fees on urban services (city fee, utility charges)	1,353,036	1,564,994	2,294,036	3,151,732	3,291,473	**L77**
- Fines and penalties	3,769,089	4,009,123	5,468,270	6,014,172	7,935,075	**L88**
- Other	7,168,300	7,839,433	11,905,458	7,903,349	9,245,158	**L94-L97**
3. Revenues from assets	**14,907,952**	**5,136,656**	**5,297,100**	**5,419,003**	**7,791,268**	**L64 - L66**
- Interests and dividends	10,410,747	-	-	-	-	**L74 + L70**
- Revenues from leasing/renting assets	4,497,205	5,136,656	5,283,038	5,346,431	7,643,050	**L68**
- Other revenues	-	-	14,062	72,572	148,218	**L73**
4. Revenue from municipal enterprises	52,178	123,308	186,836	274,027	183,860	**L66**
5. Other revenues	-	-	-	-	-	
II. Capital revenues without loans and reserves	**5,376,349**	**25,071,487**	**13,066,634**	**6,985,982**	**12,454,694**	**L109**
III. Financing proceeds from reserves and debts	**-**	**-**	**-**	**-**	**-**	**L116**
IV. Subsidies	**104,314,661**	**22,532,060**	**25,034,401**	**9,799,747**	**9,737,157**	
- Public administration subsidies	53,048,924	10,286,352	10,817,189	6,151,301	9,519,814	**L126**
- EU subsidies	51,265,737	12,245,708	14,217,212	3,648,446	217,343	**L179+L224**
Planned total revenues (from initial plan)	739,473,000	781,780,780	622,123,399	666,808,080	488,234,383	**D9**
Actual/Plan variations (%)	91.05	99.80	118.18	111.38	106.35	

[46] Note: the figures presented in this table have been generated from the Constanța local budget implementation account – revenues (Annex 12). The right column of the table represents the actual cells used in Annex 12 to gather the information for the year 2018 (cells may differ in previous years). The currency used in the table is RON (Romanian Leu).

The trend in recent years shows that own current revenues have seen a decrease since 2015, showing that the LG has not been able to collect local taxes and levies as in previous years. The downward trend was mainly the result of lower allocations from the central government, stemmed from the VAT and personal income tax share. However, the capital revenues managed to increase in 2018, but not sufficiently to cover the current level of expenditures. The EU subsidies have seen a steep decrease in recent years, accounting for the growing budget deficits shown in the following table.

The Constanța MFSA Core Financial Database – Expenditures table below structures total expenditures of the municipality into four subsections: current expenditures, capital expenditures, financing, and loan proceeds items corresponding to the revenue section analyzed above.

Table 37. Constanța MFSA Core Financial Database—Expenditures[47]

Item	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual
Total expenditures	**684,992,261**	**639,634,027**	**695,969,799**	**704,240,401**	**604,242,710**
I. Current expenditures	**566,064,108**	**612,933,170**	**591,251,605**	**690,678,580**	**549,304,751**
1. Labor (wages, salaries, taxes and charges)	200,224,854	202,193,194	223,671,561	271,288,245	126,339,465
2. Goods and services	189,321,616	197,659,641	193,187,306	226,662,330	239,194,311
3. Interest and borrowing costs	545,721	214,780	-	525,000	2,100,000
4. Current subsidies to service entities	87,441,410	60,402,305	112,757,071	111,130,353	78,850,472
5. Current grants and transfers	3,266,393	3,942,847	2,562,301	1,255,590	2,149,164
6. Other transfers	28,158,081	24,560,001	6,343,210	8,341,754	17,336,364
7. Non-reimbursable projects financing	12,708,513	45,804,618	2,887,470	7,112,576	4,504,047
8. Social care/welfare support	25,045,473	24,727,187	33,347,573	32,682,332	36,272,486
9. EU-funded projects	12,708,513	45,804,618	2,887,470	7,112,576	4,647,609
10. Other current expenditures	6,643,534	7,623,979	13,607,643	24,567,824	37,910,833
II. Capital expenditures	**59,019,017**	**63,276,668**	**107,605,664**	**22,155,189**	**65,867,805**
III. Financing	**73,133,829**	**9,613,013**	**-**	**9,238,000**	**7,262,000**
IV. Loan proceeds	**(516,180)**	**(384,206)**	**-**	**(955,792)**	**(4,667,286)**
V. Balance total with loan proceeds	**(11,671,637)**	**140,601,566**	**39,247,593**	**38,447,700**	**(85,004,221)**
Planned total expenditures (initial plan)	739,473,000	781,780,780	814,737,878	902,670,153	758,544,383
Actual/Plan variations (%)	92.63	81.82	85.42	78.02	79.66

[47] Note: the currency used in the table is RON (Romanian Leu).

Expenditure levels have shown an upward trend from 2014 to 2017, with a steep decrease in 2018 due to financial allocation changes made at national level. The decrease in expenditures recorded in 2018 could not keep up with the lower revenues, revealing a budgetary deficit of RON 85 million. The total balance was however compensated by budgetary surplus of RON 270 million recorded in the previous year. The highest decrease was recorded in labor costs and current subsidies to service entities, which could become detrimental in the next years if suboptimal financing continues. The variation between the planned and actual expenditures have seen an increase in recent years, showing that the municipality should address its budgeting process.

Supplementary Databases

The Actual/Plan Analysis is important tool that allows the municipality's financial office to analyze the efficiency of budget planning and execution. This area is particularly important for external financing, as institutional investors emphasize on the reliability of budgets. The table below compares the actual revenue and expenditure data by each line, identifying areas that need attention. The items presented correspond to the lines presented in the MFSA Core Financial Database – Revenues.

Table 38. Constanța's Actual/Plan Analysis Measured by Average Absolute Deviation

Item	2014 A/P%	2015 A/P%	2016 A/P%	2017 A/P%	2018 A/P%	Average absolute deviation from 100%
Total revenues	**91.05**	**99.80**	**118.18**	**111.38**	**106.35**	**9.01**
I. Current revenues	**103.49**	**116.32**	**115.24**	**112.09**	**106.38**	**10.70**
Revenues from central/higher government	**123.99**	**110.55**	**127.11**	**107.80**	**89.40**	**16.01**
- Shared tax	111.33	110.66	113.68	101.04	88.08	9.73
- Unconditional operation transfers	0.00	0.00	0.00	0.00	0.00	0.00
- Conditional/earmarked operation transfers	5752.43	104.77	432.44	250.57	96.81	1228.68
Own current revenues	**96.49**	**123.69**	**113.36**	**116.22**	**113.55**	**14.07**
Local taxes and levies	**93.42**	**118.10**	**108.12**	**113.80**	**108.06**	**10.93**
- Personal income tax	81.40	125.76	112.49	114.56	104.31	15.15
- Property tax	106.30	107.04	104.15	110.60	108.52	7.32
- Business tax	110.99	104.86	101.87	115.09	118.04	10.17
- Administrative taxes and permits	110.76	111.28	104.73	125.35	127.79	15.98
- Special taxes	117.86	101.24	198.84	109.98	113.71	28.33
- Other local taxes	103.61	101.58	4.52	231.88	176.71	61.85
2. Fees and charges	**106.03**	**113.64**	**164.09**	**125.12**	**153.22**	**32.42**
- Fees on urban services (city fee, utility charges)	107.04	133.30	157.56	119.29	107.78	25.00
- Fines and penalties	134.23	111.36	156.24	133.65	184.24	43.94
- Other	95.32	111.51	169.35	121.59	154.09	32.24
3. Revenues from assets	**140.24**	**171.22**	**211.04**	**152.22**	**154.96**	**65.94**
- Interests and dividends	127.74	0.00	0.00	0.00	0.00	85.55

Item	2014 A/P%	2015 A/P%	2016 A/P%	2017 A/P%	2018 A/P%	Average absolute deviation from 100%
- Revenues from leasing/renting assets	181.34	171.22	210.48	150.18	152.01	73.05
- Other revenues	0.00	0.00	0.00	0.00	0.00	0.00
4. Revenue from municipal enterprises	**0.00**	**123.31**	**149.47**	**182.68**	**122.57**	**55.61**
5. Other revenues	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
II. Capital revenues without loans and reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
III. Financing proceeds from reserves and debts	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
IV. Subsidies	**79.53**	**22.55**	**145.69**	**51.06**	**46.42**	**49.23**
- Public administration subsidies	105.61	26.43	62.95	32.05	45.38	47.76
- EU subsidies	63.34	20.07	0.00	0.00	0.00	83.32

The table shows specific areas that cause deviations between plans and actual figures, emphasizing the importance of monitoring the actual/plan performance not only for the total budget, but also for each line and year by year. The highest variation in the table is the *Conditional/earmarked operation transfers*, specifically for 2014. The absolute deviation for this item was also large in 2016 and 2017, highlighting that Constanța's financial department should monitor the budgeting process in this area to apply corrective measures. Subsidies also reflect an issue for forecasting yearly local budgets, with extreme variations from year to year.

A successful practice used by MFSA cities in South-Eastern Europe is to identify areas of persistent deviation between the plans and actual figures (more than 10%), proposing corrective measures to improve planning reality.

The Expenditures by Functions table is a useful supplementary dataset that helps monitoring the municipality's performance on various services and public functions. Constanța's model on the MFSA methodology provides a small deviation from the model based on the Classification of Functions of Governments initiated by the United Nations and widely used by the OECD, the IMF and the World Bank, in the sense that it creates a distinct section for public order and crime prevention (usually included in urban services).

The data used in the structured financial report have been generated from the Constanța local budget implementation account – expenditures (Budget Annex 13). Given that this analysis for Constanța is preliminary, the table contains an additional column to the right, which accounts for the actual cells used in Budget Annex 13 to gather the information for the year 2018 (cells may differ for previous years).

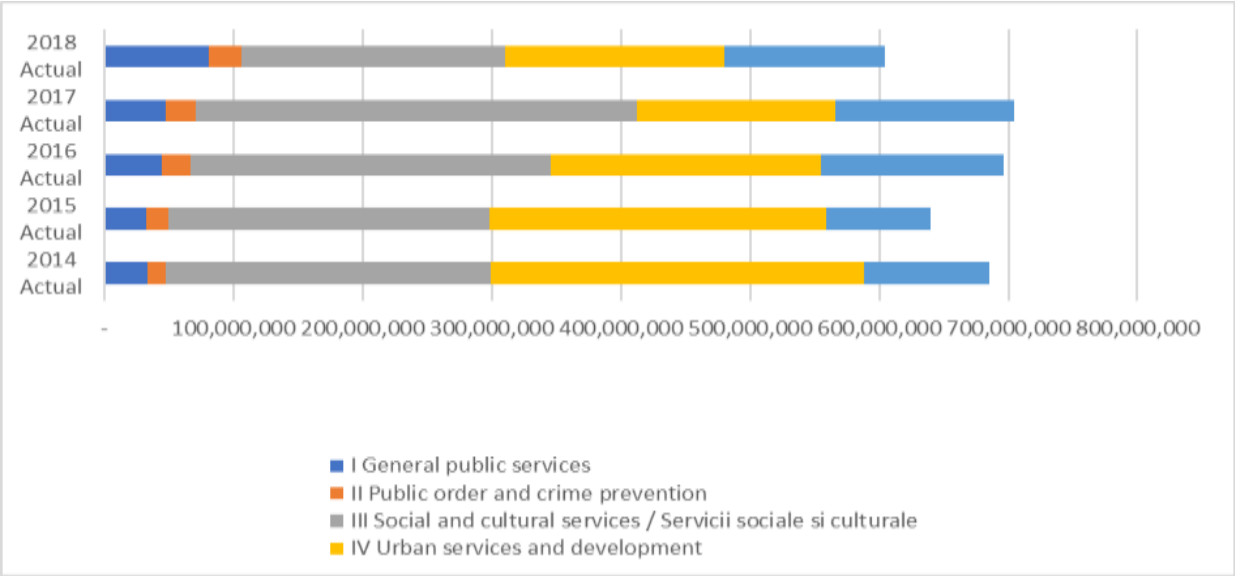
Table 39. Constanța's Expenditures by Functions[48]

Items	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	Anexa 13
Total expenditures	**684,992,260**	**639,634,049**	**695,969,798**	**704,240,401**	**604,242,710**	**L12**
I. General public services	**33,637,655**	**32,689,080**	**44,428,781**	**46,972,456**	**81,022,423**	**L13**
1. Public authorities	32,913,731	32,306,954	44,223,760	45,540,657	79,750,019	**L14**
2. Other general administration services	177,903	167,346	205,021	232,637	573,925	**L17**
3. Public debt and loans	546,021	214,780	-	1,199,162	698,479	**L23**
II. Public order and crime prevention	**14,011,328**	**17,126,977**	**22,452,062**	**23,818,652**	**24,913,017**	**L29**
III. Social and cultural services	**251,848,307**	**248,521,101**	**279,070,012**	**341,156,805**	**204,489,055**	**L37**
1. Education	163,524,926	162,641,921	174,358,060	211,569,890	48,603,988	**L38**
2. Healthcare	4,211,497	4,335,336	5,235,119	6,386,833	11,759,714	**L53**
3. Culture and religion	8,682,743	5,032,982	5,637,852	7,630,548	5,680,265	**L60 - L71**
4. Recreation and sport	28,745,016	24,358,264	23,921,646	27,818,989	33,307,048	**L71**
5. Social welfare	46,684,125	52,152,598	69,917,335	87,750,545	105,138,040	**L77**
IV. Urban services and development	**289,211,688**	**260,379,467**	**208,533,378**	**153,973,643**	**169,957,725**	**L89**
1. Housing, services and public development	201,947,059	170,535,435	136,273,316	63,633,733	90,523,285	**L90 - L97**
2. Street lighting and rural electrification	13,692,779	10,381,570	8,861,539	17,171,278	11,833,682	**L97**
3. Environmental protection	73,571,850	79,462,462	63,398,523	73,168,632	67,600,758	**L100**
V. Commercial services	**96,283,282**	**80,917,424**	**141,485,565**	**138,318,845**	**123,860,490**	**L106**
1. Fuel and energy	68,097,718	39,224,751	87,574,822	73,457,117	29,160,636	**L113**
2. Agriculture	-	-	-	-	-	**L117**
3. Transport	27,971,024	40,558,806	53,910,743	64,861,728	94,639,149	**L122**
4. Other	214,540	1,133,867	-	-	60,705	**L107**
VI. Balance total with loan proceeds	**(11,671,636)**	**140,601,544**	**39,247,594**	**38,447,700**	**(85,004,221)**	**L138**
Planned total expenditures (initial plan)	739,473,000	781,780,780	814,737,878	902,670,153	758,544,383	**E12**
Actual/Plan variations (%)	92.63	81.82	85.42	78.02	79.66	

[48] Note: the figures presented in this table have been generated from the Constanța local budget implementation account – expenditures (Annex 13). The right column of the table represents the actual cells used in Annex 13 to gather the information for the year 2018 (cells may differ in previous years). The currency used in the table is RON (Romanian Leu).

The above table highlights that the general public services expenditures for Constanța in 2018 increased by more than 70%, even if the municipality recorded a deficit of RON 85 million (16% of expenditures). Large decreases were recorded in the social and cultural services (mainly education) and fuel and energy. The drop in educational expenditures largely is due to the decision of the Central Government to stop providing earmarked revenues for local administrations, to pay the salaries of school personnel, and instead these salaries are paid directly from the central budget. Costs with fuel and energy refer primarily to the subsidies paid to the district heating company. There is again a pattern of divergence between the actual and plan variations (which reached more than 20% in 2018), reflecting a need to monitor budgeting procedures and apply corrective measures for future years, in order to ensure a stable and dependable yearly projection.

Figure 5. Constanța's Expenditures by Functions



The Constanța City Hall has been quite conservative with respect with taking on debt. The only active debt the municipality has on its books is a loan from the European Bank for Reconstruction and Development (EBRD), for the acquisition of new public transport vehicles. The loan is for around EUR 18 million, for ten years, with a variable interest rate, and a grace period of 2 years.

Table 40. Constanța's Summary List of Debts and Terms[49]

List of debts	Bank or institute	Year of loan subscription	Initial amount	Duration	Currency	Maturity	Grace period	Interest rate (fixed, variable)	Rate %
Direct loan	EBRD	2016	82,568,062	10	local	2026	2 years	Variable	4.03% - 4.59%

Projected principal payments for the current loan should be relatively easy to cover, as they will likely be a small share of total expenditures. Even for 2019, the year with the highest loan rate, outstanding debt was less than 5% of revenues. Moreover, the municipality carried over a budget surplus of over RON 185 million from the previous year, providing sufficient liquidity for debt payments.

[49] Note: the numbers generated in this table have been provided by the Financial Unit of the Constanța City Hall.

Table 41. Constanța's Aging List of Debt (in 1,000 RON)

		2017	2018	2019	2020	2021	2022	2023	2024
Items	**Conditions**	**Actual**	**Actual**	**Actual**	**Planned**	**Planned**	**Planned**	**Planned**	**Planned**
1. EBRD – buses for public transport PUC - 2016-2026	**Floating rate 4.5%**								
- Outstanding		10,813	9,362	41,286	14,132	10,601	11,391	11,181	10,971
- Principal repayment		9,238	7,262	39,265	12,321	10,000	10,000	10,000	10,000
- Interest charge		525	2,100	2,021	1,811	1,601	1,391	1,181	971

The Capital Investment Plan of the Municipality of Constanța is relatively modest if only the expenditures planned for 2020 are taken into consideration. Currently planned capital investments for 2020, are less than 15% of projected own revenues. Constanța, like most other sub-national administrations in Romania, has not commenced a practice of multi-annual capital investment planning. Capital investments are planned on a year-to-year basis, which enables municipalities to keep their budget balanced, but, at the same time this is not conducive to taking on larger strategic investments. Larger projects are disproportionately funded from EU funds, which provide a clear multi-annual framework, and which "force" municipalities to undertake investments in an accelerated manner, to avoid losing the EU grants (i.e., if they don't spend the grants by a certain deadline, they lose them).

Table 42. Constanța's Capital Investment Plan for 2020

			Budget
No.	**Project name/description**	**Status**	**2000**
1.	Rehabilitation, modernization and procurement of facilities for the Nicolae Rotaru'Sports high-school in Constanta	Ongoing	6,206,000
2.	Consolidation of the supporting structure, elevation and modernization of the table tennis hall in the 'Nicolae Rotaru' Sports high-school, Constanta	New project approved through Local Government Decision 247/2019	3,954,000
3.	Increasing the energy efficiency of the building that houses the 'Ovidius' Theoretical high-school in Constanta	New project approved through Local Government Decision 409/2019	10,875,000
4	Rehabilitation of Middle School no. 16 'Marin Ionescu Dobrogianu' in Constanta	New project approved through Local Government Decision 147/2018	6,343,000
5	Rehabilitation, modernization and procurement of facilities for the'Amicii'day-care kindergarden in Constanta	New project approved through Local Government Decision 274/2019	6,058,000
6	Rehabilitation, modernization and attic extension for Day-care facility no.1, Adamclisi street no.1, Constanta municipality	New project approved through Local Government Decision 243/2019	3,678,000
7	Rehabilitation, modernization and attic extension for Day-care facility no.2, Aleea Malinului no.4, Constanta municipality	New project approved through Local Government Decision 241/2019	5,885,000
8	Rehabilitation, modernization and attic extension for Day-care facility no.5, Aleea Mimozelor no.4, Constanta municipality	New project approved through Local Government Decision 246/2019	3,731,000
9	Building modular housing units and the related technical	Ongoing	1,507,000

No.	Project name/description	Status	Budget 2000
	construction works in Constanta municipaliy, Henri Coanda Social Campus, Stefanita Voda street (Zone II)- 10 apartment buildings, through RAEDPP		
10	Execution of refurbishment works for existing playgrounds in Constanta municipality	Ongoing	10,415,000
11	Urban development programme of Constanta municipality, Northern Seafront area	New project approved through Local Government Decision 113/2010	4,083,000
12	Rehabilitation of roads	Transfer to the public utility company Confort Urban	11,583,000
13	Capital repairs and modernization of the Cumpenei Passageway	Ongoing	6,000
14	Alexandru Alexandridi street: str. Govora - str. Otopeni section	Ongoing	260,000
15	Prelungirea Eduard Caudella street: str. Rapsodiei - str. Constantin Bobescu section	Ongoing	142,000
16	Mamaia Boulevard, sector located between I.G. Duca street and Mircea cel Bătrân street	Ongoing	6,000,000
17	Paul Constantinescu street: C-tin Bobescu street- Eduard Caudella street section	New project approved through Local Government Decision 541/2019	243,000
18	Dimitrie Cuclin street: C-tin Bobescu street- Rapsodiei street section	New project approved through Local Government Decision 541/2019	120,000
19	Constantin Bobescu street: Dumitru Kiriac street - Aleea Muzicii section	New project approved through Local Government Decision 541/2019	530,000
20	Nicolae Kirculescu street: Ionel Perlea street - Haricleea Darclee street section	New project approved through Local Government Decision 541/2019	230,000
21	Haricleea Darclee street: Tutus Cergau street- Clopoțeilor street section	New project approved through Local Government Decision 541/2019	445,000
22	Aleea Madrigal: Rapsodiei street - Eduard Caudella street section	New project approved through Local Government Decision 541/2019	148,000
23	Ion Perlea street: C-tin Bobescu street section	New project approved through Local Government Decision 541/2019	261,000
24	Tomis Boulevard: Mamaia Boulevard- Ion Rațiu street section	New project approved through Local Government Decision 541/2019	6,071,000
25	Expansion of Meșterul Manole street: Mareșal Ion Antonescu street - DN39E limit section	New project approved through Local Government Decision 539/2019	550,000
	TOTAL		**89,326,000**

To balance budgets, particularly when there is a shortfall, public administrations tend to first cut expenditures on capital investments. Thus, when there is little predictability with budget revenues, capital investments tend to be small and erratic. However, when a local administration can expect revenues to grow at a healthy rate, they are also more prone to take on more ambitious capital investment programs.

A higher predictability of budget revenues requires a higher reliance on own-source revenues. For Romanian sub-national administrations, the most reliable source of own-source revenues are the taxes and fees they levy. Even so, their capacity to levy those taxes and fees is restricted by the Fiscal Code, which provides either fixed rates or fixed brackets for local taxes and fees.

Constanța generates between 25%-30% of its revenues from local taxes and fees – a substantial rate, when compared with other large cities in Romania. Moreover, as the table below illustrates, these taxes and fees are a reliable source of revenue. The experience of 2018 has shown that the Personal Income Tax revenues, and the revenues from the Value Added Tax – the other two major sources of revenue for the local administration, can be adjusted by the Central Government, causing substantial challenges for local budget planning.

In 2017, PIT and VAT tax revenues represented around 70% of Constanța's budget revenues – in 2018, PIT revenues dropped by 27% and VAT revenues dropped by 69%, due to drastic changes undertaken by the Central Government. Obviously, these fluctuations caused by Central Government decisions can stymie local budget planning efforts, and raises the importance of taxes and fees that are under local control (or at least, under greater local control).

Table 43. Tax Performance Database

Tax/Fee	2014	2015	2016	2017	2018
1. Property taxes - households					
- Tax base (amount billed)	22,900,000	24,000,000	28,500,000	21,000,000	26,600,000
- Tax collected	24,221,814	25,369,206	22,314,899	21,932,364	27,996,617
- Tax performance (%)	106%	106%	78%	104%	105%
- Stock of arrears	4,300,185	4,300,185	4,628,634	6,916,176	6,735,600
- Arrears collected	361,587	328,449	415	180,576	1,298,861
- Tax performance (%)	8%	8%	0%	3%	19%
2. Property taxes - businesses					
- Tax base (amount billed)	60,000,000	60,000,000	56,000,000	60,000,000	61,000,000
- Tax collected	61,741,567	65,466,594	64,978,657	65,061,666	67,246,564
- Tax performance (%)	103%	109%	116%	108%	110%
- Stock of arrears	59,721,521	93,408,302	136,096,713	136,423,770	123,957,877
- Arrears collected	33,686,781	42,688,411	327,057	12,465,893	2,564,996
- Tax performance (%)	56%	46%	0%	9%	2%
3. Land taxes - households					
- Tax base (amount billed)	4,020,000	4,040,000	7,000,000	7,100,000	7,500,000
- Tax collected	4,218,440	4,143,667	7,281,682	7,939,215	7,379,312
- Tax performance (%)	105%	103%	104%	112%	98%
- Stock of arrears	1,597,785	1,771,256	2,064,209	2,782,837	3,075,749
- Arrears collected	173,471	292,953	718,628	6,241	329,175
- Tax performance (%)	11%	17%	35%	0%	11%
4. Land taxes - businesses					
- Tax base (amount billed)	5,900,000	7,200,000	13,000,000	12,400,000	12,650,000
- Tax collected	7,533,624	6,948,852	13,919,508	14,355,051	11,164,221
- Tax performance (%)	128%	97%	107%	116%	88%
- Stock of arrears	5,864,827	8,827,741	8,619,240	10,166,232	7,657,104
- Arrears collected	2,962,914	8,827,741	1,546,992	2,527,328	1,737,646
- Tax performance (%)	51%	100%	18%	25%	23%
5. Taxes on agricultural land					
- Tax base (amount billed)	414,127	384,000	480,000	424,000	390,000
- Tax collected	392,010	423,926	432,039	407,018	405,013
- Tax performance (%)	95%	110%	90%	96%	104%
- Stock of arrears	132,312	153,675	175,656	154,398	146,906
- Arrears collected	21,363	21,981	21,258	7,492	5,347

Tax/Fee	2014	2015	2016	2017	2018
- Tax performance (%)	16%	14%	12%	5%	4%
6. Legal fees					
- Tax base (amount billed)	9,174,512	4,200,000	4,000,000	5,700,000	6,000,000
- Tax collected	5,033,005	4,499,176	4,574,908	6,351,063	9,675,705
- Tax performance (%)	55%	107%	114%	111%	161%
- Stock of arrears	184,858	273,390	438,225	571,528	647,342
- Arrears collected	88,532	164,835	133,303	75,814	68,287
- Tax performance (%)	48%	60%	30%	13%	11%
7. Hotel taxes					
- Tax base (amount billed)	600,000	650,000	0	0	0
- Tax collected	692,084	815,128	139,112	47,786	28,586
- Tax performance (%)	115%	125%	N/A	N/A	N/A
- Stock of arrears	651,025	705,056	702,518	604,533	597,289
- Arrears collected	54,031	705,056	97,985	7,244	229,122
- Tax performance (%)	8%	100%	14%	1%	38%
8. Event fees					
- Tax base (amount billed)	240,000	300,000	600,000	500,000	550,000
- Tax collected	348,386	867,571	573,805	732,438	794,771
- Tax performance (%)	145%	289%	96%	146%	145%
- Stock of arrears	133,555	104,218	696,414	692,888	636,279
- Arrears collected	10,571	34,768	3,526	56,609	81,932
- Tax performance (%)	8%	33%	1%	8%	13%
9. Vehicle tax - households					
- Tax base (amount billed)	12,720,000	14,000,000	14,000,000	14,000,000	14,000,000
- Tax collected	14,115,982	14,659,164	14,427,521	15,417,448	16,414,496
- Tax performance (%)	111%	105%	103%	110%	117%
- Stock of arrears	14,097,655	15,397,267	17,101,895	17,488,885	18,755,997
- Arrears collected	1,299,612	1,704,628	91,497	57,253	1,707,729
- Tax performance (%)	9%	11%	1%	0%	9%
10. Vehicle tax - businesses					
- Tax base (amount billed)	9,950,000	11,500,000	11,500,000	11,000,000	10,000,000
- Tax collected	10,877,696	10,906,780	10,217,100	10,196,342	10,267,749
- Tax performance (%)	109%	95%	89%	93%	103%
- Stock of arrears	28,291,931	28,922,662	24,118,987	24,815,557	26,590,499
- Arrears collected	630,731	475,781	1,044,002	1,098,622	7,439,302
- Tax performance (%)	2%	2%	4%	4%	28%
11. Charges and fees for the issuance of operation licenses					
- Tax base (amount billed)	5,000	5,000	5,000	0	0
- Tax collected	625	154	0	0	0
- Tax performance (%)	13%	3%	0%	N/A	N/A
- Stock of arrears	0	0	0	0	0
- Arrears collected	0	0	0	0	0
- Tax performance (%)	100%	100%	100%	100%	100%
12. Charges and fees for the use of, or authorization of the use of goods and operations					
- Tax base (amount billed)	3,695,000	4,114,000	4,841,000	3,648,000	5,474,000
- Tax collected	4,164,868	4,806,396	6,165,892	7,152,407	7,935,988
- Tax performance (%)	113%	117%	127%	196%	145%
- Stock of arrears	303,786	325,310	543,901	400,172	483,771
- Arrears collected	21,524	218,591	143,729	83,599	54,768
- Tax performance (%)	7%	67%	26%	21%	11%
13. Taxes on land sales					
- Tax base (amount billed)	7,000,000	8,000,000	8,000,000	6,000,000	1,800,000
- Tax collected	9,577,924	9,915,693	10,311,815	5,955,136	2,579,649
- Tax performance (%)	137%	124%	129%	99%	143%

Tax/Fee	2014	2015	2016	2017	2018
- Stock of arrears	0	0	0	0	0
- Arrears collected	0	0	0	0	0
- Tax performance (%)	100%	100%	100%	100%	100%

With respect to liabilities, Constanța is in relatively good shape, although substantial changes have been introduced through Central Government decisions. For example, up to 2018, the Central Government would transfer earmarked funds to local administrations for the payment of teacher's salaries. In 2018, it decided to pay teacher's salaries directly from the Central Budget, thus "artificially" reducing local budget revenues, as well as the correspondent expenditure. On the flip side, the Central Government decided to pass on to local governments the responsibility of covering the subsidies for persons with disabilities, without providing however any additional transfers for these payments. District heating subsidies are among Constanța's main challenges, as these can be reduced only through ambitious investments in the rehabilitation and modernization of the district heating system.

Table 44. Constanța's Financial Liabilities—City Dues, End of the Fiscal Year

	2014	2015	2016	2017	2018
Public entities (city dues to entities)					
- Education	163,524,926	162,641,921	174,358,060	211,569,890	48,603,988
- Health	4,211,497	4,335,336	5,235,119	6,386,833	11,759,714
- Culture, recreation, and religion	37,427,759	29,391,246	29,559,498	35,449,537	38,987,313
- Social assistance	46,684,125	52,152,598	69,917,335	87,750,545	105,138,040
- District Heating PUC	68,097,718	39,224,751	87,574,822	73,457,117	29,160,636
- Public Transport PUC	16,129,733	18,264,146	22,180,722	34,370,780	49,278,704
- Confort Urban PUC	11,841,291	22,294,660	31,730,021	30,490,948	45,360,445
- Water and Wastewater PUC	8,365,521	10,022,467	8,100,097	8,806,529	10,196,317
Private entities (city dues to entities)					
- Solid Waste Management PUC	73,488,195	69,439,995	55,298,426	64,362,103	57,404,441
Labor (wages, salaries)	31,965,907	30,238,878	43,021,329	45,413,439	74,169,538
Total liabilities	461,736,672	438,005,998	526,975,429	598,057,721	470,059,136
Cash reserves end of fiscal year	56,940,939	192,614,479	231,862,073	270,309,773	185,305,552

By-and-large, Constanța has few issues with overdue liabilities to private contractors or suppliers. Covering district heating subsidies is an important burden on the local budget, and the delay in covering these subsidies generates issues for the district heating provider – RADET. District heating charge and subsidies are subject to variation in temperatures every year, so they are relatively difficult to plan for.

Constanța has few contingent liabilities. It has guaranteed in the past a loan undertaken by the Independent Company for the Administration of the Public Domain, to develop social housing units. The social housing units have been developed and the loan has been repayed already.

Table 45. Constanța's Contingent Liabilities[50]

	2016	2017	2018	2019	2020
Guarantee of credit undertaken by the Independent Company for the Administration of the Public Domain, for the development of social housing	25,169,502	12,863,199			

Constanța's Monthly Cash Balance table below, indicates that the municipality is quite liquid, and has managed to keep a positive cash flow, despite quite substantial changes in revenues and expenditures. Even if 2018 has been a year when Central Government changes have imputed much lower revenues and higher expenditures for the local administration, Constanța has managed to weather the storm with the help of a substantial budget surplus carried over from 2017.

Table 46. Constanța's Monthly Cash Balance for 2018

Fiscal year 2018	Cash Receipts	Cash Payments	Cumulative inflow	Cumulative outflow	Stock of cash
Carried over from previous fiscal year			270,309,773		270,309,773
January	64,266,956	29,412,800			
February	54,002,188	38,676,300	388,578,917	68,089,100	320,489,817
March	105,707,157	76,414,716	494,286,074	144,503,816	349,782,258
April	70,047,389	40,362,409	564,333,463	184,866,225	379,467,238
May	29,739,364	46,315,284	594,072,827	231,181,509	362,891,318
June	33,203,864	44,739,831	627,276,691	275,921,340	351,355,351
July	70,432,384	67,177,880	697,709,075	343,099,220	354,609,855
August	17,892,995	80,382,038	715,602,070	423,481,258	292,120,812
September	15,804,869	14,201,451	731,406,939	437,682,709	293,724,230
October	31,207,375	37,106,494	762,614,314	474,789,203	287,825,111
November	85,627,436	89,660,128	848,241,750	564,449,331	283,792,419
December	-58,693,488	59,502,324	789,548,262	623,951,655	165,596,607

As most other sub-national administrations in Romania, Constanța does not have a clear overview of all the assets is owns or manages. Moreover, given that these assets are managed by a variety of entities, it is difficult to precisely determine development and maintenance costs associated with these assets. The table below provides a general overview of Constanța's assets.

Table 47. Constanța's Municipal Assets

Service sectors and functions	VALUE
Public assets managed by Constanta City Hall	
- Lands	1,824,823,133
- Roads and sidewalks	313,102,190
- Bridges, walkways, passages	12,132,440
- Parks	17,694,519
- Other assets	415,097,670
Public assets managed by Confort Urban	
- Lands	4,859,575
- Roads	989,775,499
- Passages	4,387,798
- Indicators	4,387,798
- Parking	2,785,088
- Traffic lights	12,659,876

[50] ibid

Service sectors and functions	VALUE
- Radars	318,164
- Crosswalk indicators	256,964
Public assets managed by the Independent Company for the Administration of the Public Domain	
- School lands	100,075,047
- Schools	311,737,262
- Heating plants	1,374,261
Public assets managed by the Independent Company for the Distribution of Heat	
- Lands	10,165,010
- Distribution network124187188	
- Heating plants	313,961
- Instalations transferred from the Main Heating Plant (Electrocentrale)	220,784
Private assets of Constanta City Hall	
- Lands	2,506,842,895
- Parking	688,075,953
- Other hard assets	10,753,199
- Indicators	4,387,798
- LED panels and concert scene	5,553,176
- Sirens	47,014
- Ovidius Square	36,608
- Historic district	6,512
- Mamaia Promenade	561,199
- Vraja Marii-Cazino-Port Tomis	815,083
- Seniorilor Park	9,197
Private assets managed by Confort Urban	
- Parking	3,229,048,667
- Stairways in the area of Zorile Restaurant and Beach Modern	59,000
- Lands	18,919,708
Private assets managed by the Independent Company for the Administration of the Public Domain	
- Social housing	230,076,873
Private assets managed by pre-university public schools	
- Heating units	683,257

4.2. Step 2: Constanța Historical Analysis

The second step of the MFSA for Constanța provides an insight on historical data analysis, with emphasis on the financial position snapshot, the main revenue sources, and the main current expenditures. The overarching objective of the historical analysis is to systematically analyze municipal data uploaded into the MFSA core financial tables, explore trends, and quantify growth indexes or other ratios for future projections.

The historical analysis process presented by the MFSA methodology helps to approach the tendencies by using geometric average/mean to calculate annual growth indexes and linear trends, to easily create forecasting patterns for future years.

Historical Analysis: Core Summary Tables

The historical analysis is based on the core financial tables generated at Step 1, but also introduces the *Financial Position Snapshot and Historical Tendencies* table to communicate results. Other

relevant data analyzed on this step pertains to main revenue sources and current expenditures, analyzing their growth over the years and the share on total structure.

The Financial Position Snapshot for Constanța helps municipal officers communicate financial trends from the perspective of capital market players or other relevant stakeholders. Besides the clear advantage of benchmarking the results with other regional municipalities, the data also helps institutional stakeholders draw better investment decisions in Constanța, helping the city attract more finances.

The *Calculation* column shows how the data has been generated, while the growth indexes estimate the average changes in the past five years (between 2014 and 2018), developed by the geometric average of growth ratios. The structure of current revenues is obtained by dividing the current revenues for 2014 and 2018 by the figures resulting for each individual item in the table.

Table 48. Constanța Financial Position Snapshot and Historical Tendencies[51]

Items	Calculation	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	Growth indexes (%)	Structure (% of current revenues)	
								2018	2014
1. Current revenue / Venituri curente		**563,629,614**	**732,632,046**	**697,116,357**	**725,902,372**	**497,046,638**	-3.1	100	100
2. Operating expenditure / Cheltuieli de operare		**565,518,387**	**612,718,390**	**591,251,605**	**690,153,580**	**547,204,751**	-0.8	110.1	100.3
3. Gross operating margin/ balance / Deficit/Excedent bugetar	**(1–2)**	**-1,888,773**	**119,913,656**	**105,864,752**	**35,748,792**	**-50,158,113**	n/a	-10.1	-0.3
4. Interests and borrowing costs / Dobanzi si finantarea imprumuturilor		545,721	214,780	0	525,000	2,100,000	40.1	0.4	0.1
5 Current margin/balance / Excedent/Deficit curent	**(3–4)**	**-2,434,494**	**119,698,876**	**105,864,752**	**35,223,792**	**-52,258,113**	n/a	-10.5	-0.4
6. Debt principal repayment / Rate de plata ale imprumuturilor		73,133,829	9,613,013	0	9,238,000	7,262,000	-43.9	1.5	13.0
7. Net margin - net current balance / Deficit/Excedent net	**(5–6)**	**-75,568,323**	**110,085,863**	**105,864,752**	**25,985,792**	**-59,520,113**	-5.8	-12.0	-13.4
8. Capital revenues / Venituri de	**(9+10+11)**	**166,631,949**	**240,218,026**	**269,963,108**	**287,095,502**	**207,497,403**	5.6	41.7	29.6

[51] Note: the currency used in the table is RON (Romanian Leu).

Items	Calculation	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	Growth indexes (%)	Structure (% of current revenues)	
								2018	2014
capital									
9. Own capital revenues / Venituri de capital proprii		5,376,349	25,071,487	13,066,634	6,985,982	12,454,694	23.4	2.5	1.0
10. Investment grants and donations / Granturi de investitie si donatii		###########	22,532,060	25,034,401	9,799,747	9,737,157	-44.7	2.0	18.5
11. Cash reserve from previous years / Lichiditati din anii precedenti	Bank reconciliation	56,940,939	192,614,479	231,862,073	270,309,773	185,305,552	n/a	37.3	10.1
12. Capital investment expenditures / Investitii de capital		**59,019,017**	**63,276,668**	**107,605,664**	**22,155,189**	**65,867,805**	2.8	13.3	10.5
13. Investment balance before loan / Deficit/Excedent pentru investitii, fara ratele de imprumut	**(7+8–12)**	**32,044,609**	**287,027,221**	**268,222,196**	**290,926,105**	**82,109,485**	26.5	16.5	5.7
14. Loan proceeds (disbursed) Rate de imprumut	actual	0	0	0	0	0	N/A	0.0	0.0
15. Overall closing balance with loans / Deficit/Excedent cu ratele de imprumut luate in considerare	**(13+14)**	**32,044,609**	**287,027,221**	**268,222,196**	**290,926,105**	**82,109,485**	26.5	-163.7	-1696.6

The first two lines of the table compare operating revenues and expenditures that establish the gross operating margin from line 3, which is the most important health test of a municipality. The MFSA guideline suggests that a negative operating margin could signal an unsustainable long-term operation of the municipality. However, the legislative changes in the share of VAT and personal income tax in 2018 have affected the gross operating margin all Romanian municipalities, leaving little room for fast recoveries.

The innovative revenues used by municipalities around the world, as presented in Chapter 5, could present some alternatives to increasing the own-source revenues in Constanța and allocate expenditures towards revenue-generating services, providing a long-term sustainability in the budget.

The table presenting Constanța's historical analysis of main revenue sources aims to summarize the data presented in Step 1 by looking at the share of main sources of municipal funding. The

results are important for the decision-making stakeholders within the municipality, as it provides high-level findings on different revenue generating tendencies and helps them better allocate their resources towards better revenue generation.

Table 49. Constanța Main Revenue Sources[52]

Items	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	Average annual growth index (%)	% Structure (total revenue)
Total current revenue	**563,629,614**	**732,632,046**	**697,116,357**	**725,902,372**	**497,046,638**	-3.1	95.7
1. Revenues from central/higher government	**196,180,868**	**179,631,335**	**225,689,688**	**252,973,777**	**78,028,845**	-20.6	15.0
- Shared taxes	175,759,728	176,503,926	193,329,132	226,384,875	65,200,687	-22.0	12.6
- Unconditional transfers	-	-	-	-	-	N/A	0.0
- Conditional transfers	20,421,140	3,127,409	32,360,556	26,588,902	12,828,158	-11.0	2.5
2. Own revenue	**372,825,095**	**578,072,198**	**484,493,303**	**479,914,577**	**431,472,487**	3.7	83.1
- Local taxes and levies	340,198,191	534,327,197	446,274,969	450,166,312	390,570,959	3.5	75.2
- Local fees, charges	12,290,425	13,413,550	19,667,764	17,069,253	20,471,706	13.6	3.9
- Local asset revenues	14,907,952	5,136,656	5,297,100	5,419,003	7,791,268	-15.0	1.5
- Revenues from municipal enterprises	52,178	123,308	186,836	274,027	183,860	37.0	0.0
- Local other revenues	-	-	-	-	-	N/A	0.0
3. Total noncurrent revenue without loan	5,376,349	25,071,487	13,066,634	6,985,982	12,454,694	23.4	2.4
4. Financing	**-**	**-**	**-**	**-**	**-**	N/A	0.0
5. Subsidies	**104,314,661**	**22,532,060**	**25,034,401**	**9,799,747**	**9,737,157**	-44.7	1.9
- Public administration subsidies	53,048,924	10,286,352	10,817,189	6,151,301	9,519,814	-34.9	1.8
- EU subsidies	51,265,737	12,245,708	14,217,212	3,648,446	217,343	-74.5	0.0
Total revenue	**673,320,624**	**780,235,593**	**735,217,392**	**742,688,101**	**519,238,489**	-6.3	100.0
1. State transfers/grants	196,180,868	179,631,335	225,689,688	252,973,777	78,028,845	N/A	15.0
2. Own revenues	372,825,095	578,072,198	484,493,303	479,914,577	431,472,487	3.7	83.1
3. External revenues	51,265,737	12,245,708	14,217,212	3,648,446	217,343	N/A	0.0

The figures in the above table highlight two main findings: the largest annual growing indexes are provided by the total noncurrent revenues and municipal enterprises (although amounting to a very small percentage in the total revenue), while the subsidies (particularly EU subsidies) and local asset revenues have seen large decreases in recent years. While the revenues from the central government may see a multi-year decrease due to the national debt, EU subsidies (which amounted

[52] Note: the currency used in the table is RON (Romanian Leu).

for approximately 9% of total current revenues in 2014) can help Constanța finance its capital expenditures and balance current deficits.

Constanța's historical analysis of main current expenditures supplements the previous table focusing on revenue sources, summarizing on the lessons learned by the data provided by the municipality in previous years. The historical tendencies of expenditures do not only compare year-to-year growth indexes, but also provide a clear image on how different categories of costs can play a role in the city's progress in coming years. Once again, the findings are important for decision-making stakeholders as it can help them draw a clear image on how to allocate resources in upcoming budgetary processes.

Table 50. Constanța Main Current Expenditures

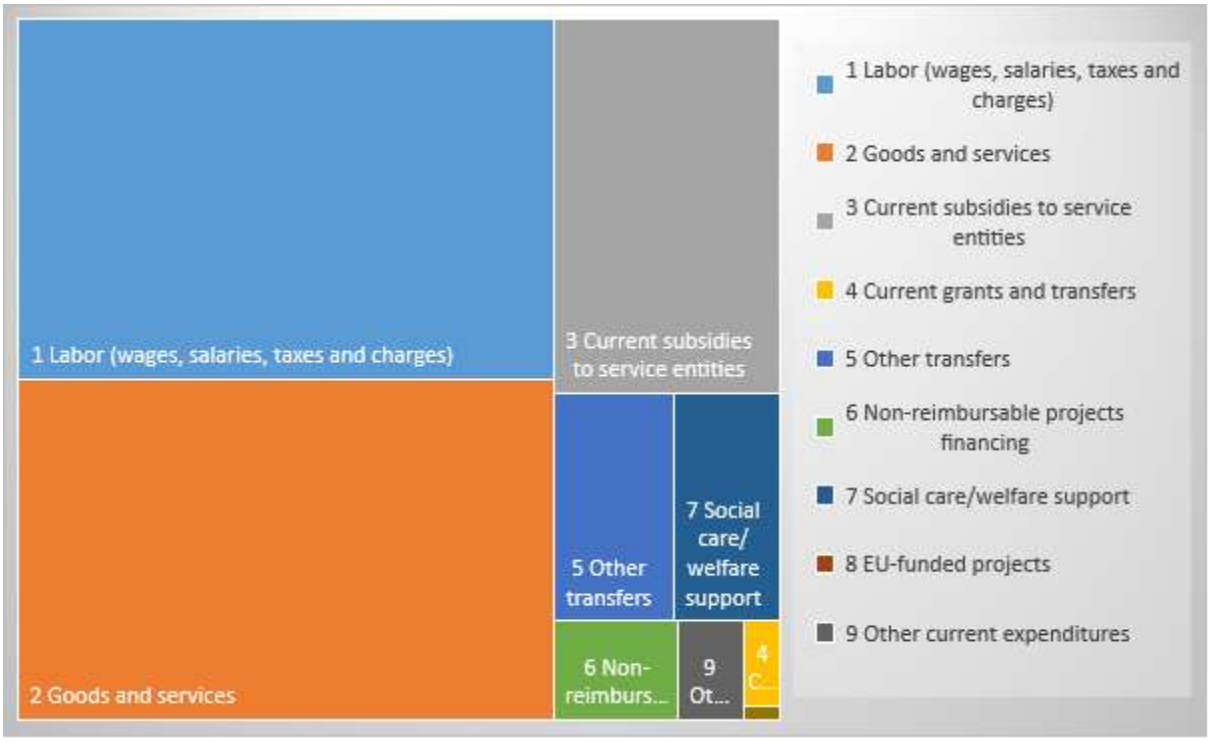
Items	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	Average annual growth index (%)	% Structure (total current expenses)
Operating expenses	**552,809,874**	**566,913,772**	**588,364,135**	**683,041,004**	**542,700,704**	-0.5	99.9
1. Labor (wages, salaries, taxes and charges)	200,224,854	202,193,194	223,671,561	271,288,245	126,339,465	-10.9	23.3
2. Goods and services	189,321,616	197,659,641	193,187,306	226,662,330	239,194,311	6.0	44.0
3. Current subsidies to service entities	87,441,410	60,402,305	112,757,071	111,130,353	78,850,472	-2.6	14.5
4. Current grants and transfers	3,266,393	3,942,847	2,562,301	1,255,590	2,149,164	-9.9	0.4
5. Other transfers	28,158,081	24,560,001	6,343,210	8,341,754	17,336,364	-11.4	3.2
6. Non-reimbursable projects financing	12,708,513	45,804,618	2,887,470	7,112,576	4,504,047	-22.8	0.8
7. Social care/welfare support	25,045,473	24,727,187	33,347,573	32,682,332	36,272,486	9.7	6.7
8. EU-funded projects	0	0	0	0	143,562	100.0	0.0
9. Other current expenditures	6,643,534	7,623,979	13,607,643	24,567,824	37,910,833	54.6	7.0
Interest and borrowing costs	545,721	214,780	0	0	341,487	-11.1	0.1
Current expenses total	**553,355,595**	**567,128,552**	**588,364,135**	**683,041,004**	**543,042,191**	-0.5	100.0

The *Other current expenditures* section for Constanța highlights a large deviation in the past five years, suggesting that the municipality should assess all costs corresponding to this category through an internal audit. The decrease in non-reimbursable projects financing, although amounting to only 0.8% of total current expenses, also reflects a tendency of fewer projects funded through external resources.

Labor costs represent the highest share of Current Expenditures. These costs have registered a dramatic downturn in 2018, largely because costs with teachers' salaries are now covered directly by the central government, instead of earmarked transfers to the local budgets. On the flipside, however, the central government has removed the thresholds for salaries of local administration staff, which has led to a growth in expenditures with administrative personnel in most local administrations in Romania. The reasoning behind this move was related to the need to properly incentivize local government staff, though it is reasonable to expect increasing budgetary pressures as a result.

The figure below shows the average main current expenses for Constanța between 2014 and 2018. It highlights that labor, goods and services, and current subsidies to service entities represented the bulk of expenditures made by the municipality (although 2018 has shown a tendency to decrease labor costs). In this sense, it is recommended for the municipality to focus on non-reimbursable projects financing and EU-funded projects, to ensure a complementary revenue-generating source for the municipality, in addition to local taxes and government grants.

Figure 6. Constanța's average main current expenses (2014-2018)



4.3. Step 3: Constanța Ratio Analysis

The third step of the preliminary Municipal Finance Self-Assessment for Constanța is to use a series of key financial ratios and benchmarks based on international standards and in harmony with those used by rating agencies. This step is very important for comparing Constanța's financial performance both to the MFSA benchmarks and the results obtained by more than 70 municipalities in the region (whose findings can be seen in Annex 2).

Although the following table presents 24 key ratios suggested by the MFSA guideline, they are divided by five different areas to be analyzed in this section. The ratios included in the table below are indicative and not mandatory targets, although they are important for potential investors when they reach the shortlist of potential investment destinations.

Table 51. Constanța Key Financial Ratios

Indicator (definition)	Benchmark	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual
1. Creditworthiness / Bonitate pentru credite						
- Operating savings before interests/Current revenue / Economii operationale inainte de dobanzi/Venituri curent	> 30%	**-0.34%**	**16.37%**	**15.19%**	**4.92%**	**-10.09%**
- Net operating surplus (after debt service)/ Current revenue / Surplus operational net (dupa serviciul datoriei)/Venituri curente	> 20%	**-0.43%**	**16.34%**	**15.19%**	**4.85%**	**-10.51%**
- Investment balance before loan/Total revenue / Balanta de investitii inainte de imprumut/Venituri totale	> –15%	**4.76%**	**36.79%**	**36.48%**	**39.17%**	**15.81%**
- Financing gap after loan proceeds/Total revenue / Deficit de finantare dupa culegerea veniturilor din imprumuturi/Venituri totale	> –5%	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
2. Indebtedness / Grad de indatorare						
- Debt outstanding/Operating surplus (capacity to clear its debt) / Datorii neplatite/Surplus de operare (capacitatea de a acoperii datoriile)	< 10%	**0.00%**	**0.00%**	**0.00%**	**3.77%**	**5.05%**
- Debt service/Total current revenue / Creante/Venituri totale curente	< 10%	**0.00%**	**0.00%**	**0.00%**	**1.49%**	**1.88%**
- Debt outstanding/Budget total / Datorii neplatite/Buget total	< 60%	**0.00%**	**0.00%**	**0.00%**	**11.37%**	**16.61%**
- Borrowing/Current revenues / Imprumuturi/Venituri curente	< 15%	**0.00%**	**0.00%**	**0.00%**	**1.49%**	**1.88%**
- Operating margin/Interest payment / Costuri operationale/Dobanzi	> 15			**0**		
- Debt outstanding/Total current revenue / Datorii neplatite / Venituri totale curente	< 100%	**0.00%**	**0.00%**	**0.00%**	**11.37%**	**16.61%**
3. Fiscal autonomy / autonomie fiscala						
- Own (taxes + fees + unconditional grants)/Total current revenue / Venituri proprii/Total venituri curente	> 80%	**96.38%**	**99.57%**	**95.36%**	**96.34%**	**97.42%**

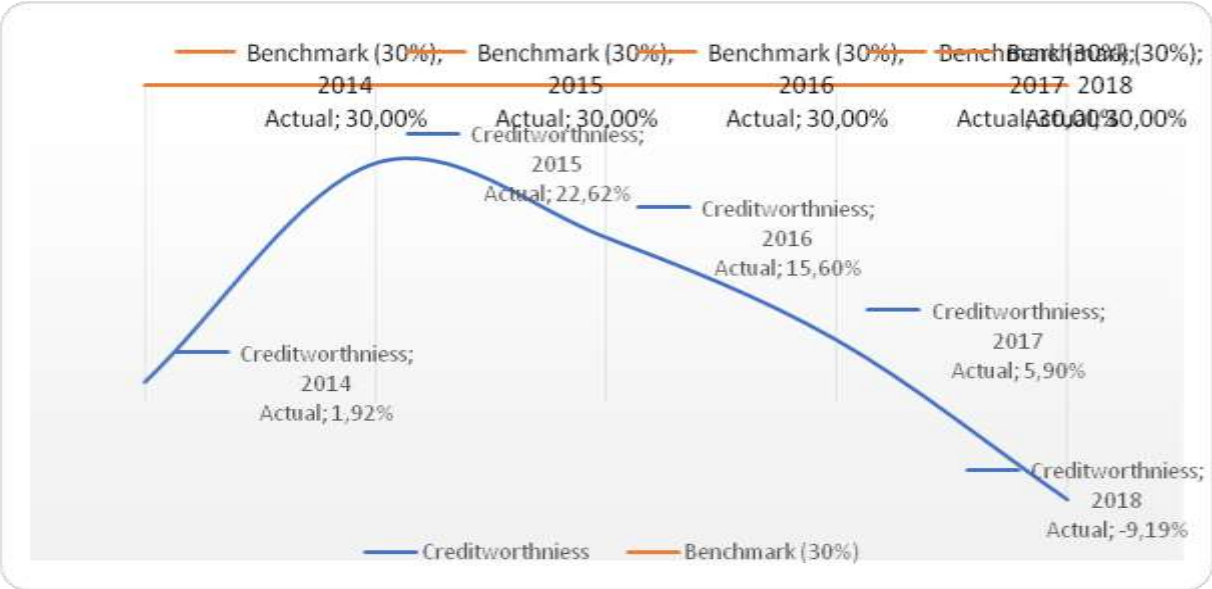
Indicator (definition)	Benchmark	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual
4. Capital investment effort / Investitii de capital						
- Capital investment expenditure/Current revenue / Investitii de capital/Venituri curente	> 40%	**10.47%**	**8.64%**	**15.44%**	**3.05%**	**13.25%**
- Capital investment expenditure/Total expenditure / Investitii de capital/Cheltuieli totale	> 30%	**8.77%**	**8.11%**	**14.64%**	**2.98%**	**12.69%**
- Current margin/Capital investment expenditure / Cheltuieli de operare/Investitii de capital	> 25%	**-4.12%**	**189.17%**	**98.38%**	**158.99%**	**-79.34%**
- Capital investments from earmarked grants/Total investment expenditure / Investitii de capital din transferuri conditionate/Investitii totale	< 50%	**27.07%**	**78.62%**	**5.06%**	**37.77%**	**10.10%**
5. Level of service sustainability / Sustenabilitate operationala						
- Maintenance works expenditure / Operating expenditures / Cheltuieli de mentenanta/Cheltuieli operationale	> 15%	**No data available**				
- Taxes collected / Taxes levied / Taxe colectate/Taxe aplicate	> 90%	**107.99%**	**106.84%**	**104.00%**	**107.12%**	**107.12%**
- Fees collected/Fees billed / Comisioane colectate/Comisioane aplicate	> 90%	**72.80%**	**118.03%**	**119.78%**	**144.56%**	**153.08%**
6. Quality of operations / Calitatea operatiunilor						
- Salaries and wages/Operating actual expenditures / Salarii/Cheltuieli operationale	< 40%	**35.41%**	**33.00%**	**37.83%**	**39.31%**	**23.09%**
- Number of municipal employees/1,000 citizens / Numar de angajati municipali/1000 cetateni	< 25	**2.29**	**2.27**	**2.27**	**2.26**	**2.23**
- Actual revenue/Planned revenue / Venituri realizate/Venituri planificate	95%<A/P<105%	**91.05%**	**99.80%**	**118.18%**	**111.38%**	**106.35%**
- Arrears amount/Net cash (end of the year) / Valoarea restantelor/Lichiditati (la finalul anului)	< 1	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Indicator (definition)	Benchmark	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual
- Financial resources (cash + cash like) / Financial obligations (due liabilities + arrears) / Resurse financiare (cash si alte lichiditati)/Obligatii financiare (pasive si creante)	> 1	**1.13**	**1.47**	**1.48**	**1.49**	**1.47**

The MFSA guidelines recommend using this particular set of financial ratios, as they convey important messages for long-term recommendations and creditworthiness. The following sections of this chapter will focus on detailing the six main ratios indicated in the table above, with the aim to enhance the knowhow of comparing Constanța's financial standing to the MFSA benchmarks and regional municipalities.

Creditworthiness reveals whether the investment balances and finances gaps are under control. The main creditworthiness indicator, measured by the ratio of gross operating savings to current revenues in gross and net form, can help inform the municipality outlook for creditworthiness or the need to improve the foundation for future borrowing. The chart below shows that even if the skewed data for 2018 (the large drop is due to changes in governmental allocations that resulted in the large deficit of over RON 85 million) is well beyond the benchmark, previous years also highlight the lack of capacity to finance investments.

Figure 7. Constanța's Creditworthiness: Operating Savings/Current Revenues[53]



The solvability of the local administration is also difficult to capture from budget executions, because of the way budget surpluses are treated. In essence, at the end of the year, the budget surplus of each local administration is moved to an account of the National Treasury – i.e. it disappears from the current account of the local administration. In practice, these budget surpluses are made available to local administrations in the next fiscal year, but there have been several instances where the Central Government intended to use these cash reserves for its own expenditures. Because of this accounting "gimmick", local administrations may seem less solvent than they actually are. Similarly, for local

[53] Note: the creditworthiness benchmark is set at 30%

administrations with budget deficits, the National Treasury, usually steps in to cover these deficits, so, some of these local administrations, particularly the smaller ones, may seem more solvent than they actually are. The table below indicates the budget surplus registered by Constanța from 2014 to 2018.

Table 52. Constanța Budget Surplus by Year (in RON) and share of Current Revenues

2014	2015	2016	2017	2018
56,940,939	192,614,479	231,862,073	270,309,773	185,305,552
10.1%	26.3%	33.3%	37.2%	37.3%

The indebtedness ratios, which help the municipality measure its debt repayment capacity, also indicate that the Municipality of Constanța is largely in good shape. The local administration has been very prudent in taking on debt. The only major loan on its books, is a credit for the purchase of new public transport busses took from the European Bank for Reconstruction and Development. Despite relatively large fluctuations in revenues, due to Central Government decisions, the local administration should have no problems to pay back the EBRD loan.

The fiscal autonomy ratio helps decision-makers measure the dependency of local funds generated by the municipality to the total current revenues earned in a fiscal year. The indicator, measured by the ratio of own-source revenues to total current revenues, helps investors understand how the municipality had boosted its own-revenue sources in recent years. Lenders, investors, or other market partners are interested in the autonomy of local decision makers when making strategic investments. Constanța performs quite well on this indicator, not only when looking at collection ratios, but also when compared to other municipalities in Romania. Thus, Constanța has one of the highest own-source revenues (with PIT excluded) per capita among the 40 county capitals in Romania.

The figure below shows that the Constanța municipality has strong fiscal autonomy, with figures well-above the index benchmark and other municipalities in the region. It is however important to continue this trend in the next years to ensure the municipality can undertake large-scale investments, both with own-source revenues and non-reimbursable funds.

The capital investment effort ratios are indicative of a city's financial health, as capital investments above benchmarks signal good investment policies in place. In contrast, low capital investments signal that a city manages financing operations, but fails to generate enough revenues to fund the level of capital investments, or simply chooses to direct resources elsewhere. The main capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was volatile in the analyzed timeframe for Constanța. This is the one indicator where Constanța could significantly improve in coming years, as the level of capital investments is below what the municipality could realistically undertake. This would require the development of a clear investment plan, and strengthening the institution to follow up on this plan.

Figure 8. Constanța's Fiscal Autonomy: Own-Source Revenues/Current Revenues[54]

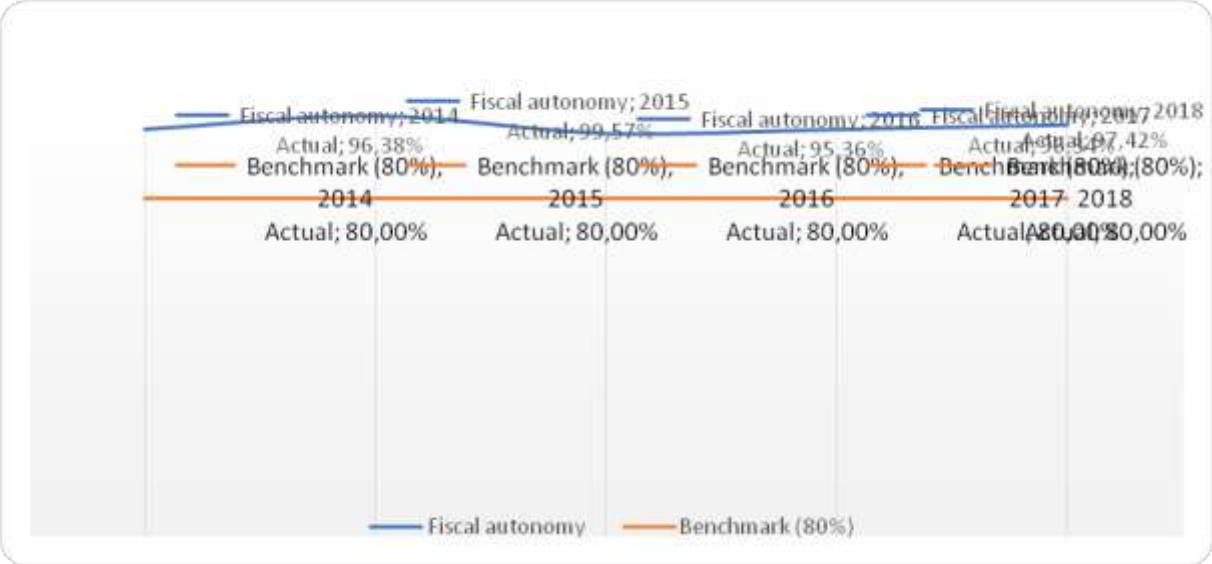
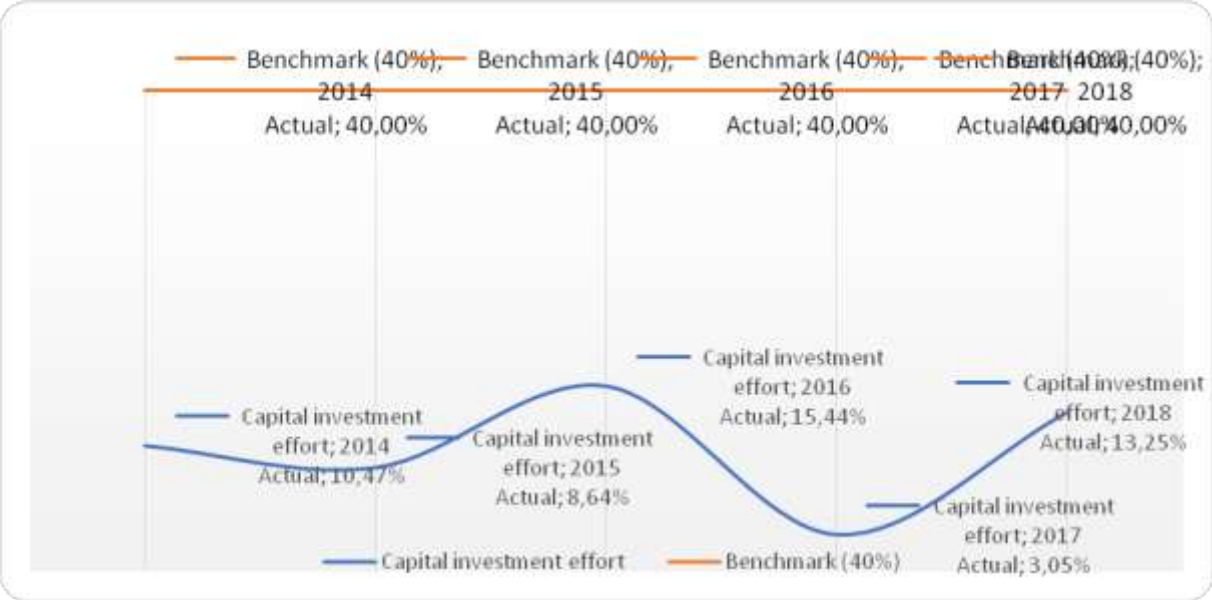


Figure 9. Constanța's Capital Investment: Capital Investment Expenditure/Current Revenues[55]



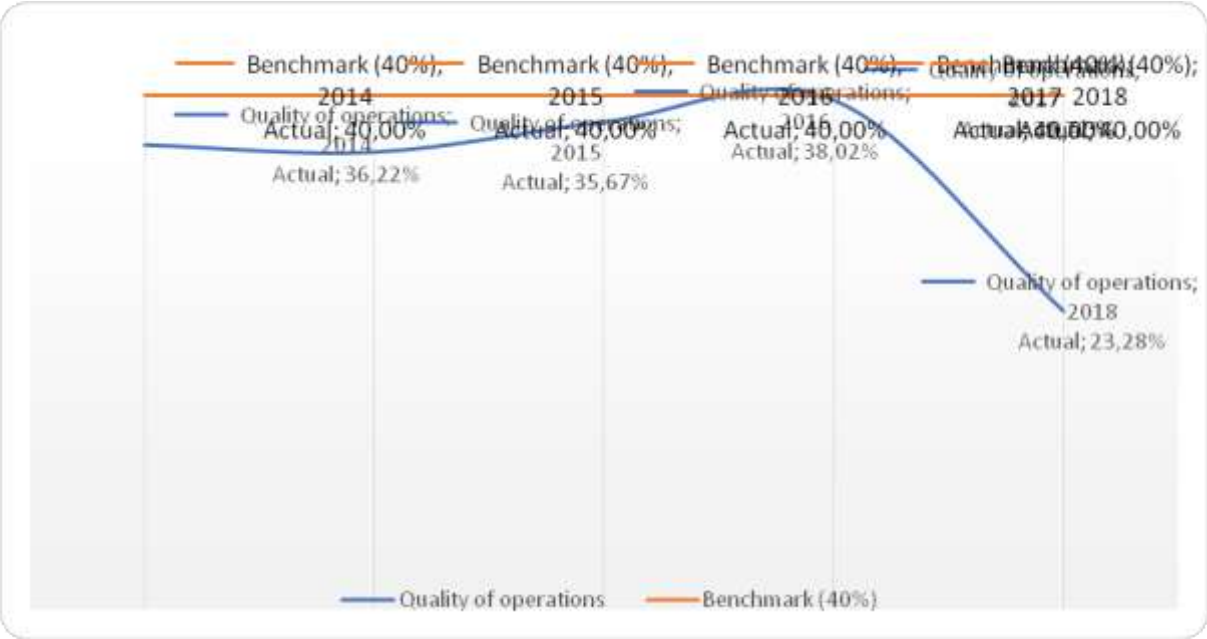
The level of service sustainability ratios, which shows how much the municipality considers maintaining its assets, are not available in this preliminary MFSA analysis for Constanța due to insufficient data. The data on maintenance costs is difficult to collect, and the task is made even harder by the fact that service delivery is done by a number of public and private companies, each with their own individual balance sheets.

The quality of operations ratios contains a series of indicators that reflect the extent to which the municipality manages to perform its day-to-day work. The indicator analyzed in this assessment divides the salaries and wages by operating expenditures, showing the composition of expenditure

[54] Note: the fiscal autonomy benchmark is set at 80%
[55] Note: the capital investment benchmark is set at 40%

and management of workforce resources. The numbers for the years prior to 2018 may seem high, primarily because of the salaries for teachers, which are no longer covered from the local budget, but from earmarked transfers from the central government. In 2018, the central government decided to stop transferring funds for teachers' salaries to local administrations, and instead pay the teachers straight from the central budget. As far as the costs with the public administration are concerned, Constanța, and Romanian cities in general, do well when compared to other EU cities/countries, but staff costs have been on the rise following the decision by the central government to remove local salary thresholds. It is also important to keep in mind that it is difficult to get an accurate picture of the total staff in public and private companies that provide local public services.

Figure 10. Constanța's Quality of Operations: Salaries and Wages/Operating Expenses[56]



The analysis of all ratios provided in this section are the first part of the set of recommendations to be included in the MFSA Action Plan, which will be found on Chapter The findings will be corroborated with the information obtained from the *Financial Management Assessment* section, presented below.

4.4. Step 4: Constanța Financial Projections

As opposed to the historical trends analyzed in the second step of the preliminary MFSA for Constanța, the financial projection is a useful tool for forecasting the future financial situation of the municipality over a timespan of five years. Although the tool is not mandatory for the MFSA Action Plan which will enable the municipality to capture key actions for the issues identified in previous stages, it is useful for budgeting future revenues and expenditures databases.

The MFSA Financial Projections tool has a role of exploring main driving factors and challenges to the local financial sustainability, helping identify corrective policy measures and supplementing the forecasting of future budgets. The guide, as presented in Chapter 2.4, provides a series of fundamental principles and turnkey procedures (as presented in figure 5).

The procedure follows a series of assumptions on the socio-economic environment, the tax performance and capital investment plan, debt databases, ratio analysis, and policy decisions, formulated in a conclusive summary. The assumptions help municipalities test:

[56] Note: the fiscal quality of operations benchmark is set at 40%

- A conservative scenario - past trends projections, forecasts based on significant changes, and potential governmental policy decisions with impact on the local administration, and

- An optimistic scenario – based on policy assumptions such as tax administration improvements, efficiency in expenditures structure, or borrowing against increased revenue and surpluses.

Sub-national administrations in Romania, when preparing a budget for the new year, have to also deliver three-year projections, using a number of assumptions provided by the Ministry of Public Finance. The table below includes the proposed budget for 2020, and the proposed projections for 2021, 2022, and 2023, for the Constanța budget. A balanced budget is proposed for 2021, 2022, and 2023, but a budget deficit is inbuilt for 2020. The budget deficit accounts for the budget surplus that will be carried over from 2019.

Table 53. Constanța Financial Projections

	2019	2020	2021	2022	2023
Total Revenues	**644,989**	**771,416**	**781,130**	**791,634**	**847,872**
- PIT	310,602	362,667	426,143	445,732	467,283
- Transfers from VAT	61,955	72,370	62,970	39,285	59,257
- Property Taxes	125,547	157,850	139,340	146,307	153,330
- Vehicle Taxes	32,857	32,400	29,967	31,466	32,976
- Other revenues	114,028	146,129	122,710	128,844	135,026
Total Expenditures	**830,294**	**887,845**	**781,130**	**791,634**	**847,872**
- Education	71,272	91,224	83,213	58,921	79,876
- Health	15,892	14,745	17,920	18,821	19,724
- Culture, recreation, religion	52,511	65,039	63,362	66,530	69,723
- Social assistance	128,353	146,195	129,669	136,049	142,691
- Street lighting	19,702	24,402	23,999	25,199	26,409
- Solid Waste Management	73,398	66,350	78,864	82,806	86,781
- Water and Wastewater	9,072	2,906	6,110	6,416	6,724
- Public transport	79,545	116,844	111,199	116,753	122,356
- Roads and bridges	52,328	65,115	69,669	73,152	76,663
- District heating	60,217	59,738	30,587	32,117	33,659
- Labor (wages, salaries)	91,417	118,790	113,110	118,769	124,469
- Other expenditures	116,497	116,497	53,428	56,101	58,797

4.5. Step 5: Constanța Financial Management Assessment

This step of the preliminary Municipal Financial Self-Assessment for Constanța progresses from the quantitative (financial) assessment towards the qualitative assessment, based on models and methodologies that have been successfully developed by international organizations to guide improvements in the public financial management areas.

The Financial Management Assessment is a customized version of the Public Expenditure and Financial Accountability assessment (PEFA),[57] which has been developed over the years to create a standard financial audit framework for national accounts and public sector entities. The FMA explores the underlying institutional, organizational, and management factors and capacities that

[57] More information of PEFA can be found on http://www.pefa.org/about.

determine the performance of the public sector, by using best practices developed over the years in collaboration with more than 80 municipalities.

The four thematic areas covered by the FMA contain four or five sets of questions that are summarized in a scorecard that can help improve the financial management performance of the municipality. The MFSA operator will select the answer that best reflects the situation encountered at the municipal level. The lowest scores in each area are then followed by proposed corrective measures, which will be part of the MFSA Action Plan.

Intergovernmental Relations

The intergovernmental relations area includes five questions related to: predictability of transfers, intergovernmental mandate, debt regulations, own revenue self-confidence, and expenditure spending flexibility. The thematic area assesses how the legal and regulatory framework at national level has an impact on the quality of local financial management. It is important to list all challenges found in this area and to be aware that potential external investors and lender banks are keen to learn if the intergovernmental framework is stable and supportive of the municipal financial capacity and stability. The table below shows how the staff of the Constanța Municipality has rated itself on the various dimensions of Intergovernmental Relations.

Table 54. Constanta FMA Analysis – Intergovernmental Relations

1. Intergovernmental Relations		Score proposed by administration
Predictability of transfers	A There is a mature and robust framework for the LG sector with clear definition of transfers. Any changes are made at a deliberate and predictable pace. Transfers are stable and predictable, regulated, timely transmitted; no ad hoc grants. B CG transfers are predictable annually, regulated, but delivery times may vary during the year; no ad hoc grants. C Transfers are not regulated but are by and large stable; ad hoc grants appear. D Transfers are unpredictable, and/or not regulated, and/or ad hoc grants are common.	**B**
Intergovernmental mandate arrangements	A Revenue and expenditure mandates are clearly stipulated by law and are respected. Any changes are made at a deliberate and predictable pace. B Revenue and expenditure mandates are stipulated, but not in harmony, rules are respected with some exceptions. Intergovernmental finance changes are mostly discussed with LGs. C Revenue and expenditure mandates are not well regulated, but rarely change. D Revenue and expenditure mandates are unclear, not fully respected, and subject to changes without prior announcement or discussions.	**B**
Debt regulations	A Debt financing is clearly regulated with market-based rules and insolvency framework; LG debt service is stable. B Debt financing is regulated; LG debt service is mostly timely. C Ministry (of finance) approves loans with no clear rules for debt	**A**

1. Intergovernmental Relations		Score proposed by administration
	financing. Payments may be delayed. D Debt financing is unregulated, loans may roll over, ad hoc short-term liquidity borrowing is common OR no borrowing is allowed.	
Own revenue self-confidence	A LG has the flexibility to change taxes/fees on a significant share of operating revenues, and increases are politically acceptable at the local level. LG has good collection power and capacities. Own revenues are predictable with clear visibility of future revenues. B LG has the flexibility to change base or rate of some taxes/fees, but increases are politically challenging at the local level. Collection power and capacity are reason- able with low incentives to increase revenues. Own revenues are substantial and somewhat predictable. C LG has no power to change base or rate of taxes/fees, may propose changes to the government/ministry. Own revenues are somewhat predictable. D LG has no power to change rates or base of taxes and fees. Own revenues are not predictable or are very low.	**B**
Expenditure spending flexibility	A Spending responsibility are highly stable and predictable over time. LG has the flexibility to change the level and nature of spending, such as by cutting public services or changing service standards, on a significant share of operating expenditures. These cuts are politically acceptable at the local level. B LG has the legal power to change the level and nature of spending, such as by cutting public services or changing service standards, on a significant share of operating expenditures. These cuts are conceptually acceptable at the local level, but rarely occur and only under extreme situations. C LG has the legal power to change the level and nature of spending, but this occurs on an ad hoc basis against shortages of cash, and it is not a common practice. Overspending occurs time and again. D LG can change the level and nature of spending, but this happens as quick fixes without long-term plans. Overspending is very common.	**A**

Planning, Budgeting, and Budget Implementation

This thematic area analyzes the quality of the local financial management system in the process of planning, allocating and implementing budgets. It addresses four specific questions on: strategic plan and capital improvement plans, budget planning, scope of budget, and budget implementation. The development of a strategic and multiannual financial plan has become a best practice in developed countries, signaling the quality of municipal financial management systems. The underlying aim of this thematic area is to self-assess if the city can show discipline in the budget planning and execution process. The table below shows how the staff of the Municipality of Constanta has rated itself on the dimension of Planning, Budgeting, and Budget Implementation.

Table 55. FMA Analysis – Planning, Budgeting, and Budget Implementation

2. Planning, Budgeting, and Budget Implementation		Score proposed by administration
Strategic plan and CIP	A LG adopts, in line with a strategic plan, 3–5-year capital improvement plans (CIPs) on a rolling basis, whereas the first year becomes the budget plan and a new year is added to the CIP every year. The CIP is developed in participatory process and substantially implemented in the annual budgets. B LG adopts CIPs every 3–5 years. The CIPs are substantially included in planning the annual budgets. C LG adopts strategic plan or CIP, some actions are considered in planning the annual budgets, but changing circumstances reduce the scope or use of strategic planning. D LG has no strategic plan or CIP; the planning is limited to annual budgets.	**C**
Budget planning	A LG budgeting is clearly regulated, budget process is mature, iterative, and participatory based on predictable forecast for transfers, clear and robust national guidelines, and local budget circulars. Budget plans are completed on time and approved. Revised budgets are well regulated and timely planned and adopted at the midpoint of the fiscal year. B LG budgeting is clearly regulated; budget process is timely completed based on clear national guidelines and local budget circulars. Revised budgets are adopted as deemed necessary. C LG budgeting is regulated by national guidelines; budgets are completed mostly on time. Revised budgets are adopted several times a year if and when necessary. D There are general rules for local budgets; multiple changes occur because of unforeseen circumstances at central or local government level.	**B**
Scope of budget	A Extrabudgetary entities, PUCs, and/or funds play substantial role in local service delivery; but financial transactions are regulated, clear, and require low operating subsidies (5%). LG prepares both regular and consolidated budget/financial reports. B Extrabudgetary entities, PUCs, and/or funds play substantial role in local service delivery; but financial transactions are regulated, clear, and require low operating subsidies (max 10% of current revenues). LG does not prepare consolidated budget/financial reports. C Extrabudgetary entities, PUCs, and/or funds play substantial role in local service delivery and require substantial operating subsidies (over 10%). Financial transactions are accounted but not regulated and not consolidated in financial reports. D Extrabudgetary entities, PUCs, and/or funds play substantial role in local service delivery and require substantial operating subsidies (15%). Financial transactions to and from entities are not regulated, accounted in various forms, but not consolidated in financial reports.	**B**

2. Planning, Budgeting, and Budget Implementation		Score proposed by administration
Budget implementation	A Expenditures adhere to budget appropriations; variations of actual and planned total expenditures and variation of structures of main lines are within 5% of plans. B Expenditures adhere to budget appropriation; variations of actual and planned total expenditures and variation of structures of main lines are within 10% of plans. C LG actual expenditures and revenues and revenue and expenditure variations and main line structures are within 15% of plans. D LG actual expenditures and revenues and revenue and expenditure main line structures are over 15% of plans.	**C**

Financial Management Systems and Practices

Financial management systems and practices are the cornerstones of any local government authority, as the main driver of day-to-day operations and future development projects. This thematic area includes a questionnaire on the following areas: the financial management framework, revenue management, expenditure management, cash and debt management, and oversight and internal control systems and practices. Although some finance officers may find it subjective to make judgments on the quality of their financial systems, the questions are designed are designed to make the responses and the selection of the relevant scores straightforward. The table below includes the answers provided by the finance officers in the Constanța local administration.

Table 56. FMA Analysis – Financial Management

3. Financial Management		Score proposed by administration
Financial management framework	A Financial management framework is well regulated and supported by IFMS/FMS software system with standard templates and reporting forms, and sufficient number of qualified staff in key positions are assigned to financial management with clear segregation of functions. B Financial management is controlled and supported by IFMS/FMS system with clear templates and segregation of functions, and qualified staff are assigned to many key positions with some vacant positions. C Financial management is supported by some software, and some qualified staff are assigned to financial management. D Financial management is computer enhanced with various software solutions, but staff have varying levels of knowledge in financial management area.	**D**
Revenue management	A LG has effective fiscal cadastre and/or tax and fee payer registration and assessment system with up-to-date and transparent records on bases, rates, and payers' obligations and responsibilities; revenue collection efficiency is high (95%). B LG has effective tax and fee payer registration and assessment system with up-to-date and transparent records on payers' obligations and responsibilities; revenue collection efficiency is good (80%). C LG has several tax and fee payer registration systems with records on	**A**

3. Financial Management		Score proposed by administration
	payers' obligations and responsibilities in various qualities; revenue collection efficiency is moderate (60–80%). D LG has no or has several tax and fee payer registration systems with records on payers' obligations and responsibilities in varying qualities; revenue collection efficiency is low (60% or below).	
Expenditure management	A LG has effective commitment control system, clear segregation of duties, internal controls for non-salary expenditures, and public procurement procedures to ensure value for money. B LG has commitment control system, expenditures are accounted mostly on time, public procurement procedures support investments. C LG has computerized systems for managing and recording expenditures. D Expenditure recording and management are fragmented.	**A**
Cash and debt management	A LG has an effective framework for cash and debt management with reliable records on cash balances, debts, guarantees, other liabilities, and payment arrears. B LG has an effective framework for cash and debt management with records on cash balances, debts, and guarantees; but guarantees are not valuated in debt management. C LG has some procedure for cash and debt management with some records on cash balances and some debts. D LG has no debt management framework, but cash balances are reconciled or neither cash nor debt management procedure is in place.	**C**
Oversight and internal control	A LG has reliable internal audit system, effective procedures for account reconciliations, and for oversight and analysis of the aggregate fiscal risk born from subordinated legally independent entities (PUCs) based on consolidated financial reports. B LG has reliable internal audit system, some procedures for accounts' reconciliations, and for oversight and analysis of the aggregate fiscal risk born from subordinated legally independent entities (PUCs) without consolidation. C LG has internal audit system, accounts reconciliations are intermittent, and LG receives the annual reports from the subordinated legally independent entities (PUCs). D LG has no formal internal audit unit or system, and there are no records about the subordinated legally independent entities (PUCs).	**B**

Financial Reporting, Disclosure, and Transparency

This area covers critical elements of good financial management systems. Answers can reflect strong commitments, policies, and procedures for transparency set out by the municipality to inform and receive feedback on the adequacy and results of the financial reports. The four key areas of focus are the following: financial reporting, external audit, financial disclosures, and public procurement.

Table 57. FMA Analysis – Financial Reporting, Disclosure, and Transparency

4. Financial Reporting, Disclosure, and Transparency		Score proposed by administration
Financial reporting	A LG has a reliable computerized financial reporting system consistent with generally accepted accounting principles and standards. Daily, monthly, quarterly, and annual reports are generated timely in automated procedures (e.g., by IFMS); results are disseminated to respective governing bodies, discussed, and corrective measures commenced timely. B The LG has a reliable financial reporting system and procedures in compliance with national legislation; reports are generated and disseminated mostly on due courses. C The LG has rules and various templates for financial reporting in various LG entities, reports are generated separately, and delays may occur because of missing information. D LG entities do generate some reports.	**A**
External audit	A The LG annual financial reports are audited by external auditor; audit reports are obtained within 8-12 month following a fiscal year. The LG audit committee discusses the audit results and commences corrective measures as may deem necessary AND the LG has obtained unqualified audits in the last 3 years. B The LG annual financial reports are audited by external auditor; audit reports are obtained within 2 years following a fiscal year. The LG audit committee discusses the audit results and commences corrective measures AND the LG has obtained unqualified audits in the last year. C The LG annual financial reports are audited by external auditor; audit reports are obtained within 2–3 years following a fiscal year. The LG audit committee discuss- es the audit results. The LG has obtained qualified audits in the last 2 years. D The LG has no external auditor, or the LG has failed to obtain audits or has obtained qualified audits or one or more adverse external audits in the last 3 years.	**A**
Financial disclosures	A The annual financial reports, the audit report, and short briefs on quarterly or monthly reports are made available for public scrutiny (e.g., posted on the LG website, readable at city hall, shared with key stakeholders in print or electronic forms). Town hall meeting is held to discuss results and future plans. B The annual financial reports are made available for public scrutiny (e.g., posted on the LG website, readable at city hall, shared with key stakeholders in print or electronic forms). C The annual financial reports are made available for public scrutiny on demand. D Financial reports are not shared with the public.	**A**
Public procurement	A LG has started procedures that asset divestitures, all investment construction projects, and bulk purchases are procured by open competitive tendering published in various media and adhere to value-for-money principles. B LG has standard procedures supporting that large construction projects are procured by open competitive tendering published in various	**A**

4. Financial Reporting, Disclosure, and Transparency		Score proposed by administration
	media. C Some projects are published and procured by competitive tenders. D LG has no public procurement procedures.	

Constanța MFSA–FMA Analysis and Scoring: Summary

The table below presents the summary matric of the MFSA-FMA analysis, identifying the areas that deserve more attention and detailed improvement solutions in the Action Plan. Overall, the municipality gets a score of B. In what follows, the results will be discussed in greater detail.

Table 58. Financial Management Assessment Scoring Results

Financial management assessment themes	Scores				
Intergovernmental relations	B	B	A	B	A
Planning, budgeting, and budget implementation	C	B	B	C	
Financial management systems and practices	D	A	A	C	B
Financial reporting, disclosure, and transparency	A	A	A	A	
Summary	B				

Constanța has a robust financial system in place, which has allowed it to keep a balanced budget even in times of significant change at the central level. Like most other sub-national administrations in Romania, Constanța has significant flexibility in how it spends its budget, with a small share of earmarked transfers, and a high share of the budget that can be allocated to what the administration considers to be its priorities. At the same time, sub-national revenue streams are strongly regulated at the central level. The most important revenue sources for local administrations are: the personal income tax (PIT), allocations from the value-added tax (VAT), local taxes and fees. The PIT and VAT can be adjusted by the Central Government, without proper consultation of the local administrations (although this is an unusual occurrence), as was the case in 2018, creating major rifts in the system. At the same time, the taxes and fees that can be levied at the local level are regulated through the Fiscal Code, with either the actual rate/sum or a bracket provided. Some of the issues that deserve attention in the Constanța MFSA Action Plan include:

- *Intergovernmental relations:* Constanța City Hall has already joined forces with other municipalities, and through the Association of Municipalities has discussed with the Government and convinced the Central Administration to raise the share of the PIT that gets transferred to local budgets, to allow for the compensation of the loss generated by the PIT reduction. Furthermore, it will be important for sub-national administrations to lobby for the management of PIT revenues in the Fiscal Code, to avoid a situation as in 2018, where a simple Government decision creates instability in the entire system.

- *Planning, budgeting, and budget implementation:* while not the area with the lowest overall score, this is the area where Constanța City Hall would likely need to do most in coming years. Most importantly, the City Hall will benefit from having a better capital investment planning system in place, with a more robust medium-term investment plan. The City Hall has run persistent budget surpluses, even in years with significant drops in revenue (because

of Central Government decisions), indicating that a more ambitious approach could be taken on the spending for development side.

- *Financial management systems and practices:* this is the area where the Constanța Municipality has the lowest self-assessed score. While financial data is properly collected and transparently published for public review, some budget and financial processes could be improved (e.g. a better recording of liabilities, contingent liabilities, loan proceeds). Joint financial reports, with the public utility companies the city hall works with (particularly those that are under its control) can provide a better and more accurate picture of financial flows and potential issues.

- *Financial reporting, disclosure, and transparency:* all the financial data that is collected following the format provided by the Ministry of Finance is made public every year. The budget review process is open to the public every year, and budget proposals are posted on the City Hall's web-site. Decisions on local taxes and fees are debated publicly and published on the local web-site for public review and input. Local financial systems are regularly audited and controlled by Central Government entities. Public utility companies prepare and publish on the City Hall's web-site annual activity reports, including their financial health, but these are not published every year.

4.6. Step 6: The Constanța MFSA Action Plan

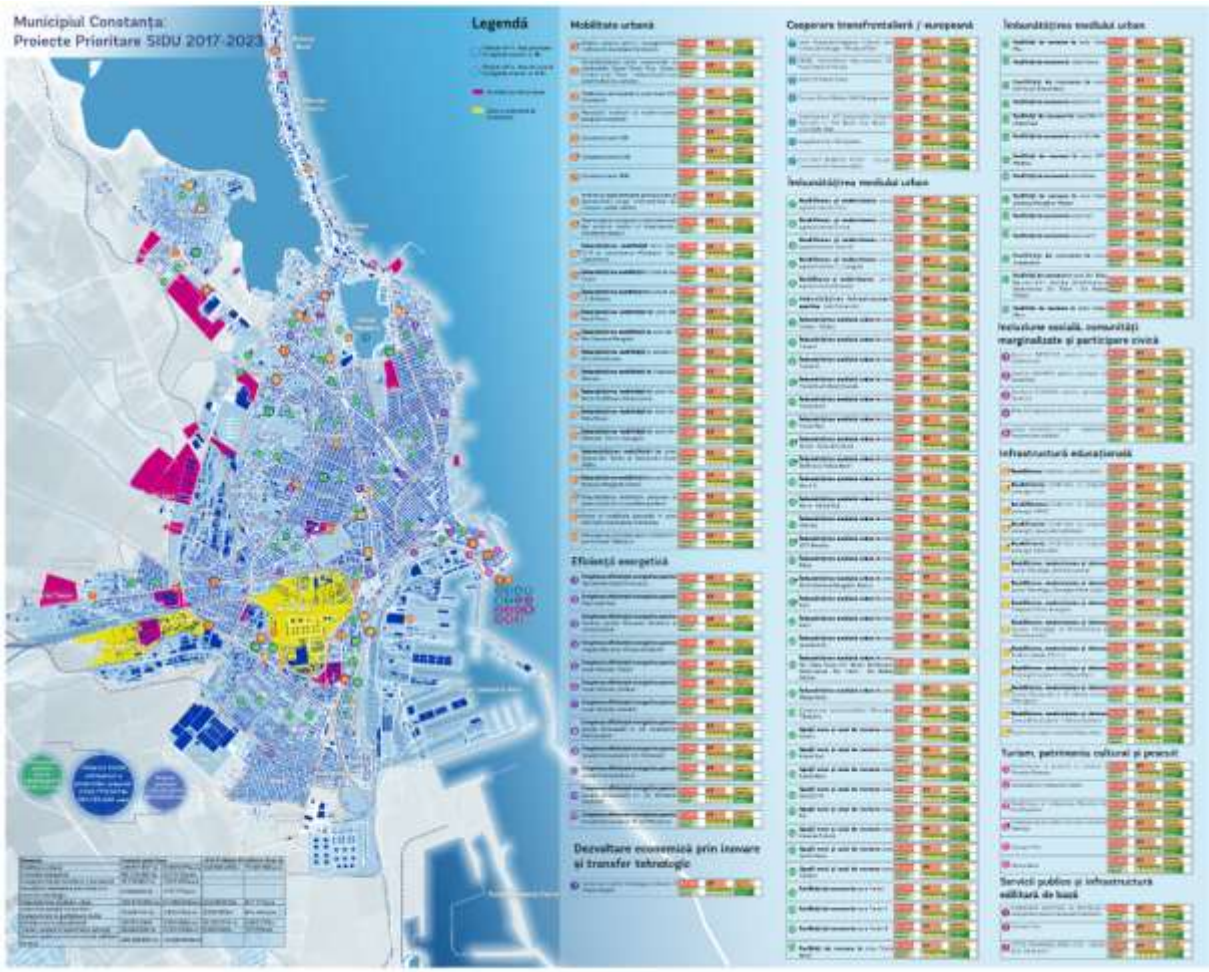
The Constanța MFSA Action Plan takes into consideration both the Constanța focused analysis, as well as the comparative data provided in the next chapter. The Action Plan is included at this point, to ensure the natural flow of the MFSA methodology. However, as recommended in the MFSA book, an additional comparative analysis was undertaken, to determine how Constanța performs when benchmarked with other large municipalities in Romania. While there is room for improvement, particularly in terms of predictability, on the revenues side, the immediate focus (short term) should be more on the expenditure side – particularly a more robust medium-term capital investment plan. Also, on the reporting side, it will be helpful if public utility companies would produce annual financial reports, with a highlight of the links with the city hall. Gradually, as more resources are allocated for development activities, additional sources of revenue can be pursued. The main avenues for increasing revenues for sub-national administrations in Romania are the following:

- Raising the PIT *(Central Government mandate);*
- Raising the share of the PIT transferred to sub-national administrations *(Central Government mandate);*
- Raising the VAT*(Central Government mandate);*
- Absorbing EU funds;
- Raising local taxes and fees, within the brackets allowed by the Fiscal Code *(Local Government mandate);*
- Modifying the brackets/values for local taxes and fees in the Fiscal Code *(Central Government mandate);*
- Levying additional taxes and fees *(Local Government mandate, within parameters allowed by national legislation).* [Chapter 5 includes a list of taxes and fees used by various local administrations around the world.]

On the expenditure side, the World Bank has worked closely with the Municipality of Constanța, on the preparation of a comprehensive capital investment plan, and on a set of institutional changes to enable a more efficient implementation of this capital investment plan. Deliverable 2.1

under the Partnership signed between the Municipality of Constanța and the World Bank, focused on the preparation of a comprehensive medium-term capital investment plan, for a total value of around 350 million Euro (the figure below shows this capital investment plan). Deliverable 2.2 under the Partnership focused on strengthening project implementation capacity, with proposals on bringing all capital investments under one roof (in the past different units undertook capital investments) and on streamlining procedures of the public procurement department (which took disproportionately more time to process bids than similar departments in other cities in Romania). Both proposals have been implemented by the Municipality, which will now hopefully bring benefits on the planning and implementation side.

Figure 11. The medium-term capital investment plan of Constanța



On the revenue side, Constanța has performed quite well in recent years. When looking at Own Source Revenues per capita (see more in-depth discussion in Chapter 4), Constanța is among the best performing large cities in Romania. None-the-less, there still is room for improvement, and as the administration will allocate more funds for development purposes, it will pay to think about how to increase main revenue streams. This may involve the creation of more and better paying jobs locally, absorbing more EU funds, or levying higher tax rates for land and property. There is also the option of extending the coverage of some taxes and fees (e.g. levying parking fees for more areas of the city), or levying additional taxes and fees (Chapter 5 includes a list of taxes and fees practiced by other cities in the world).

The table below includes a number of actions that may improve the financial performance of the Municipality of Constanța:

Table 59. Constanța MFSA Action Plan

Objective	Specific action	Expected results	Time frame	Cost estimate	Responsible entity
Increase expenditures on development	Prepare Gantt Chart for Capital Investment Plan, with proposed calendar for the implementation of priority projects/programs	Assumed time-line for project implementation.	Year 1	No cost for preparation of Gantt Chart.	General Directorate for Development
	Enlarge the team of the General Directorate for Development.	Increase capital investments from the current 17% of non-earmarked revenues to 30% of non-earmarked revenues.	Years 1-5	Staff costs to be estimated.	Mayor and General Directorate for Development
Increase revenues	Lobby with Central Government to increase the share of PIT allocated to local administrations.	Larger own source revenues.	Year 1	No cost	Mayor through the Association of Municipalities
	Lobby with Central Government to include PIT transfers in the Fiscal Code, to avoid sudden changes caused by Emergency Government Ordinances (as has happened in 2018).	More predictability in medium-term budget planning.	Year 1	No cost	Mayor through the Association of Municipalities
	Improve absorption of EU funds	Higher grant funds for critical urban development projects	Years 1-5	Costs to be estimated	Mayor and General Directorate for Development
	Consider increasing households property tax for residential buildings	Property tax increased from 0.11% to the 0.2% allowed by the Fiscal Code	Years 1-5	No cost	Mayor, the Public Service for Taxes and Fees (SPIT), and the General Finance Directorate
	Consider increasing households property tax for non-residential buildings	Property tax increased from 1% to the 1.3% allowed by the Fiscal Code	Years 1-5	No cost	Mayor, the Public Service for Taxes and Fees (SPIT), and the General Finance Directorate
Better asset management	Establish an asset management system with reliable registers, strategy, and policy	Additional sources of reliable revenues and better development	Years 1-5	No cost	Mayor, Chief Architect, and Local Patrimony Directorate

5. Overall Financial Assessment for Constanța

5.1. Summary

The following assessment provides a deep-dive factual analysis into the main revenues and expenditures for the Constanța Municipality. On the revenue side, the key objective is to gain an understanding of the structure of revenues, including key sources, and to provide a view on trends over the last five years. From the perspective of expenditures, the research provides a diagnostic view of their level, including main categories and their evolution across time. There are also important comparisons with other localities in Romania, particularly other growing, dynamic urban areas, as well as other country capitals. Such comparisons help shed light on Constanța's strengths and areas for improvement with respect to the local budget.

Constanța has experienced fluctuating revenues during the last decade, which is not uncommon for Romanian standards, given frequent changes in legislation, most notably law 273/2006 on local public finances. There was a downward trend in revenues in 2018, as a result of lower allocations from the central government, derived from the share of VAT and PIT. However, this trend was not followed by a similar decrease in expenditures, and, consequently, the municipality has reported growing budget deficits in recent years. This decrease was only partially compensated for in 2019, while in 2020 the state budget proposal seeks to transfer a larger share of PIT at local level, following a change in paradigm adopted by the new government, which seeks to decentralize resources and empower local governments.

The budget structure reveals important differences between the municipality of Constanța and other sub-national authorities in Romania. While Constanța has a balanced budget between the share of own source revenues and central government allocations from PIT and VAT shares, we can find that other local governments have significantly lower own source revenues and a higher dependency on the stream of revenues derived from PIT and VAT, especially through the equalization transfers for local budget balancing. This is good news for Constanța, as it can ensure a higher degree of local financial autonomy and year-on-year predictability.

Indeed, own source revenues show an upward trend, while Constanța is collecting significantly more funds than the six districts of Bucharest. This trend also shows in the structure of local budgets, where the share of own source revenues represents one third in the case of Constanța, with approximately RON 7,652 per capita between 2007-2018. Revenues from the main local taxes have grown steadily during the past five years, becoming an important source of discretionary revenue. For the local government of Constanța - on average across the 2014-2018 timeframe - property tax (building and land) and vehicle licenses are making up for approximately 19,1% of the total budget.

In particular, revenues from the property tax (building and land) and from taxes on means of transportation are important, predictable, and stable revenue source that have grown exponentially during the past decade, although their unit value is limited by law. Tax on property (buildings) alone represents 13% out of the total revenues collected by the Constanța municipality. The local government can channel these funds directly into investments or other local initiatives, ensuring the resources needed to put into practice the vision of the local decisionmakers.

At the same time, the pressure on local budgets will likely continue to increase. The provisions of the Administrative Code adopted through an Emergency Ordinance[58] in 2019 stipulate new benefits for elected officials at the local level – mayor, deputy mayor, head of county council, and deputy

[58] Emergency Ordinance nr. 57/2019

head of county council.[59] These benefits are applicable to all officials elected after the local elections of 1992 and would be covered from local budgets. The benefits enter into force on January 1, 2020, if the Government does not cancel or postpone these amendments. The Government attempted to do this, but its decision was further challenged at the Constitutional Court.

Even abstracting from these recent changes, expenditure levels show a clear upward trend in recent years, with most municipalities – including Constanța – increasing their spending. On the one hand, recent economic growth and a steady increase of revenues at the local level have enabled them to also increase their expenditures, including legislative regulations allowing higher wages for local public servants, which have increased personnel costs. These costs have grown at a much faster pace compared to the budgetary allocations for capital investments. The municipality of Constanța revealed a budgetary deficit in 2018 of RON 85 million (16%). This was partially compensated by budgetary surplus from previous years, refinancing medium to long-term debts or postponing payments. The average personnel costs for the last decade in Constanța amounted to 30% of total costs. In 2018 alone, personnel costs, excluding pre-university teachers, remained significant, with an amount of RON 126 million.

Local governments have important responsibilities in the areas of Education, Transport and Urban Mobility, Social Assistance, Sanitation, and Waste Management. Subsequently, there are important allocations towards these budgetary lines. Over 2007-2018, Constanța reported a 23.2% level of spending in the education sector, the second-lowest in the country among county capitals, with only Râmnicu Vâlcea falling even lower (17.2%). Smaller cities spend a lot more – as a percentage – on education: Zalău (45%), Alexandria (38.6%), or Reșița (36.8%). Even comparable cities spend more as a percentage, from even higher local budgets: Cluj-Napoca (28.7%) or Timișoara (25%).

There are also significant differences in the budgetary allocations for waste management and sanitation: Constanța allocates a much higher share of the local budget for this public service compared to other similar municipalities such as Brașov. An important allocation goes toward subsidizing the local transport public operator and district heating, much like in Bucharest. Constanța directs significantly more funds for supporting tariff differences compared to other sub-national chapters: RON 104 million for the period between 2014-2018. On average, the cost with subsidies at the level of the municipality of Constanța is double compared to the municipality of Brașov, including the costs for district heating. Finally, the uptake of EU funds remains limited. The municipality does not stand out in absorbing EU funds, with lower revenues from this source compared to similar municipalities. The following sections go into greater detail regarding these observations, including comparisons with other county capitals and comparable urban cities across Romania.

Figure 14. Breakdown of Expenditures 2007-2018

Unit	Total expenditure (RON)	Personnel expenses	Goods and services	Interests	Subsidies	Transfers among PAUs	Other transfers	EU funds 2007-2013	Social assistance	Capital expenses
Constanta	6,723,512,954	2,055,016,294	2,075,913,045	1,162,761	1,016,676,413	37,991,005	176,221,612	118,489,320	339,651,570	704,447,230
%	100.00%	30.56%	30.88%	0.02%	15.12%	0.57%	2.62%	1.76%	5.05%	10.48%

[59] The Code itself was challenged at the Constitutional Court and, at the time of this report's writing, a verdict is still pending.

5.2. Constanța's local budget revenues

Context

Municipal revenues largely come from four main sources: (1) earmarked transfers; (2) shared taxes; (3) equalization transfers; and (4) own source taxes, charges, and fees.[60] Most of the municipal governments' discretionary revenues are derived from a system of tax sharing, equalization transfers, and own source revenues. There are essentially two mechanisms involved to achieve equalization: (1) based on a share of the PIT and VAT; and (2) an additional equalization payment derived from the PIT. In addition, there are various other earmarked subsidies to support services for disabled people, low-income families, as well as grants from the European Union (EU) to support specific projects.

Municipalities have the legal power to derive revenue from a wide number of taxes, charges, and fees. These include property taxes (on land and buildings) from both legal entities and individuals, motor vehicles, hotel taxes, and a tax on cultural activities (theaters, concerts, etc.). There are also a range of fees and charges associated with the provision of various services such as daycares, notaries, issuance of certificates and various licenses, planning permits, building permits, late payment interests and fines, stamp duties, and extra-judicial stamp duties. The table below includes a list with the typical revenue sources found across Romanian municipalities.

Table 60. Range of revenue sources typical across Romanian municipalities[61]

Breakdown of Local Budgets – Revenues Section	
Shares and amounts from the income tax *Shares from the income tax* *Amounts from the income tax for equalization of local budgets*	**Taxes and fees on properties** *Tax on buildings* *Tax on lands* *Tax on land register* *Judicial stamp fees, notarial stamp fees and other stamp fees* *Other taxes for special activities* **both individuals and firms*
Shares and amounts from the VAT and equalization transfers *Shares from the VAT tax*[62] *Equalization transfers*	**Taxes on vehicles** *Annual tax on vehicles* *Fees for issuing licenses* *Other Taxes*
Penalties, fines and confiscations *Revenues from fines and other sanctions in accordance with the law* *Other penalties, fines and confiscations*	**Fees for specific services** *Hotel Fees* *Tax on cultural performances (concerts, theatre, etc)* *Specific local administration fees*
Subsidies from the state budget *Subsidies for thermal rehabilitation of buildings* *Subsidies for social assistance*	**Revenues part of projects funded from external sources / grants** *European Programmes (Regional Fund, European Social*

[60] The assignment of revenues to subnational governments in Romania is regulated by Law 273/2006 on "Local Public Finance" and Title IX of the Romanian Fiscal Code (Law 571/2003 and amendments).
[61] William McCluskey. Analysis of revenue and expenditure budgets for Sector 5, Bucharest, Brasov and Constanta. 2019. World Bank Group
[62] Share of VAT included state budget transfers from central budget for covering school teacher salaries (until 2017).

Breakdown of Local Budgets – Revenues Section	
Specific subsidies decided by central administration *Other types of subsidies*	*Fund, European Agricultural Fund)* *National Funding Programs* *Other funding*

As noted earlier, the revenues of local governments (LGs) are affected by an unstable and unpredictable environment, and Constanța makes no exception to this rule. Successive legislative changes impact revenues at local level, such as the recent cases of lower PIT and VAT transfers that were followed only by short-term budgetary solutions to compensate for the loss of revenues. Annex 1 provides an overview of how the national legislation on sub-national financing has changed in recent years. LGs' main source of revenues - central government transfers and equalization transfers – maintain a high degree of dependency on central government decisions and impede local fiscal autonomy. Also, such transfers seldom take into account inflation rates, updated standard costs, or the cash flow needs of the LG if it undertakes a large investment project - e.g., the increased minimum wage in the construction sector has increased the costs of all infrastructure projects at the local level without any balancing compensation from central authorities. What is more, LGs like Constanța have limited areas of intervention in the field of taxation, with clear national regulation on this matter. This is an impediment in planning medium-to-long term investments that require both large co-funding and advance funding.

National authorities also maintain a high degree of influence over the subnational level due to the possibility to "balance out" local budgets through equalization transfers. The central government has a resource pool for adjusting local budgets, namely covering funding gaps or supporting expenditures at the local level out of the VAT and PIT sums. These adjustments amount to 2.8% of total revenues for the period 2012-2018, but with an uneven distribution: higher values in 2012 (RON 504 million - 4.5% of total revenues) or 2018 (RON 643 million - 6.4% in 2018) to lower values in between (RON 134 million in 2013 – 1.16% of total revenues or RON 222 million in 2017 – 1.59% of total revenues). With unclear criteria and no clear reasoning for these transfers of funds, this instrument is affected by ad-hoc decisions and subjectivity. Coupled with increased transfers from the national reserve fund to local authorities (most significant during electoral campaigns or political turmoil), this outlines a tendency of political influence over the allocation of funds to local governments.

Total municipal revenues (2007-2018)

In this context, the Constanța sub-national government has experienced fluctuating revenues in the last decade. The major setback is represented by the lower streams of central government transfers occurred in the last year, which have brought revenues down to levels experienced in 2010, at the peak of the financial crisis. On the one hand, local authorities are no longer responsible for paying teachers' salaries, but, on the other hand, as the breakdown of revenues shows later on, the lower streams of both PIT and VAT were followed only by partial compensation.

Table 61. Evolution of revenues at the level of Constanța municipality (RON)

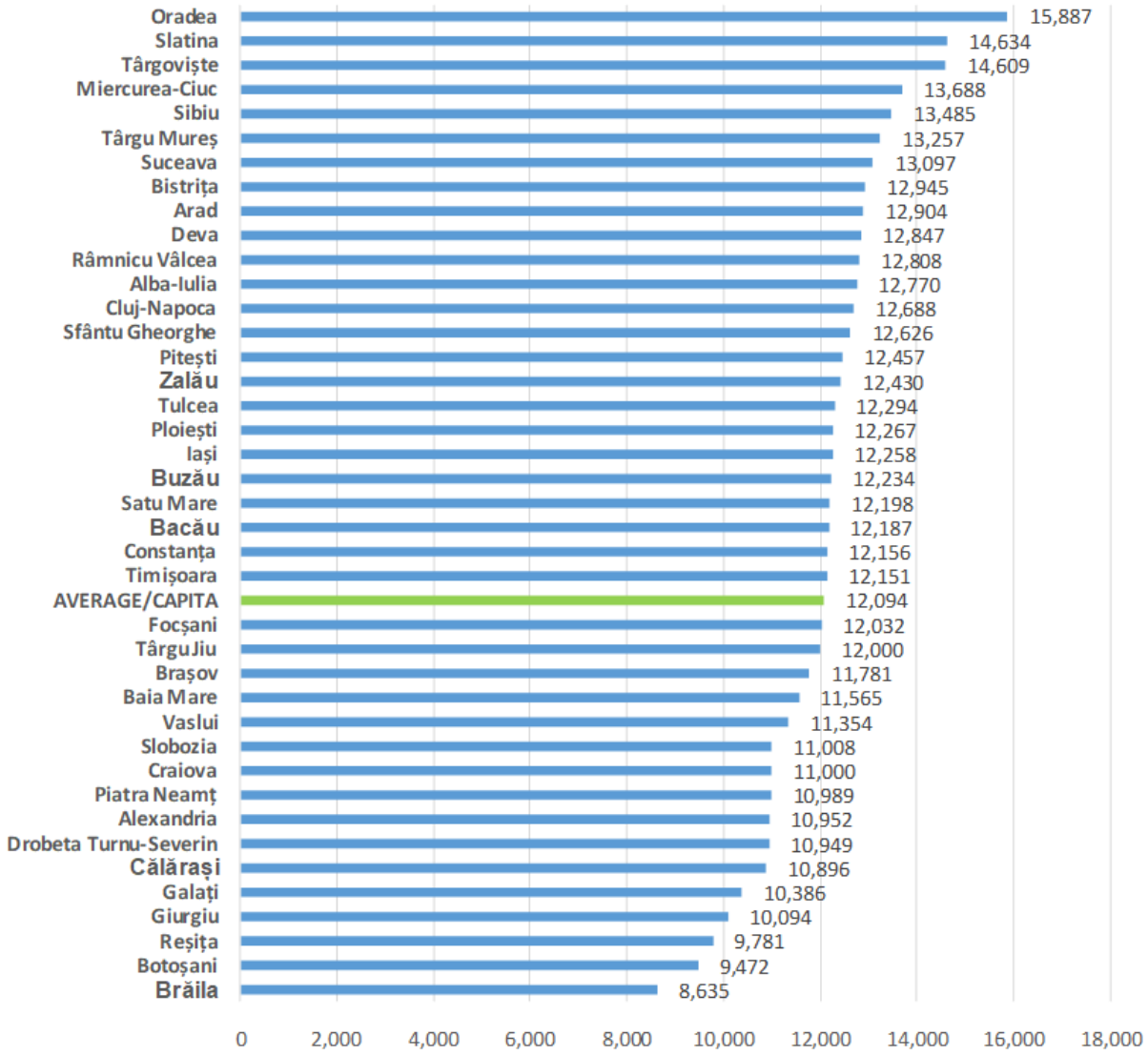
Year	Constanța
2007	490,454,118
2008	537,422,137
2009	557,650,853

Year	Constanța
2010	510,029,597
2011	523,387,185
2012	513,256,582
2013	596,443,915
2014	673,320,606
2015	780,235,589
2016	735,217,392
2017	742,688,101
2018	519,238,489
Total Revenue	**7,179,344,564**
Population	**303,399**
Total Revenue per capita	**23,663**

In the 2007-2018 period, Constanța had total revenues of close RON 7,2 billion, one of the highest revenues in gross figures in Romania. Revenues decreased significantly in 2018, from RON 742 million to RON 519 million. With a drop of 30%, the local budget of Constanța was one of the most affected by this volatility of allocations. This decrease was not compensated through complementary measures, with the so-called *equalization transfers* through the share of PIT (RON 0) and share of VAT (RON 2,8 million) at a minimum level. At the same time, the uptake of EU funds continues to be extremely limited, with only RON 0,27 million received in 2018. In the last decade, Constanța attracted only RON 118 million from European funds, insignificant compared to LGs of the same size, and much lower than Oradea, Iași, or Cluj-Napoca.

On a per capita basis, Constanța stands slightly above average among county capitals, with an average revenue per capita 2014-2018 of 12,151 RON. Sure enough, most county capitals are at similar levels, reflecting the current structure of the system, with large transfers from the central government, along with equalization transfers. This reflects the decision of the central government to adjust the revenues at local level and not allow large discrepancies across local funding. The total revenues per capita indicator reveals that top performers are mainly small to medium county capitals that benefit from either high EU funding (Oradea or Târgoviște) or important economic centers as Slatina. This is however not a rule as municipalities such as Craiova, a large receiver of EU funds, fails to have important revenues per capita, performing below average. Other large LGs such as Cluj Napoca, Iași, Constanța, or Timișoara are similarly unable to vastly overperform other county capitals due to the architecture of funding at the local level.

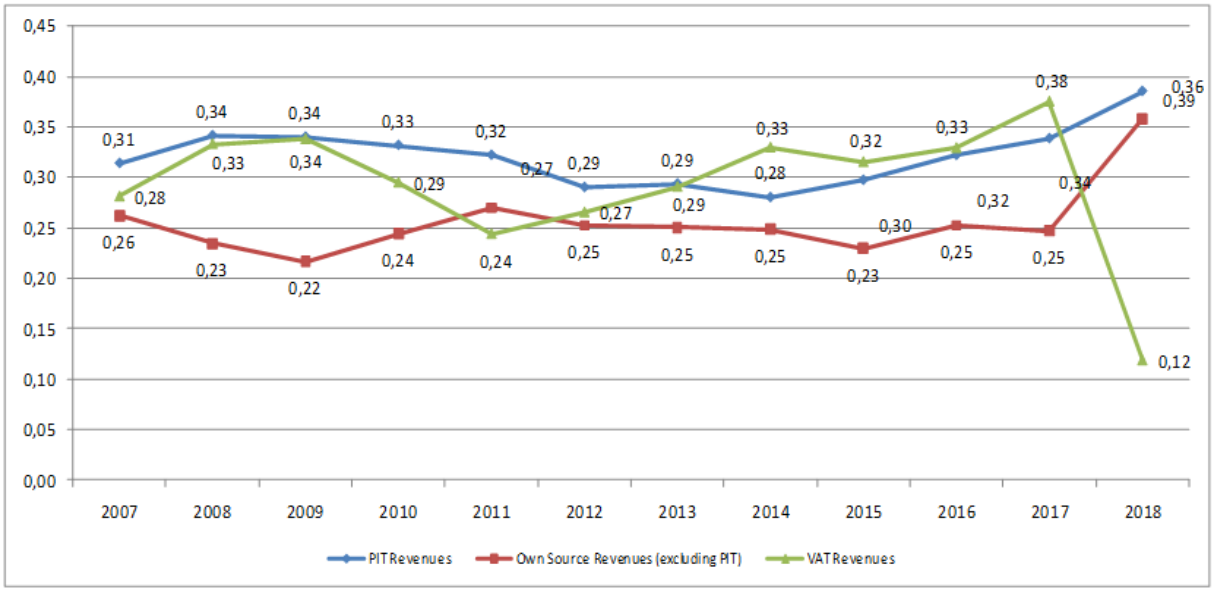
Figure 15. County Capitals' Total revenues per capita between 2014 and 2018 (RON) (averages)



Breakdown of all revenues

Central government transfers continue to represent the key pool of budgetary resources for Constanța and all county capitals, with the share of VAT and PIT combined at two thirds of total revenues in the last decade, with the exception of 2018. Both revenue streams represented individually around one third of total revenues, with the VAT share lowered in 2018 to only 12%. The decision to lower taxation rates (mainly a reduction of PIT from 16% to 10% in 2017 and a VAT reduction from 20% to 19% in 2017) was followed only by a partial compensation, depriving the local authorities of an important share of revenues. A major blow to county capitals' revenues stems from the decision to reduce PIT. The effect was immediately visible as the local authorities are the main receivers of this flux of funding – in 2018, the share of PIT accounted for RON 3.86 billion in absolute figures, a decrease from RON 4.728 billion in 2017. This has added more pressure on the local budgets and affected both ongoing projects and mid-to-long-term planning.

Figure 16. Evolution of county capitals' revenues concerning the share of PIT, VAT, and Own Source Revenues (%)



For its part, for 2007-2018, Constanța has managed to maintain a relatively balanced budget across various sources of revenues, as shown below. It had lower revenues streaming from the PIT share in 2018 (due to reduction from 16% to 10% of PIT) and diminished VAT revenues (although no longer responsible for teachers' salaries), with minor compensation through the mechanism of balancing local budgets (only 1.71% of revenues streaming from this mechanism). The Constanța Municipality has, however, managed to increase its own source revenues and has had an exponentially growth between 2007 and 2018. In gross figures, Constanța had own source revenues of RON 150 million in 2007, which increased to RON 237 million in 2018.

Table 62. Breakdown of Revenues (%) at the level of the Constanța Municipality (2007-2018)

2007-2018	Constanța
Share of PIT	35.29%
Share of VAT	24.23%
Share of OSR	**32.30%**
Share of PIT and VAT to balance local budgets	**1.71%**
Other	6.47%
Total	100.00%

Table 63. Constanța's Breakdown of Revenues (2007-2018)

Year	Total revenues (RON)	Total own revenues (including PIT)	Share of PIT	Amounts deducted from PIT for balancing local budgets	Own Source Revenues	Share of VAT	Amounts deducted from VAT for balancing local budgets	Subsidies	Amounts received from the EU/other donors	Amounts received from the 2014-2020 MFF	Other revenues
2007	490,454,118	324,810,990	173,227,644	848,425	150,734,921	107,753,434	472,029	29,024,373	0	0	28,393,292
2008	537,422,137	351,404,934	198,889,249	1,486,706	151,028,979	140,159,144	7,650,000	38,208,059	0	0	0
2009	557,650,853	365,668,563	213,660,686	725,575	151,282,302	150,933,769	1,963,647	39,084,874	0	0	0
2010	510,029,597	358,081,960	201,359,750	1,452,543	155,269,667	124,468,372	355,097	24,517,315	0	0	2,606,853
2011	523,387,185	358,778,771	183,059,616	714,994	175,004,161	111,540,753	1,689,705	48,238,120	3,139,836	0	0
2012	513,256,582	368,681,347	179,464,367	407,868	188,809,112	124,807,698	4,540,124	8,466,950	6,700,463	0	60,000
2013	596,443,915	409,225,406	196,962,607	949,565	211,313,234	142,836,821	1,701,819	15,757,747	26,922,122	0	0
2014	673,320,606	372,825,078	150,873,342	744,803	221,206,933	175,759,728	20,421,140	53,048,923	51,265,737	0	0
2015	780,235,589	578,072,202	322,873,436	17,124,507	238,074,259	176,503,925	3,127,409	10,286,351	12,245,702	0	0
2016	735,217,392	484,493,302	256,138,821	3,426,331	224,928,150	193,329,132	28,216,000	9,820,344	14,217,212	0	5,141,402
2017	742,688,101	479,914,578	263,414,657	3,038,817	213,461,104	226,384,875	18,915,000	6,048,809	3,648,446	0	7,776,393
2018	519,238,489	431,472,486	193,979,885	0	237,492,601	65,200,687	2,840,000	9,518,603	0	217,343	9,989,370
Total	**7,179,344,564**	**4,883,429,617**	2,533,904,060	30,920,134	2,318,605,423	1,739,678,338	91,891,970	292,020,468	118,139,518	217,343	53,967,310

When taking into account actual resources available for use based on the decisions of local authorities alone, non-earmarked revenues represent, on average, almost 2/3 (62%) of total revenues at county capitals levels. This high proportion gives, in theory, a reliable source of discretionary revenues for the sub national governments, allowing autonomy in using the local budgets. Still, more than half of the non-earmarked revenues comes from unpredictable PIT transfers, and raising own source revenues is limited by the revenue streams assigned by law, local fiscal autonomy is moderate. Large LGs, such as Cluj Napoca, Timișoara, Constanța, Brașov, and Iași have non-earmarked revenues of over RON 2 billion in the last five years, with Constanța ranking third with RON 2.421 billion. At the opposite end, Alexandria municipality has had only RON 284 million in non-ear marked revenues in the 2014-2018 period.

The revenues of county capitals are influenced – and in this case constrained – by both national and local level policies and measures. The significant shares of revenues from PIT show volatility across the years and depend on central government decisions. However, most municipalities opt to maintain low taxation for public services and subsidize local operators for public transport or central heating. These two interdependent factors further limit the autonomy of local governments.

Spotlight on own-source revenues

In terms of own source revenues (OSRs) per capita, including the PIT share, when compared to other county capitals, Constanța ranks close to the top, surpassed only by Sibiu, Arad, Cluj-Napoca, Slatina, and Brașov. Constanța stands at 8,267 RON per capita, compared to an average of 6,837 among all county capitals. When considering pure own source revenues per capita, i.e., *excluding* PIT, Constanța fares even better when compared to the other county capitals, coming in 4th at the national level, only behind Arad, Sibiu, and Brașov. Constanța, with close to 4,000 RON per capita, outperforms cities like Cluj-Napoca (3,178), Timișoara (2,809), and Botoșani (2,030).

Figure 17. County capitals' Own Source Revenues per Capita (including PIT share) between 2014 and 2018 (RON) (averages)

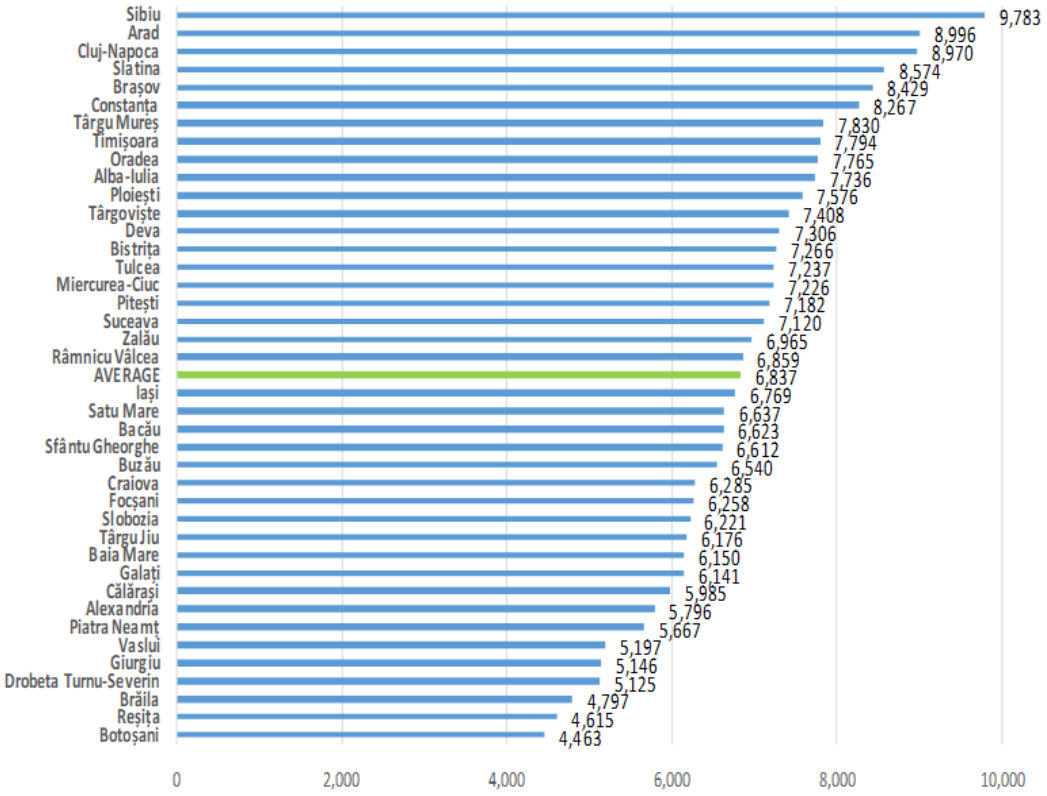
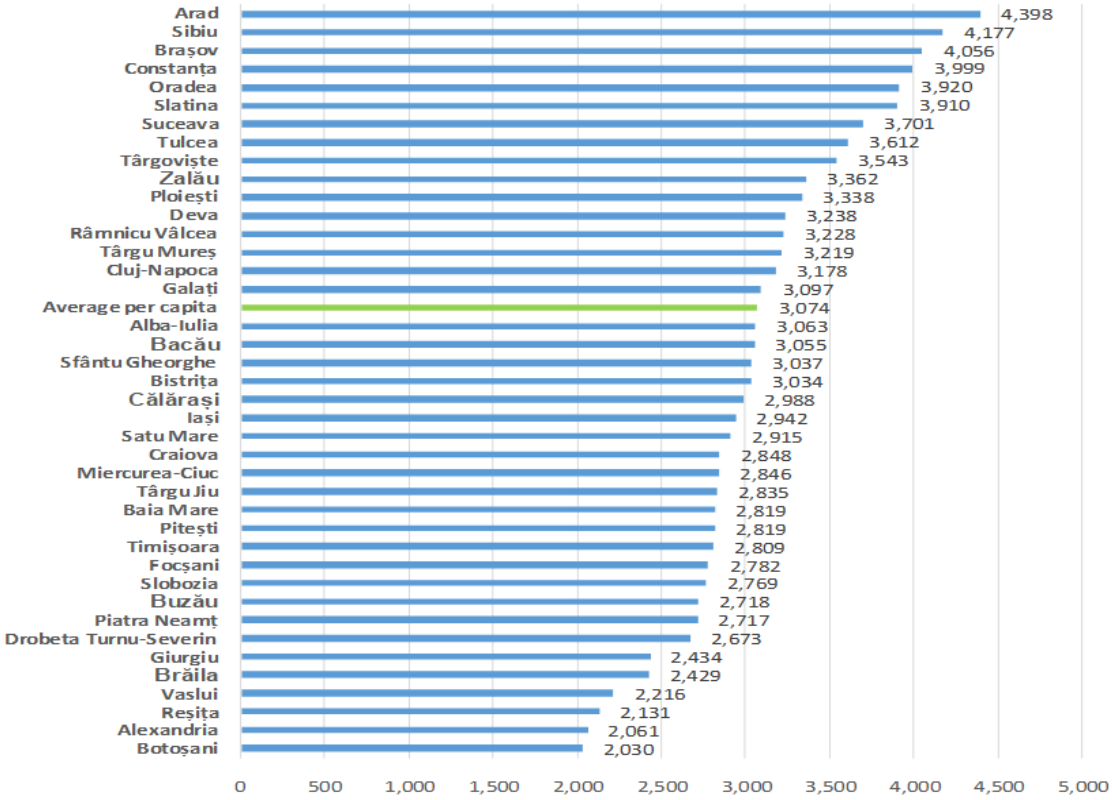


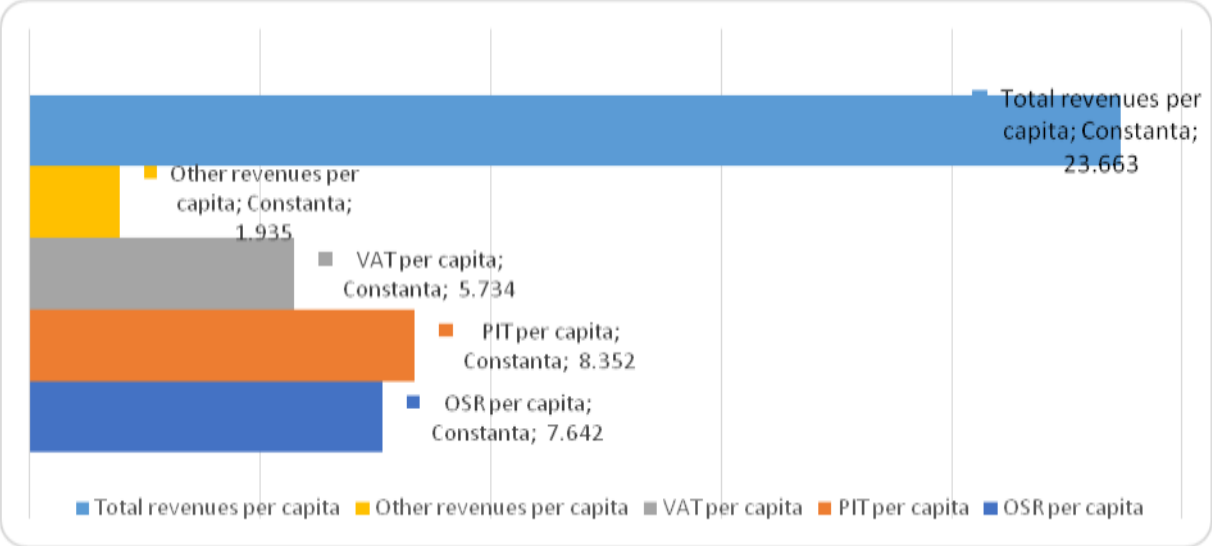
Figure 18. County Capitals' Own Source Revenues per capita (excluding PIT) between 2014 and 2018 (RON) (averages)



The flow of own source revenues is dependent on the capacity of the municipality to attract public investments and support economic development, as well as on geography. Although the base and reference rates for local taxation are fixed by the law and each local authority can adopt a rate up to 50% higher or lower than the reference rates, developed municipalities have a larger pool of attracting resources – both from legal entities and individual taxpayers. In addition, geographic disparity tells another side of the story. Rankings reflect the economic disparities in Romania: as the best-performing ten county capitals are all based in Center and Western part of Romania, with the exceptions of Constanța, major Black Sea port, and Slatina, an important industrial center. Center-West Romania has better infrastructure connections and has managed to attract most large-scale investments since 2007. Top ten municipalities with lower performances are all based in South-East Romania, two regions with poor infrastructure connections and limited direct investments.

Municipalities like Constanța may derive revenues from a wide number of taxes, charges, and fees. These include mainly property taxes (on land and buildings) and on means of transportation, from both legal entities and individuals. The municipalities also impose various stamp taxes or taxes on cultural performances (theaters, concerts, art performances). There are also a range of fees and fares for issuing licenses and authorizations, building permits, late payment interest and fines, stamp duties and extra-judicial stamp duties.

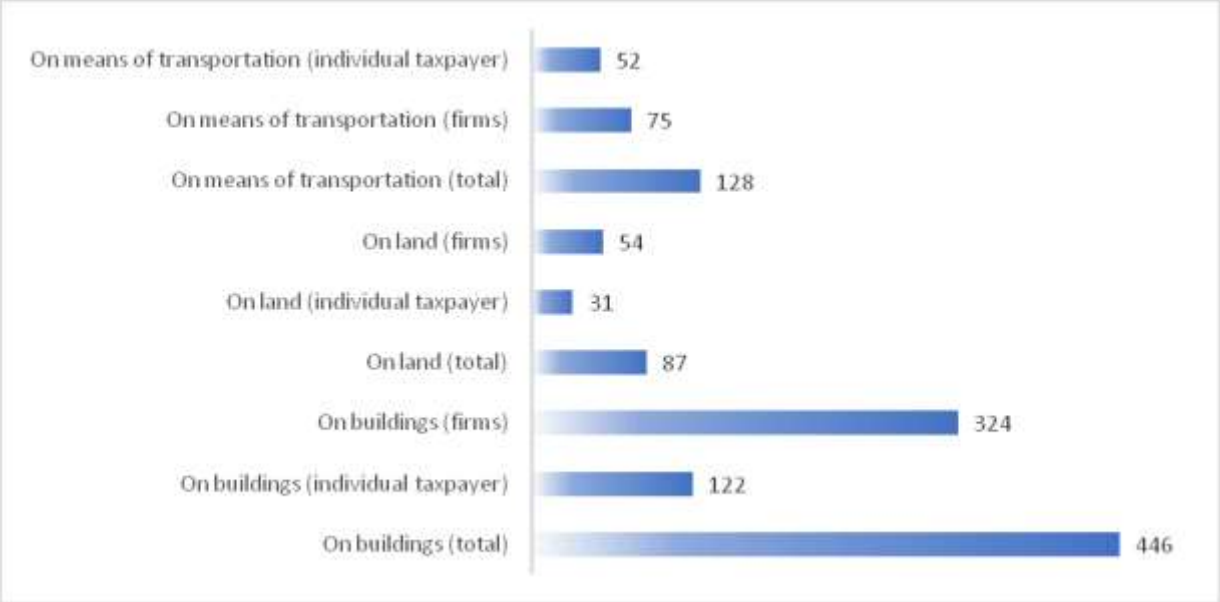
Figure 19. Breakdown of revenues per capita (RON) between 2007 and 2018



Constanța maintains similar levels of revenues per capita on all three major streams of revenue: share of PIT, share of VAT, and share of own source revenues. Own source revenues largely comprising building, land, and vehicle taxation are significant discretionary revenue sources. The tax on buildings makes a significant contribution to the revenues of larger and more developed municipalities. These taxes can represent up to a third of total revenues at local level, as is the case of Constanța.

Revenues from the property tax (building and land) and on means of transportation are important and predictable revenue sources. There are, however, few opportunities for significantly increasing them. On the one hand, raising additional revenues is limited by the revenue streams assigned to local governments by law and, on the other, local governments prefer not to raise local taxes or increase tariffs for local public services, due to obvious considerations related to the public's reaction to such proposed changes.

Figure 20. Detailed revenues from taxes at the local level between 2014 and 2018 (RON)



Revenues from the property tax on buildings is the most significant, as it represents almost 39% of own revenues in the case of Constanța. The local government collects approximately RON 324 million from legal persons of property tax. When analyzing the revenues derived from individuals from property taxes, the revenues collected by Constanța amount to RON 122 million. The Constanța Municipality also collects important revenues from the property tax on land (RON 87 million), with an important share collected from firms (RON 54 million). According to official data, 17,702 companies are registered in Constanța in 2018, in line with the city's dynamic economic development.

What stands out is the capacity of Constanța to collect important revenues from the property tax (buildings and land) compared to other municipalities. The main difference comes from the tax collected from firms. The three local taxes represent 58% of total own source revenues collected by the Constanța Municipality. Revenues from main taxes at local level have grown steadily in the last five years, becoming an important source of discretionary revenue. The property tax (building and land) and vehicle licenses provide 19.1% of own revenues for Constanța.

There are however few alternatives for collecting more taxes at local level. For example, the Constanța Municipality collects insignificant amounts from hotel taxation, although it is considered as one of the main touristic hubs of Romania. The last chapter of this report explores potential additional sources of revenue for the local budget. Evidently, such solutions, stemming from international examples, should be carefully evaluated and adapted to the local context of Constanța before a final decision is reached regarding their potential implementation.

5.3. Constanța's local budget expenditures

Context

County capitals like Constanța have significant responsibilities and expenditures. The functions of local authorities are subject to change and this may have a potential large impact on their expenditure trends. In recent years, Romania has witnessed important changes in the relation between central authorities and local ones, most recently the decision to transfer the payment of school teachers from local budgets to the central budget, diminishing accordingly the share of VAT that was used in the past for this matter.

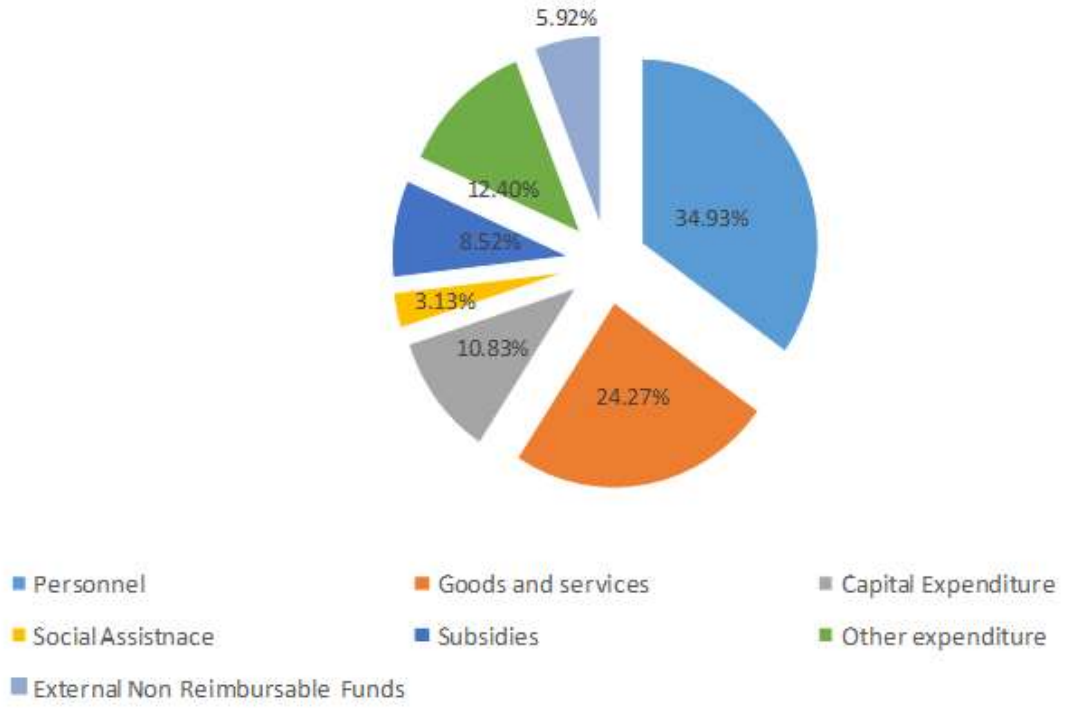
County capitals have key responsibilities in areas such as transportation (including local road infrastructure), social assistance, environment (sanitation and waste management), education, and partially the health sector. The administration has to support, among others, local public transport and the maintenance of roads, investments in public buildings, water supply and treatment of waste water, recreation facilities, public parks and gardens. Across county capitals, the levels of expenditure are dominated by personnel costs and goods and services, which have a share of over 50% in the last decade. The pressure on local budgets has increased exponentially in the last few years following legislative amendments that have allowed wage increases in the local public administration.

Table 64. Categories of local budget expenditures

Breakdown of Local Budgets – Expenditures Section	
SECTION I – Operating Expenses	
Personnel costs[63] *Base salaries for employees* *Bonuses for working conditions (e.g. difficult environment)* *Other types of bonuses* *Allowances for delegations* *State contributions (Social, Health and Unemployment insurance, Accidents, state contributions for allowances)*	**Goods and Services** *Water, waste management and sanitation* *Public Lightning and Heating* *Fuel costs, replacement parts* *Other goods and services for day-to-day Maintenance and Operations* *Office Supplies (including costs for TV, internet, radio, cleaning materials, furniture, prints, etc)* *Food allowances, Medicine and Sanitation* *Delegation costs (transport, per diem)* *Studies and Researches* *Judiciary Expenses* *Other types of Expenditure with goods and services*
Interest Rates *Interest Rate related to current internal local public debt* *Interest Rate related to current external local public debt*	**Subsidies** *Subsidies for covering the difference between real costs and determined costs (usually for subsidizing public services such as local transport, thermal energy, sanitation, etc)*
Reserve Fund *Discretionary fund at the disposal of local public authority*	**Internal transfers between entities of the local public administration**
Social Assistance *Social benefits (cash or in-kind)*	**Other types of Expenditure** *Scholarships* *Support for associations and foundations (including recreational, religious, etc)*
Reserves or Deficit	
SECTION II - Development Expenses	
Internal transfers between entities of the local public administration	**Costs incurred with projects funded from external sources / grants** *European Programmes (Regional Fund, European Social Fund, European Agricultural Fund)* *National Funding Programs (e.g., NLDP)* *Other funding*
Capital Expenditure *Investments from own source revenues (e.g. infrastructure projects, constructions, rehabilitations, etc.)*	**Financial Assets** *Participation in the share capital of commercial companies*
Reserves or Deficit	

[63] Personnel costs include the personnel expenses incurred at the level of each administrative-territorial unit, both for their own staff and also for those of the public institutions and services subordinated, entirely financed from the local budget.

Figure 21. Breakdown of County Capitals' Expenditures between 2007 and 2018 (average %)



The architecture of local budgets favors rather prudent approaches due to the inconsistency of revenue streams and the inadequate local capacity to manage medium-to-long term investments. LGs are too dependent on central revenue streams and, at the same time, with minor exceptions, they do not have the administrative and financial capacity to implement large-investment schemes that require long-term planning. There is a limited number of county capitals that have the financial capacity to undertake large-scale investment projects or even co-fund EU-funded ones. Instead, they rather focus on smaller investments or specific upgrades of infrastructure. Very few entities have the capacity to support an investment entirely from their own funds and continue to rely on national funded programs such as the National Local Development Program (NLDP) or the newly established – and now defunct – Fund for Development and Investments (FDI).

Suboptimal prioritization of expenditures remains a critical issue. There are no clear capital investment plans adopted and followed at local level, no synergies between local public investments and regional ones, and important infrastructure projects are often funded through own budgetary resources despite the fact that EU funds are available and absorption rates remain low. Suboptimal prioritization also affects two key areas that have become a major burden for the local authorities' budgets, i.e., subsidizing outdated systems for central heating and local transportation. In the majority of county capitals, the two are critically low-performing, lack clear long-term planning, and will continue to represent a major expense for local authorities. EU funds are one solution for improving them, provided that LGs have the capacity to manage such projects.

Improving the distribution of central heating requires complex solutions. With an outdated transport system and without the needed funding for investments, most of the county capitals that maintain the distribution operational subsidize the cost per Gcal, a large burden on local budgets. In this regard, the performance of county capitals is limited. As the table below indicates, with a few exceptions, most district heating systems in Romania are either defunct or in decline. The largest one, in Bucharest, went bankrupt in 2019, and addressing inefficiencies in the district heating system (primarily water and heat losses) would require massive investments in the rehabilitation of the infrastructure. Constanța faces similar issues, with an infrastructure dating from the 1970s. On a

positive note, subsidies are only provided for poor households connected to the system, which signals a more efficient use of funds compared to Bucharest, for example.

Table 65. The situation of district heating systems in Bucharest and the 40 county capitals

County Residence	Does the city have a district heating system?	How many apartments are connected?	Observations
București	Yes	562,192	Bucharest City Hall subsidized district heating system with around 133 million Euro every year.
Constanța	Yes	78,226	Subsidies are provided for poor households.
Oradea	Yes	64,370	Significant EU investments were undertaken to modernize the system.
Craiova	Yes	61,092	Many households have disconnected themselves from the district heating system.
Timișoara	Yes	60,306	Many households have disconnected themselves from the district heating system.
Ploiești	Yes	55,805	District heating system is in private ownership and management. Many people have disconnected themselves from the system because of the high heating costs.
Iași	Yes	37,088	District heating system is in private ownership, after a dramatic decrease of clientele.
Galați	Yes	36,167	District heating system has financial difficulties.
Arad	Yes	31,535	District heating system has accumulated large debts and has lost many customers over the years.
Drobeta-Turnu Severin	Yes	29,299	District heating system has financial difficulties.
Cluj-Napoca	Yes	28,383	Most households have disconnected themselves from the system.
Râmnicu Vâlcea	Yes	27,766	The district heating company faces significant financial difficulties.
Pitești	Yes	23,015	Many households have disconnected themselves from the system. Debranching is now prohibited for people living in apartment blocks where everybody is connected to the district heating system.
Suceava	Yes	17,895	The old district heating company went bankrupt and was taken over by a private company.
Bacău	Yes	16,233	Old district heating system went bankrupt. Many people disconnected themselves.
Buzău	Yes	14,415	More than half of the households have disconnected themselves from the system (around 36,000 households were connected in the past).
Focșani	Yes	12,604	Co-generation plant was built with EU funds. Nonetheless, number of branched households has dropped dramatically, from a total of around 30,000.
Tulcea	Yes	11,324	Many households have disconnected themselves from the district heating system, and several were disconnected because of accumulated debts.
Botoșani	Yes	11,249	District heating system was modernized with EU funds.

County Residence	Does the city have a district heating system?	How many apartments are connected?	Observations
Deva	Yes	7,000	Most households have disconnected themselves from the system.
Giurgiu	Yes	4,522	Many people have disconnected themselves from the system.
Miercurea Ciuc	Yes	2,845	Many people have disconnected themselves from the system.
Sibiu	Yes	757	Most households have disconnected themselves from the system.
Vaslui	Yes	662	Many households have disconnected themselves from the district heating system, and several were disconnected because of accumulated debts.
Alexandria	Yes	433	Most households have disconnected themselves from the system.
Călărași	Yes	402	Most households have disconnected themselves from the system.
Sfântu Gheorghe	Yes	260	Most households have disconnected themselves from the system.
Alba-Iulia	No	0	District Heating system was closed down in 2011, as people switched to individual heating units
Baia-Mare	No	0	In 2000 the district heating system lost its last customers.
Bistrița	No	0	District heating system was closed down in 2006.
Brăila	No	0	District heating system ceased to operate in 2013, because of accumulated debts. Brăila City Hall offered subsidies to households for the purchase of individual heating units.
Brașov	No	0	District heating companies went bankrupt.
Piatra Neamț	No	0	District heating system was closed down in 2014. The City Hall offered individual heating units for the renter flats.
Reșița	No	0	The district heating system was closed down in 2014.
Satu-Mare	No	0	The district heating system was closed down in 2003.
Slatina	No	0	The district heating system was closed down in 2001.
Slobozia	No	0	The district heating system was closed down in 2006.
Târgoviște	No	0	District heating system was closed down in 2013. The City Hall offered individual heating units for the renter flats.
Târgu Jiu	No	0	The district heating system, which was developed in Communist times was never made operational. In 2006 the existent unoperational facilities were sold to scrap metal.
Târgu Mureș	No	0	The district heating system was closed down in 2013.
Zalău	No	0	The district heating system was closed down in 2014.

Source: ANRSC (the National Authority for Regulating and Monitoring the Public Services of Communal Household), Adevărul.ro, and individual press clippings.

The practice of subsidizing is also common when discussing local public transportation. The cost for this service is substantial and, with minor exceptions, tariff revenues do not come close to covering even operating costs. Investments in public transportation are possible through EU funds and are considered the best possible option, although some county capitals decided to fund such investments through own budgetary resources.

Breakdown of all expenditures by sector

Assessing the breakdown of all expenditures by sector, across all county capitals for the 2007-2018 period, reveals some key insights for Constanța. Local governments spend an important share of their resources for education and housing, including Constanța (23.1% and 24.6%, respectively). Municipalities have a major responsibility to invest in building new housing and schools, while extending and refurbishing existing stock. For education, the expenditure line includes related goods and services needed by schools, in addition to utility costs. Large LGs also offer additional services such as pre-school facilities or crèches. The obligation to pay pre-university teachers' salaries, which represented the bulk of expenditures for this sector, was removed in FY2018 and, as a result, the VAT transfer to municipal budgets was reduced considerably to reflect his change.

Municipalities have a key role in the funding of municipal transport and the maintenance of local roads, which includes pavements, parking spaces, and all public lighting and traffic lights. Transport spending has two main components: maintenance of local roads (or investments in new roads), and providing financing for local public operators for transport (either subsidizing local public transport or supporting costs for capital investments). Constanța has allocated only 7% of total revenues for transportation (including local public operator) on average, although its cost has seen a sharp increase in the last four years, as shown in the two tables below. Subsidies allocated towards the local public operator in Constanța increased in 2018 to RON 51,9 million from a level of RON 39.2 million in 2017. As in the case of most local public transport operators, their revenues based on commercial activities is below the number of subsidies (revenues set at RON 25 million in 2017 and RON 30,6 million in 2018).

Constanța also allocates important shares toward the Energy and Fuel sector – i.e., around 11.3% on average between 2007 and 2018. This budgetary line includes mostly costs with subsidizing district heating. The costs with cultural and sports' activities are also on an upward trend in the case of Constanța. The budgetary allocation towards cultural services, funding autonomous cultural institutions (art centers, theaters, cinema, etc.), and youth and sport clubs are recently rising. In addition, the costs with the maintenance of public gardens and parks are also increasing. Constanța is allocating substantial resources towards cultural and sports activities, with almost 5.2% of total expenditure in the last decade. Finally, there are no significant yearly fluctuations in the budgetary allocation towards environmental protection (sanitation and waste management) in the case of Constanța. The municipality allocated around RON 65-80 million on average in the last 5 years for waste management and sanitation, amounting to 8.8% of its yearly expenditures, on average.

Overall, expenditure data by sector reveals certain priorities for the municipality of Constanța. The city generally spends more (as a % of total expenditures) on: housing (24.6% vs. only 9.4% in Cluj-Napoca, where thermal rehabilitation investments were largely covered by residents' own resources); environment (8.8% vs. 5.2% in Craiova); and energy (11.3% vs. 7.2% in Brașov, mostly due to subsidies for district heating). Also, it tends to spend less than the average on: education (23.1% vs. 33.3% on average across all county capitals) and transport (6.8% vs. 13.4% on average across all county capitals). As for public safety, health, and culture, Constanța deviates little from averages across all county capitals.

Table 66. Share of expenditures by expenditure type (averages for 2007-2018)

Locality	Population	Total	General Public Services	Public Safety	Education	Health	Culture, Recreation, Religion	Social Assistance	Housing	Environment	Energy	Transport
Alba Iulia	68,763	€ 35,936,458	10.6%	3.5%	28.4%	0.9%	12.8%	8.8%	18.7%	0.4%	0.1%	15.6%
Arad	164,208	€ 86,755,317	8.5%	1.5%	28.3%	0.9%	11.6%	6.3%	6.9%	7.6%	11.4%	17.1%
Pitesti	165,733	€ 69,400,509	4.6%	2.1%	35.8%	0.9%	9.3%	5.2%	12.7%	4.4%	11.4%	13.2%
Bacau	174,182	€ 79,314,565	10.2%	2.3%	32.4%	3.3%	7.8%	9.2%	4.5%	6.3%	15.8%	8.3%
Oradea	204,358	€ 114,516,929	6.0%	0.6%	25.7%	3.0%	6.0%	5.6%	12.9%	2.9%	16.7%	18.8%
Bistrița	85,375	€ 38,179,682	10.7%	3.0%	37.7%	0.8%	7.8%	6.7%	22.8%	2.4%	0.0%	6.7%
Botoșani	114,799	€ 46,593,054	7.7%	2.0%	38.2%	1.2%	7.8%	5.5%	7.6%	4.8%	15.5%	9.7%
Brasov	275,901	€ 114,782,824	7.2%	1.5%	24.8%	0.4%	7.6%	6.6%	11.0%	4.1%	7.2%	23.3%
Braila	208,464	€ 68,179,630	8.7%	2.3%	35.7%	1.1%	5.0%	11.5%	11.2%	6.8%	4.8%	12.6%
Buzau	130,320	€ 59,990,546	7.6%	5.1%	37.9%	1.3%	7.6%	7.2%	6.1%	5.0%	9.7%	12.4%
Resita	81,807	€ 29,542,209	16.1%	2.7%	36.8%	0.9%	4.2%	9.7%	15.9%	5.1%	2.8%	5.8%
Cluj-Napoca	301,913	€ 160,032,659	12.3%	1.5%	28.7%	2.7%	3.6%	8.0%	9.4%	3.6%	7.1%	22.9%
Constanța	**299,824**	**€ 132,820,983**	**7.2%**	**2.3%**	**23.1%**	**0.8%**	**5.2%**	**10.0%**	**24.6%**	**8.8%**	**11.3%**	**6.8%**
Sf. Gh.	61,074	€ 28,222,152	7.9%	1.7%	39.0%	0.8%	16.2%	7.5%	11.3%	3.6%	0.1%	10.2%
Târgoviște	87,484	€ 47,764,105	8.4%	2.6%	37.1%	1.2%	8.7%	11.8%	15.3%	6.2%	3.3%	5.4%
Craiova	297,510	€ 123,205,632	8.6%	2.7%	32.4%	3.4%	11.3%	5.7%	6.7%	5.2%	4.3%	18.7%
Galati	287,046	€ 110,098,068	8.2%	3.1%	31.6%	2.6%	7.9%	8.0%	8.2%	6.0%	9.8%	14.4%
Tg. Jiu	96,737	€ 41,614,525	10.8%	1.3%	42.0%	0.8%	6.4%	6.8%	13.3%	5.2%	0.0%	13.5%
M. Ciuc	41,166	€ 22,913,226	5.6%	0.1%	42.3%	0.8%	12.4%	4.1%	12.2%	1.9%	8.8%	11.0%
Deva	65,998	€ 33,875,538	11.0%	2.0%	32.7%	0.7%	2.9%	7.9%	17.7%	7.9%	2.5%	8.5%

Locality	Population	Total	General Public Services	Public Safety	Education	Health	Culture, Recreation, Religion	Social Assistance	Housing	Environment	Energy	Transport
Călărași	72,754	€ 28,362,268	7.8%	2.6%	39.6%	0.4%	9.0%	9.1%	15.0%	6.9%	0.5%	9.2%
Slobozia	51,541	€ 21,071,047	11.0%	3.0%	38.7%	1.1%	9.0%	7.3%	14.6%	6.3%	0.0%	8.6%
Iasi	302,971	€ 141,076,449	9.7%	2.2%	31.3%	1.7%	6.6%	7.1%	8.7%	2.1%	10.8%	18.4%
Giurgiu	66,949	€ 26,530,963	15.7%	2.3%	30.6%	0.1%	5.2%	10.7%	22.8%	0.6%	6.7%	5.1%
Baia Mare	137,455	€ 57,865,134	8.7%	1.3%	39.4%	1.4%	5.4%	10.7%	13.2%	5.3%	0.1%	14.0%
DT Severin	105,232	€ 44,057,251	9.2%	2.6%	34.6%	1.2%	10.3%	10.6%	12.9%	5.8%	4.4%	8.3%
Tg. Mureș	143,221	€ 76,474,150	7.9%	2.3%	30.0%	0.7%	9.6%	5.6%	14.2%	5.9%	3.2%	20.4%
P. Neamț	105,892	€ 45,508,692	25.3%	1.5%	33.6%	0.9%	6.2%	6.7%	9.9%	1.2%	1.7%	10.7%
Slatina	76,736	€ 41,882,032	8.6%	1.6%	36.7%	1.4%	4.0%	4.5%	34.3%	2.2%	0.0%	6.6%
Ploiești	225,636	€ 105,165,277	12.1%	2.1%	27.3%	1.4%	9.0%	8.6%	10.9%	5.1%	6.3%	17.3%
Satu Mare	110,930	€ 50,250,311	10.4%	2.2%	40.8%	0.8%	8.4%	7.5%	9.6%	5.3%	0.0%	14.9%
Zalău	63,980	€ 28,371,838	13.7%	2.2%	45.0%	0.8%	6.7%	8.0%	9.8%	2.5%	0.5%	10.4%
Sibiu	154,224	€ 72,575,230	7.8%	1.6%	29.2%	1.1%	10.7%	5.4%	9.2%	3.8%	0.1%	31.1%
Suceava	106,682	€ 55,320,203	6.9%	1.9%	31.3%	1.0%	5.6%	5.0%	7.5%	6.1%	9.3%	8.6%
Alexandria	48,754	€ 21,466,044	9.8%	2.2%	38.6%	1.0%	7.4%	9.6%	17.5%	1.4%	3.8%	8.8%
Timișoara	307,561	€ 164,267,177	9.0%	2.5%	25.0%	2.5%	10.1%	6.3%	10.4%	2.2%	12.8%	19.1%
Vaslui	69,992	€ 27,050,492	21.8%	1.0%	25.8%	0.0%	3.2%	9.1%	5.1%	0.0%	0.0%	34.1%
Rm. Vâlcea	110,697	€ 53,483,909	14.4%	0.4%	17.2%	0.1%	8.8%	4.9%	7.9%	1.6%	0.0%	14.9%
Focșani	97,714	€ 41,137,910	29.8%	2.0%	34.2%	0.0%	1.2%	13.8%	10.7%	0.0%	0.0%	8.2%

Figure 22. Breakdown of expenditures in Constanța between 2007 and 2018 (RON)

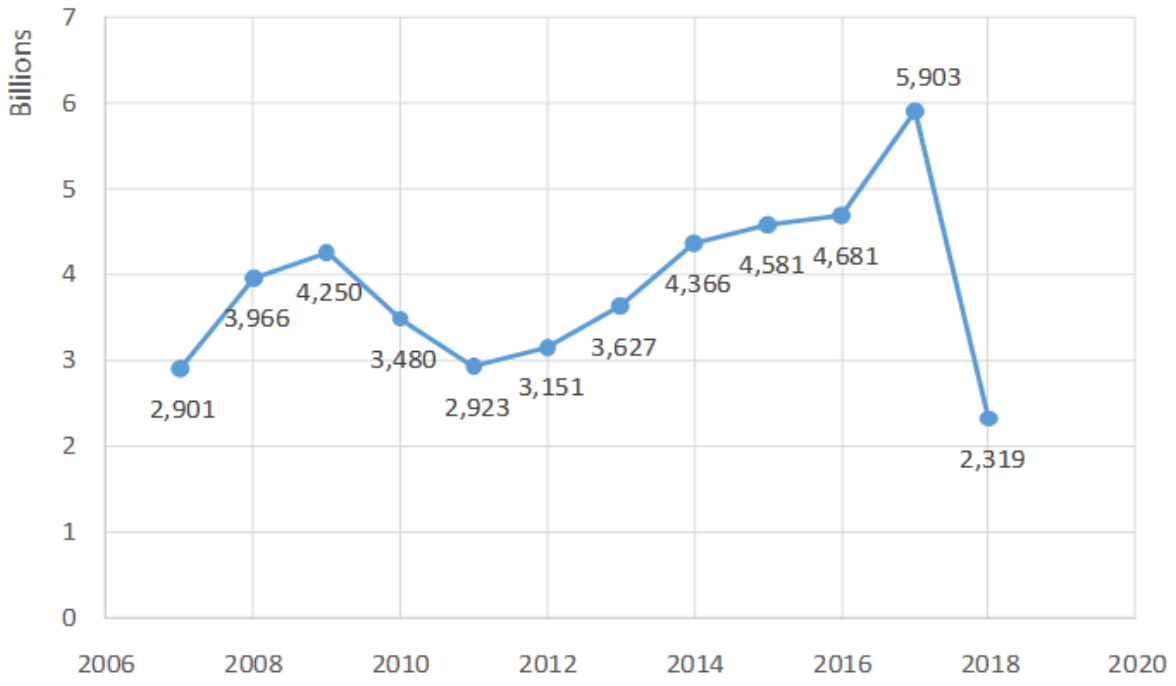
Year	Total expenditure (RON)	Public general services	Defense and national security	Education	Health	Culture and religion	Social assistance and insurances	Buildings and public development	Env. Protect.	Energy and fuel	Transport
2007	354,505,973	29,050,626	1,950,790	94,686,930	42,112	24,532,952	26,861,581	40,424,522	-	92,663,054	8,183,576
2008	452,228,870	43,344,011	3,102,830	123,838,466	42,168	30,593,508	43,484,281	113,781,780	-	79,330,527	14,711,299
2009	496,182,172	43,609,164	4,221,005	134,406,201	1,754,707	34,879,181	56,605,571	114,283,650	-	87,408,782	19,013,911
2010	434,021,635	38,844,116	2,714,236	110,729,302	4,103,359	19,338,874	42,991,864	112,902,406	-	82,392,610	20,004,868
2011	559,326,411	37,912,859	11,023,970	93,514,818	3,920,488	19,714,946	39,896,622	146,884,911	-	69,920,627	99,617,408
2012	515,958,760	24,231,445	11,940,319	111,996,297	3,793,570	24,478,539	45,044,089	161,357,518	70,934,304	31,522,688	30,659,991
2013	582,209,935	33,246,588	12,875,320	131,268,666	4,431,393	30,278,940	48,187,270	184,808,137	73,041,137	28,019,661	36,052,823
2014	684,992,261	33,637,656	14,011,328	163,524,926	4,211,497	37,427,759	46,684,124	215,639,838	73,571,851	68,097,719	27,971,025
2015	639,634,027	32,689,075	17,126,976	162,641,919	4,335,336	29,391,239	52,152,599	180,917,003	79,462,460	39,224,752	40,558,804
2016	695,969,799	44,428,781	22,452,062	174,358,060	5,235,119	29,559,498	69,917,335	145,134,855	63,398,523	87,574,823	53,910,743
2017	704,240,401	46,972,456	23,818,652	211,569,890	6,386,832	35,449,537	87,750,545	80,805,012	73,168,632	73,457,117	64,861,728
2018	604,242,710	81,022,422	24,913,017	48,603,988	11,759,714	38,987,313	105,138,040	102,356,967	67,600,758	29,160,636	94,639,150
Total	6,723,512,954	488,989,199	150,150,505	1,561,139,463	50,016,295	354,632,286	664,713,921	1,599,296,599	501,177,665	768,772,996	510,185,326
%	**100%**	**7.2728%**	**2.2332%**	**23.2191%**	**0.7439%**	**5.2745%**	**9.8864%**	**23.7866%**	**7.4541%**	**11.4341%**	**7.5881%**

Personnel costs

Personnel costs continue to account for an important share of county capitals' total expenditures. They had already been sharply increasing in the last few years, a tendency further consolidated in 2017. Subsequent amendments have been adopted by the Government that led to important increases in the public administration in terms of new hires. More so, the unitary pay law (entered into force on July 1, 2017) allowed each municipality to increase personnel wages according to their own budget and without major restrictions, which has put even more pressure on local budgets.

Personnel costs have always taken a significant share of the expenditure budget of county capitals. In 2007, they represented 35% of total expenditures, increasing exponentially and peaking at 43% of total expenditure in 2017. Only between 2016 and 2017 the personnel costs increased from RON 4.681 billion to RON 5.904 billion, hence an increase of 26% in only one year that had no equivalent in a similar increase of revenues. Over the last decade (2007-2017), the personnel costs of the counties' capitals increased by 103%, from RON 2,9 billion to RON 5,9 billion in 2017, while revenues increased over the same period by only 62%. In 2018, personnel costs dropped to only RON 2.3 billion due to the transfer of school teacher salaries from local budgets to the central budget. Still, the personnel cost remains at a staggering rate of 35% of the total costs of the counties' capitals for 2007-2018.

Figure 23. County Capitals' Personnel costs during 2007-2018 (RON)

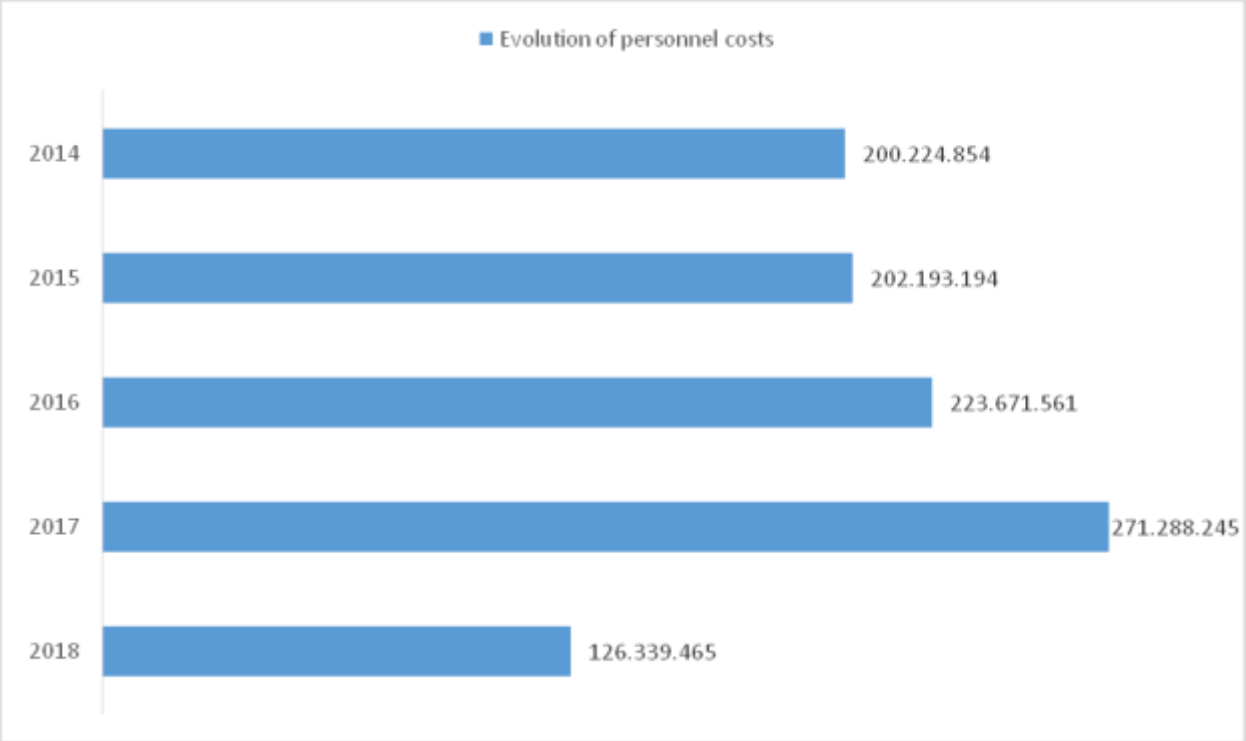


As the table below indicates, higher personnel expenditures do not necessarily translate into more capital investments and EU funded projects. Smaller municipalities seem to spend more on personnel than larger municipalities. This does not necessarily indicate that larger municipalities are better administered, but that these larger municipalities can take advantage from economies of scale and often personnel costs are financed indirectly (e.g., through payments to a public company). Taking this into account, Constanța appears to be among the county capitals that spend relatively less on personnel, with a share of 30.5% of total expenditures, on average, over 2007-2018. This is in line with other large cities, though the example of Oradea stands out in terms of the efficiency of the personnel (only 27.1% of total expenditures, but with a lot of EU-funded projects under implementation).

Table 67. High personnel costs do not necessarily transfer in higher capital investments or implementation of EU funded projects

Locality	Population	Average total expenditures over 2007-2018	Personnel	Capital Investments	EU Funds
Focsani	97,714	€ 41,137,910	50.0%	14.1%	7.9%
Alexandria	48,754	€ 21,466,044	48.6%	12.0%	2.7%
Tg-Jiu	96,737	€ 41,614,525	46.8%	8.7%	2.6%
Zalau	63,980	€ 28,371,838	46.3%	7.2%	4.2%
Resita	81,807	€ 29,542,209	45.9%	11.2%	1.2%
Slobozia	51,541	€ 21,071,047	45.7%	17.9%	3.0%
Calarasi	72,754	€ 28,362,268	44.5%	11.8%	0.9%
Satu Mare	110,930	€ 50,250,311	44.1%	7.6%	3.5%
Bistrita	85,375	€ 38,179,682	42.9%	9.6%	10.4%
Targoviste	87,484	€ 47,764,105	42.5%	6.3%	10.9%
Sf.Gheorghe	61,074	€ 28,222,152	42.5%	16.4%	6.1%
Baia Mare	137,455	€ 57,865,134	42.1%	9.0%	2.0%
Buzau	130,320	€ 59,990,546	41.4%	4.8%	1.5%
Miercurea-Ciuc	41,166	€ 22,913,226	40.6%	17.9%	8.1%
Botosani	114,799	€ 46,593,054	40.5%	12.2%	4.5%
Giurgiu	66,949	€ 26,530,963	39.8%	14.5%	1.6%
Pitesti	165,733	€ 69,400,509	39.7%	12.1%	5.1%
Braila	208,464	€ 68,179,630	38.2%	8.9%	8.8%
Slatina	76,736	€ 41,882,032	38.1%	16.8%	6.0%
Deva	65,998	€ 33,875,538	37.4%	13.8%	6.0%
Drobeta T. Severin	105,232	€ 44,057,251	37.2%	12.5%	4.2%
Piatra Neamt	105,892	€ 45,508,692	37.0%	16.7%	6.4%
Vaslui	69,992	€ 27,050,492	36.9%	39.6%	0.2%
Alba Iulia	68,763	€ 35,936,458	36.5%	7.9%	13.4%
Tirgu Mures	143,221	€ 76,474,150	36.0%	8.5%	5.9%
Bacau	174,182	€ 79,314,565	34.5%	10.4%	9.1%
Suceava	106,682	€ 55,320,203	34.2%	8.5%	3.8%
Craiova	297,510	€ 123,205,632	33.7%	9.8%	10.1%
Iasi	302,971	€ 141,076,449	33.7%	9.9%	10.3%
Galati	287,046	€ 110,098,068	32.8%	12.6%	2.9%
Constanta	**299,824**	**€ 132,820,983**	**30.5%**	**10.3%**	**1.8%**
Timisoara	307,561	€ 164,267,177	30.4%	8.5%	6.1%
Rm. Valcea	110,697	€ 53,483,909	30.2%	30.3%	15.4%
Arad	164,208	€ 86,755,317	29.1%	15.1%	4.3%
Sibiu	154,224	€ 72,575,230	28.9%	16.6%	1.9%
Cluj-Napoca	301,913	€ 160,032,659	28.8%	8.3%	7.7%
Ploiesti	225,636	€ 105,165,277	27.9%	8.0%	5.2%
Oradea	204,358	€ 114,516,929	27.1%	9.7%	14.2%
Brasov	275,901	€ 114,782,824	24.6%	12.7%	5.7%

Figure 24. Evolution of personnel costs in Constanța between 2014 and 2018 (RON)



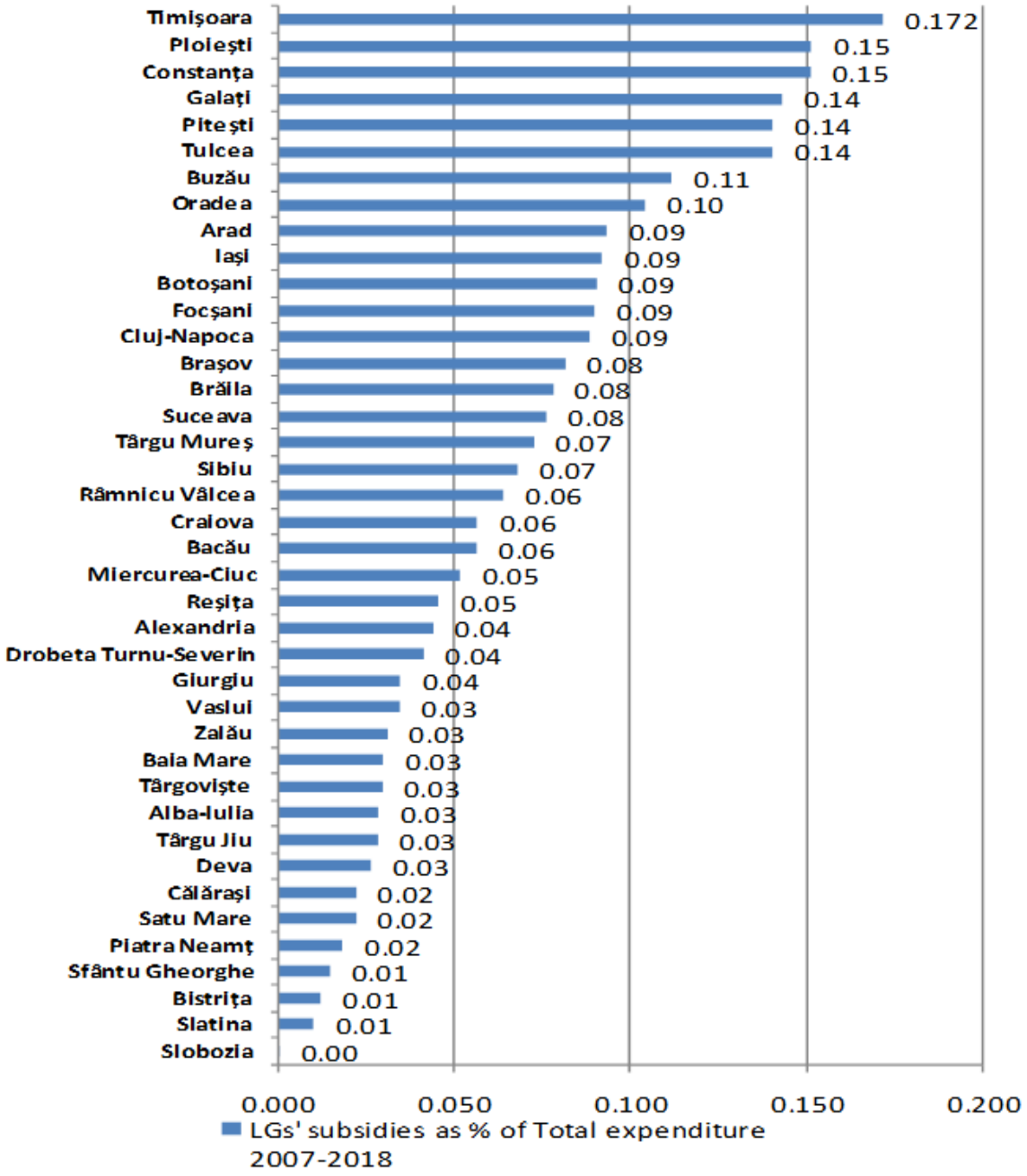
Operational costs with goods and services

County capitals, like any other local public authority, have the legal power to purchase goods and services required for current activities, which represent an important share of expenditure. The Romanian public procurement legislation sets up rules to encourage transparency and competition among bidders, although loopholes continue to be present and exploited. The range of possible public procurement of the local authorities is extensive and usually a procurement strategy is established and reviewed annually. Public procurement for goods and services represents one fourth of the total value of expenditures across county capitals, on average, increasing from RON 2.1 billion in 2007 to RON 3.2 billion in 2018, thus a rise of 52% in a decade. However, in 2018 alone, good and services represented 30.5% of total expenditures. Constanța is very close to the average county capital, with 30.88% spent on goods and services.

Subsidies

County capitals like Constanța spend important budgetary resources on subsidies. The central government transfers resources to local budgets to fund specific investments or support vulnerable categories, but local authorities tend to subsidize specific costs from their own budget – as noted earlier, particularly for local public transport and district heating. Subsidies represent, on average, 8.5% of total expenses incurred at the level of the county capitals between 2007 and 2018, while in gross figures their costs dropped from RON 984 million in 2007 to RON 877 million in 2018. However, when reading gross figures, one must take into account that a large number of LGs do not subsidize central heating, as these systems are no longer functioning in a large number of LGs. Where they still function, they require important subsidies, including in Constanța, with a notable 15.12% of total expenditures.

Figure 25. County capitals' expenditures on subsidies as part of total expenditure between 2007 and 2018 (RON)



Capital investments

Capital expenditure amounted to only RON 14.3 billion between 2007 and 2018, thus around 11% of total expenditures at the local level. Local government expenditure is largely channeled toward personnel costs and day-to-day operations, neglecting major capital-intensive projects. LGs spend far less on investments, and their budgets are largely dependent on the absorption of EU funds or nationally funded programs due to limited own resources. Coupled with total levels of expenditure on EU related projects, around RON 7.8 billion (5.92%), LGs spend around 17% from their total budgets on investment projects, a figure far below personnel costs.

Expenditure patterns are significantly different among LGs and this is underlined by their approach toward EU funding. When looking at actual capital expenditures between 2007 and 2015, and what

local governments could have spent on capital investments (an average of 30% of non-earmarked revenues was considered in this case to be a prudent margin), it becomes clear that most county capitals have under-invested (see table below). There have been two approaches on investment projects at the level of LGs. A limited number of LGs managed to attract large levels of EU funds, surpassing their capital expenditures from own budgetary resources. At the same time, large LGs have opted to continue their investments or start new ones through own budgetary resources and have a limited number of projects funded through EU funds. The latter approach could be explained through already existing investment strategies that were pursued by LGs during the period or ineligibility of intended projects under EU funding. However, eligibility criteria were quite comprehensive in the last years of the previous programming period, with most of the key areas of intervention reshuffled in order to increase absorption rates and encompass most of the projects that were initially not designed to be funded under the Operational Programmes.

Unfortunately, Constanța is second in the country after Bucharest in terms of what it spent and what it could have prudently spent on capital investments. This is, generally speaking, indicative of missed opportunities and possibly weak local capacity to design and manage public investment projects. Between 2007 and 2015, Constanța could have spent an additional EUR 106 million on infrastructure investments; interestingly, most county capitals (shown in red) have the opposite problem, where – on account of attracting large EU funds, usually – they have exceeded prudent capital margins. It is also noteworthy that the functional urban area around Constanța has spent a lot more of its available resources on infrastructure projects, which is good news for the city's future development opportunities. When comparing EU funds spent as a proportion of capital expenditures, Constanța is among the bottom six performers, with only 14% (Călărași is last with 7%).

	Total Capital Expenditures 2007-2015		Estimated Possible Capital Investment Budget 2007-2015		Difference between Estimated Capital Investment Budget and Actual Expenditures	
	Core City	Outer FUA	Core City	Outer FUA	Core City	Outer FUA
Alba Iulia	€ 76,075,784	€ 87,333,146	€ 44,613,708	€ 21,510,979	-€ 31,462,076	-€ 65,822,166
Alexandria	€ 30,309,011	€ 12,560,301	€ 32,353,936	€ 8,962,039	€ 2,044,925	-€ 3,598,262
Arad	€ 158,781,973	€ 122,564,087	€ 158,447,796	€ 72,012,598	-€ 334,176	-€ 50,551,489
Bacău	€ 175,800,881	€ 72,363,476	€ 123,030,465	€ 29,991,512	-€ 52,770,416	-€ 42,371,964
Baia Mare	€ 69,060,342	€ 89,936,249	€ 84,890,478	€ 36,875,176	€ 15,830,137	-€ 53,061,072
Bistrița	€ 65,748,653	€ 68,697,343	€ 56,550,961	€ 22,085,254	-€ 9,197,691	-€ 46,612,089
Botoșani	€ 80,607,779	€ 16,114,190	€ 65,471,916	€ 10,030,780	-€ 15,135,863	-€ 6,083,410
Brăila	€ 126,461,532	€ 18,031,611	€ 100,830,014	€ 11,121,835	-€ 25,631,519	-€ 6,909,777
Brașov	€ 229,803,444	€ 243,839,940	€ 217,024,267	€ 168,919,039	-€ 12,779,177	-€ 74,920,900
București	€ 3,187,153,672	€ 965,586,113	€ 3,937,260,251	€ 618,507,313	€ 750,106,578	-€ 347,078,800
Buzău	€ 34,402,089	€ 80,540,418	€ 91,869,624	€ 41,914,135	€ 57,467,535	-€ 38,626,283
Călărași	€ 37,942,646	€ 32,631,742	€ 40,983,274	€ 13,618,690	€ 3,040,628	-€ 19,013,052
Cluj-Napoca	€ 226,113,081	€ 201,295,514	€ 295,430,059	€ 89,339,668	€ 69,316,977	-€ 111,955,846
Constanța	**€ 148,227,667**	**€ 282,051,420**	**€ 254,563,477**	**€ 184,250,002**	**€ 106,335,810**	**-€ 97,801,419**
Craiova	€ 254,327,934	€ 109,194,456	€ 186,760,204	€ 50,424,759	-€ 67,567,729	-€ 58,769,696
Deva	€ 76,524,688	€ 90,278,240	€ 53,617,150	€ 55,920,249	-€ 22,907,538	-€ 34,357,991
Drobeta Turnu Severin	€ 81,878,817	€ 29,035,901	€ 58,374,980	€ 12,091,819	-€ 23,503,837	-€ 16,944,082
Focșani	€ 66,511,963	€ 57,488,886	€ 45,222,184	€ 34,664,724	-€ 21,289,779	-€ 22,824,163
Galați	€ 192,779,838	€ 85,240,754	€ 180,953,623	€ 36,806,500	-€ 11,826,215	-€ 48,434,254
Giurgiu	€ 53,261,359	€ 11,879,481	€ 44,191,718	€ 6,151,316	-€ 9,069,641	-€ 5,728,165
Iași	€ 268,681,281	€ 91,164,891	€ 206,752,399	€ 43,319,179	-€ 61,928,882	-€ 47,845,712
Miercurea-Ciuc	€ 64,016,132	€ 56,932,114	€ 34,081,210	€ 23,702,018	-€ 29,934,923	-€ 33,230,096
Oradea	€ 225,381,432	€ 143,747,499	€ 158,912,517	€ 65,051,818	-€ 66,468,915	-€ 78,695,681
Piatra Neamț	€ 121,103,798	€ 48,687,686	€ 68,810,141	€ 24,100,594	-€ 52,293,657	-€ 24,587,092

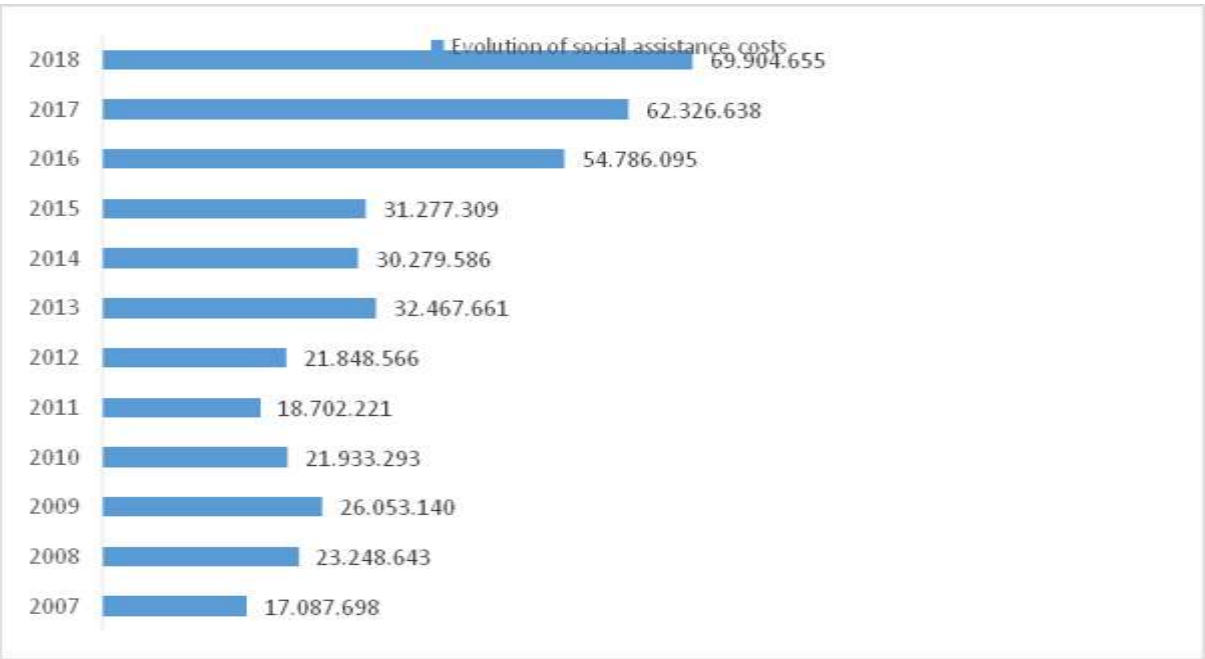
	Total Capital Expenditures 2007-2015		Estimated Possible Capital Investment Budget 2007-2015		Difference between Estimated Capital Investment Budget and Actual Expenditures	
	Core City	Outer FUA	Core City	Outer FUA	Core City	Outer FUA
Pitești	€ 124,431,256	€ 235,579,423	€ 109,946,157	€ 122,904,901	-€ 14,485,099	-€ 112,674,523
Ploiești	€ 143,505,916	€ 219,246,548	€ 183,111,503	€ 137,323,918	€ 39,605,587	-€ 81,922,630
Râmnicu Vâlcea	€ 79,122,201	€ 173,063,532	€ 81,968,869	€ 61,744,707	€ 2,846,668	-€ 111,318,825
Reșița	€ 39,468,502	€ 13,594,653	€ 47,223,671	€ 3,454,131	€ 7,755,170	-€ 10,140,521
Satu Mare	€ 48,923,919	€ 76,729,744	€ 73,770,950	€ 36,248,821	€ 24,847,031	-€ 40,480,923
Sfântu Gheorghe	€ 62,782,058	€ 35,149,886	€ 37,014,559	€ 12,071,365	-€ 25,767,499	-€ 23,078,521
Sibiu	€ 141,211,535	€ 159,150,802	€ 147,906,959	€ 80,644,035	€ 6,695,424	-€ 78,506,767
Slatina	€ 89,748,334	€ 45,220,815	€ 65,978,954	€ 21,583,794	-€ 23,769,380	-€ 23,637,020
Slobozia	€ 48,252,705	€ 29,830,965	€ 33,813,183	€ 14,707,493	-€ 14,439,521	-€ 15,123,471
Suceava	€ 70,401,745	€ 55,396,618	€ 53,410,610	€ 28,636,949	-€ 16,991,135	-€ 26,759,669
Târgoviște	€ 89,966,856	€ 94,968,946	€ 66,726,412	€ 38,991,196	-€ 23,240,443	-€ 55,977,750
Târgu Jiu	€ 44,523,802	€ 50,923,786	€ 57,673,169	€ 24,840,290	€ 13,149,367	-€ 26,083,497
Târgu Mureș	€ 109,452,323	€ 94,638,548	€ 100,334,998	€ 47,823,785	-€ 9,117,325	-€ 46,814,763
Timișoara	€ 221,583,097	€ 230,122,967	€ 262,175,517	€ 144,377,826	€ 40,592,420	-€ 85,745,141
Tulcea	€ 60,389,123	€ 21,777,092	€ 56,969,874	€ 10,095,726	-€ 3,419,248	-€ 11,681,366
Vaslui	€ 51,882,722	€ 25,042,512	€ 34,206,268	€ 9,216,964	-€ 17,676,454	-€ 15,825,548
Zalău	€ 25,490,012	€ 52,471,920	€ 40,396,915	€ 15,277,552	€ 14,906,903	-€ 37,194,368

Other expenditures

In spite of shrinking revenues, LGs continue to increase their budgets for cultural, recreational, or religious events. The designated budgetary line recorded hit an all-time high of RON 1.2 billion in 2018 from RON 1.08 billion in 2017. In the last decade, between 2007 and 2018, the costs for this budgetary line increased by 233%, from RON 514 million in 2007, an unprecedented increase.

Expenditures with social assistance continue to grow, with important differences between wealthier and poorer municipalities. Social assistance costs increased in gross figures from RON 134 million to RON 697 million between 2007 and 2018, thus a staggering increase of more than five times (517%) in a decade, explainable due to the increasing number of social services transferred from central level to local level. In 2018, social assistance represented 6,6% of total expenditure, while the figure for the entire period is set at an average of 3.1%, meaning that such expenses do take up more of the budget available. However, Romania continues to remain one of the EU countries spending the lowest amounts on social assistance. In 2019, only 10,7% of the total general consolidated budget will be spent on social assistance, a figure that sets Romania at the bottom of EU countries – total general governmental expenditure on social assistance and social protection is almost double in EU-28 (19%). Social services continue to be concentrated around wealthier urban areas, and remain characterized by uneven territorial distribution, insufficient coverage, and inadequate access for vulnerable categories.

Figure 26. Social assistance costs in Constanța between 2007 and 2018 (RON)



The costs of social assistance are partially supported by local municipalities and on an upward trend. These costs amount to a low share of Constanța's budget between the FY2007-FY2018 period, with only 5%. It is however important to note that Constanța increased its spending allocation towards social assistance from RON 24 million in 2015 to RON 36 million in 2018. Finally, over the last decade, Constanța recorded interest costs of only RON 0.5 million, or approximately 0.02% of its total costs.

6. Alternative sources to finance local governments

This chapter provides information on how municipalities across the world have found alternative and innovative methods to finance their operations and infrastructure programs over the years. This section includes taxes, fees, levies, and bonds issuance used by municipalities from Europe, Asia, the United States, and Latin America, and is the result of an extensive research process. Sure enough, the examples that follow should be evaluated in the local context of Constanța. Local authorities should subject each potential proposal to due consideration, analysis, and a thorough public consultation process, understanding that different ways to increase local government revenues often involve extracting more resources from citizens, which entails potential social and political costs beyond simple economic calculations. It is also noteworthy that sometimes imposing taxes leads to lower consumption of certain goods and services, which reduces other government revenues. Also, there is an important ideological component to imposing taxes; the current report does not advocate for any of the taxes below, but provides them as potential examples that could be considered by local authorities.

In most cases, alternative income sources used by local governments are used to improve the current infrastructure in the field and provide better services to accommodate the use of the taxpayers. Due to the level of income generated, most incremental budgets gained from these alternative sources would not have otherwise created a high impact on the general budget. The examples provided in this chapter contain different sub-sections, as follows:

- **Background**: this section provides brief information on the context for creating new types of financing sources, followed by the rationale used by the local authorities for implementation;
- **Benefits**: the advantages presented by the municipality for introducing the new measures, both on the general public and on the impacted audience (e.g., developing the infrastructure, environmental impact, better access to services);
- **Tax Structure**: in most cases, the alternative sources have used different taxation tiers;
- **Administration**: how the new tax is implemented and what are the tools and entities put in place to collect the proceedings;
- **Equity**: this section shows how the taxpayers reacted to this new form of tax and what were the measures considered by the municipality to ensure the most equitable process;
- **Economic Efficiency**: in some cases, this section shows what was the exact impact generated by this tax on the consolidated budget of the municipality, or how the incremental funds were used to develop the specific industry or service provided in the city.

6.1. Foreign online services - Quebec

Background:

The representatives of Canada's second-most populous province decided in March 2018 to start the collection of a mandatory provincial sales tax for online services that operate outside Quebec,[64] effective January 2019. The design of the new rules closely follows International VAT/GST guidelines recommended by the Organization for Economic Cooperation and Development (OECD). According

[64] The Quebec Economic Plan, March 2018. Accessed July 4, 2019. http://www.budget.finances.gouv.qc.ca/budget/2018-2019/en/documents/EconomicPlan_1819.pdf#page=217

to the OECD, the Guidelines present a "set of internationally agreed standards and recommended approaches."[65]

Benefits:

According to the estimates made by the provincial finance ministry[66] at the time of issuing this decision, the province was losing annual revenues of approximately C$270 million by not collecting taxes on online sales of goods and services from companies outside Quebec. Quebec expects the measures will enable it to recover C$155 million in lost revenue over five years, according to budget documents released in Quebec City.

Table 68. Financial impact of measures to ensure tax fairness – Quebec (millions of dollars)

	2017 - 2018	2018 - 2019	2019 - 2020	2020 - 2021	2021 - 2022	2022 - 2023	Total
Making the collection of the Quebec sales tax mandatory for suppliers outside Quebec	-	7.0	27.5	35.0	40.0	45.0	154.5

Tax structure:

Registration to pay the online services tax is dependent on the supplier exceeding an annual sales threshold of CAD $30,000 to Quebec consumers. The flat provincial tax rate is 9.975% of sales. Online companies without a major presence in Quebec were exempt from collecting the tax until September 1, 2019.

Administration:

Non-resident digital service suppliers (including digital platforms such as Netflix, Amazon, iTunes, Spotify, Google, or Facebook) have to register with a simplified system for the purposes of collecting and remitting QST. To confirm the end customer's location the Québec government will demand that two pieces of non-contradictory evidence be collected by the non-resident supplier. Accepted pieces of evidence — according to the additional information provided in the Québec budget — include the customer's "billing address or personal address, the IP address of the device used or another method of geolocation, payment-related bank information or the billing address used by the bank, information from a SIM (Subscriber Identity Module) card, the place of the person's landline, or any other relevant information."

Equity:

The mandatory tax rate will be enforced for every sale of goods and services to the people of Quebec, increasing the total order price. The measure has been addressed by authorities with the purpose of ensuring tax fairness, considering that some online corporations manage to avoid certain tax obligations, and thereby depriving the government of a portion of the revenue it would otherwise receive.

Economic Efficiency:

[65] International VAT/GST Guidelines, OECD. Accessed July 4, 2019. https://read.oecd-ilibrary.org/taxation/international-vat-gst-guidelines_9789264271401-en

[66] Netflix, Amazon Face Retail Sales Tax Crackdown in Quebec, Bloomberg, March 27, 2018. Accessed July 4, 2019. https://www.bloomberg.com/news/articles/2018-03-27/netflix-amazon-face-retail-sales-tax-crackdown-in-quebec

A few months after proposing the tax, a registration platform for non-resident digital businesses was revealed.[67] Non-resident businesses that supply digital services to Québec-based customers and exceed the registration threshold must register before January 1, 2019. Given the recent adoption of this tax, there is no information on its economic efficiency at the time of this report's writing.

6.2. Scooter and bike services tax – Paris

Background:

According to the City of Paris, there are 15,000 free-floating vehicles of all forms and shapes in the city, from electric scooters to fluorescent bikes and motorcycle-like scooters. Following the major popularity of urban mobility adoption in the city, many people complain about them crowding the sidewalk or being involved in various accidents. To this extent, the municipality of Paris announced in March 2019 that they will introduce a royalty for all free-floating operators this year, which will be followed by a deployment of reserved parking offers for this equipment.[68]

Benefits:

The City of Paris wishes to promote soft and innovative mobility measures, while regulating them to ensure the safety of Parisians and to avoid chaotic occupation of streets and sidewalks. The taxes collected from free-floating operators will be used to create communication campaigns to ensure the safety of pedestrians and to create a dense network of spaces reserved for parking electric scooters and bicycles.

Structure:

According to Le Parisien,[69] this will be a tier system. Companies will pay 10 percent more for vehicle No. 500 to vehicle No. 999, 20 percent more for vehicle No. 1,000 to vehicle No. 2,999, and 30 percent more for any vehicle after No. 3,000.

Table 69. The taxation model proposed by the Council of Paris

Category of vehicles with 2 or 3 wheels	Royalty per unit (for 1-499 vehicles)	Royalty per vehicle 500-999 (+10%)	Royalty per vehicle 1000-2999 (+20%)	Royalty per vehicle +3000 (+30%)
Vehicles without motorization or with electrical assistance (including bicycles)	€20	€22	€24	€26
Unregistered personal motor vehicles (including electric scooters)	€50	€55	€60	€65
Registered electric vehicle	€60	€66	€72	€78
Registered 2/3 wheeled thermal vehicle	€120	€132	€144	€156

[67] The registration platform can be found on this link

[68] The City of Paris website, press release. Accessed July 1, 2019. https://www.paris.fr/actualites/trottinettes-velos-scooters-la-ville-va-mieux-reguler-les-operateurs-de-free-floating-6604

[69] Scooters, bikes and electric scooters in self-service in Paris: The City will introduce a fee, Le Parisien. Accessed July 1, 2019 http://www.leparisien.fr/info-paris-ile-de-france-oise/transports/trottinettes-velos-et-scooters-electriques-en-libre-service-a-paris-la-ville-va-instaurer-une-redevance-21-03-2019-8036757.php

Administration:

The operators will have to visit the town hall and register the specific number of free-floating units they will deploy. The operators will have to sign a charter of good practice, which will have them show data about the number of units in operation.

Equity:

While authorities are waiting for the upcoming national mobility law to be equipped with new legal instruments, the fee in Paris can help define the rules that operators will have to respect and will call for penalties in case of non-compliance. The new tax collected from operators will finance up to 2,500 parking sites in the city, helping citizens of Paris walk freely on sidewalks. In media interviews, several operators have shown that this will be the best way to contribute to investing in infrastructure that promotes safe and comfortable mobility.

Economic Efficiency:

As this fee came into effect in 2019, its economic efficiency is currently unknown. The Paris Council projected that the total number of free-floating vehicles could reach up to 40,000 units in the near term.

6.3. Rideshare tax – Sao Paulo

Background:

With around 19 million people living in the Sao Paulo metropolitan area, the metropolis is the most populous city in Brazil and the Southern Hemisphere. Traffic congestion is so severe that on-demand helicopter hailing between airports, hotels, and convention centers has commenced operation in the city, according to a June 2016 Sydney Morning Herald news report.[70] For ride-hailing companies such as Uber, Brazil is the second-largest market in the world after the United States, with 17 million users and more than 500,000 drivers. In this regard, the Mayor of Sao Paulo announced in May 2016 that the city will create a tax for ride-hailing companies that will be dedicated to fulfilling the goals of the city's urban mobility plan.

Benefits:

As the city faces major traffic congestion issues, the decree[71] sets out that ride-sharing companies will have to pay a fixed fee per kilometer to help maintain the road network and other public infrastructure, and to share their web platform information, enabling the city to better manage the transportation network.

Structure:

The regulation foresees 0.10 reals ($0.03) prepaid fee for every kilometer travelled by ride-sharing services vehicles. This approach means that transport network companies could contribute revenue on a pay-as-you-drive basis.

Administration:

[70] Uber offers helicopters to escape Sao Paulo gridlock, The Sydney Morning Herald. Accessed July 1st, 2019. https://www.smh.com.au/technology/uber-offers-helicopters-to-escape-sao-paulo-gridlock-20160614-gpiqh7.html

[71] Decree No. 56981 of 05/10/2016, the City of Sao Paulo. Accessed July 1st, 2019. https://www.legisweb.com.br/legislacao/?id=320363

As the platform data are shared with the local authorities, there will be no way for ride-hailing companies to avoid taxation or record lower numbers. All taxes will be paid to the fiscal administration of the city, on a monthly basis.

Equity:

The mayor's decision to start taxing ride-hailing companies was made after overriding attempts made by county council members to ban Uber and other apps due to unfair competition with licensed taxis. The decree was strongly criticized by taxi drivers, as the trend to back looser rules for Uber and other competing companies[72] continue at national level. Amid the large criticism, the citizens of Sao Paulo agree that this measure not only contributes to creating a better road infrastructure (through road investments), but also helps local authorities create more efficient traffic management systems (by sharing real-time data with the municipality).

Economic Efficiency:

The policy is still relatively new, so an evaluation of its economic impact is not yet available. However, the city anticipates that the new regulation will raise 37.5 million reals ($11.5 million) per year. The decree requires ride-hailing companies to share their data (origin and destination, distances travelled, price, etc.), which enables the city to better analyze, plan, and manage the city's transportation network, including the ability to incentivize companies to complement public transit, limit their contribution to rush hour congestion, and better serve low-income travelers and disabled persons.

6.4. Short term accommodation tax – Ottawa

Background:

As a popular destination for sight-seeing, business and government travel, the City of Ottawa welcomes more than 10 million visitors a year. The city has created a Municipal Accommodation Tax, effective on January 2018, which replaced the hotel industry's previous fees.[73] Following the example of Quebec, policymakers in Ottawa entered into a tax agreement with Airbnb, the digital short-term rental platform, adding a 4% tax on every listing found on the platform in the form of a municipal accommodation tax. The agreement started on August 2018.

Benefits:

Research from the Institute of Municipal Finance & Governance found that if properties listed on Airbnb are charged with a commercial property levy that is significantly higher compared to the residential rate, it will result in significant municipal revenues.[74] The funds generated through the Municipal Accommodation Tax are invested in development activities through Ottawa Tourism, the city's official destination marketing organization. Ottawa Tourism promotes Ottawa for leisure visitors, meetings and conventions, major events, media relations, tour operators, and travel trade.

[72] Brazil's lawmakers back looser rules for Uber, Financial Times. Accessed July 1st, 2019. https://www.ft.com/content/7bf04e08-1d63-11e8-aaca-4574d7dabfb6

[73] The Ottawa City Hall website. Accessed July 3rd, 2019. https://ottawa.ca/en/city-hall/taxes/hotel-and-short-term-accommodation-tax

[74] Zachary Spicer (2018) "The Platform Economy and Regulatory Disruption: Estimating the Impact on Municipal Revenue in Toronto." Institute on Municipal Finance and Governance. pp. 18-19. https://tspace.library.utoronto.ca/bitstream/1807/88262/1/imfgpaper_no40_platformeconomyregulatorydisruption_zacharyspicer_june_5_2018.pdf.

Ottawa Tourism also invests in long term destination development initiatives aimed at enhancing the visitors' experience.[75]

Structure:

Accommodation providers doing business and/or facilitating business transactions within the boundaries of the City of Ottawa are obliged by law to collect and remit a four percent (4%) Municipal Accommodation Tax (MAT) on all rooms sold for overnight accommodation. Revenues generated from other hospitality services, including but not limited to such things as meeting room rentals, food & beverage, and room service, laundry services, internet access, parking, etc. are excluded from the MAT.

Administration:

The City of Ottawa has authorized the Ottawa Gatineau Hotel Association (OGHA) to collect the tax on their behalf and to administer the transition of the funds to Ottawa Tourism for the purposes of promoting and growing the tourism industry in Ottawa. The remittance process includes a monthly remittance form, which is available on the OGHA website, and payments can be made through various methods. Submissions and payment are due within 30 days of the previous month. For smaller establishments, a request can be made to the City of Ottawa to remit quarterly. Both the City of Ottawa and OGHA will routinely select submissions for audit. The verification process includes a 3rd party auditor assigned by and paid for by the respective governing authority.

Equity:

As the tax applies to all overnight accommodation units in Ottawa, the price is ultimately born by tourists. Therefore, the new tax does not have any negative consequences on the people of Ottawa, except for the document's submission and remittances.

Economic Efficiency:

It is estimated that the city would have received about $850,000 in additional tax revenue if this tax was collected from the 2,700 hosts on the platform in 2017.[76] The same source shows that Airbnb collected C$2.8 million in fees to Quebec (the first city to adopt this legislation in Canada) in the first six months of its tax agreement.

6.5. Betterment Levy – Bogotá

Background:

Betterment levies are a form of tax or a fee levied on land that has gained in value thanks to public infrastructure investments. Whereas impact fees and developer exactions work from the cost side of budgets, betterment levies try to capture part of the infrastructure investment already incurred by the government.[77] One of the countries that has successfully used betterment levies to help fund public infrastructure is Columbia, with Bogotá at its forefront. The city currently has about $1 billion worth of investment in public works from this levy, collecting taxes from around 1.5 million properties. In 2017, the mayor's office in Colombian capital proposed a new betterment levy to the

[75] Ottawa Tourism website. https://www.ottawatourism.ca/

[76] Airbnb to collect, remit hotel tax on its listings in City of Ottawa, Ottawa Citizen. Accessed July 3rd, 2019. https://ottawacitizen.com/news/airbnb-to-collect-remit-hotel-tax-on-its-listings-in-city-of-ottawa/wcm/ed41233d-5c2f-4444-9a92-879293534b27

[77] World Bank, Regenerating Urban Land, A practitioner's guide to leveraging private investment. Accessed July 5, 2019. https://urban-regeneration.worldbank.org/node/15

local council in order to raise 1.9tn pesos (US$643mn) to finance 25 infrastructure projects in the city.[78]

Benefits:

The benefits resulting from the project or set of projects are calculated by city zone, with emphasis on benefit factors defined for each project. The latest plan implemented by the local administration of Bogotá involves the construction of 98km of roads, 53km of cycle paths and over one million sqm of public spaces. The development plan aims to help resolve the deficit of public areas, improve connectivity, and boost connections between the capital and the surrounding region.

Structure:

Colombian law stipulates three parameters used to calculate the betterment levy: (1) the cost of the construction project; (2) the value added to properties that can be attributed to the project; and (3) the affordability of the levy (i.e., the capacity of the property owners to pay).

Administration:

The administration of the betterment levy is the responsibility of the Urban Development Institute (Instituto de Desarrollo Urbano, or IDU), which is also in charge of identifying the main road construction projects to be financed by the levy. The levy is assessed on all properties affected by a given project (or set of projects) and is calculated by multiplying different benefit factors. Examples of recent projects with revenues from the levy are shown in the table below.

Table 70. Betterment Levy Collections in Bogotá

Projects	Approval date	Collection date	Amount collected (USD)
General Betterment	1993	1993	106.2
Build the City (Formar Ciudad) Phase 1	1995	1996-1998	351.9
Build the City (Formar Ciudad) Phase 2	2001	2002	55.9
Agreement 180 Local Betterment Phase 1	2005	2007-2010	260.2
Local Betterment Phase 2	2005	2009	265.7
Local Betterment Phase 3	2005	2012	262.1
Local Betterment Phase 4	2005	2015	85.5

Equity:

Although its legitimacy is not questioned, even among the business community, controversies continue over how the charge is assessed and distributed among properties. The Bogotá model of betterment levies is primarily criticized because the calculation of the project benefit reportedly does not measure the direct value added to the properties, but instead mostly relies on indirect indicators.

[78] Bogotá proposes betterment levy to raise US$640mn for infra projects, BNAmericas. Accessed July 5, 2019. https://www.bnamericas.com/en/news/infrastructure/bogota-proposes-betterment-levy-to-raise-us640mn-for-infra-projects

Economic Efficiency:

Over the past 70 years, Columbia's experience with the betterment levy has shown that it can be a sustainable instrument to finance urban development. The Columbian model, although unsuccessfully implemented in other countries, can raise substantial revenue to fund public works.

6.6. Water bottle tax – Chicago

Background:

Policymakers in Chicago generally understood that the plastic bottles are energy-intensive to produce and bad for the environment, frequently ending up as litter in waterways and oceans. In response to water bottles' environmental costs, municipalities across the United States have adopted different policies aimed at reducing plastic bottle litter. The City of Chicago was one of the first to enact a tax on water bottles, called the Chicago Bottled Water Tax.

Benefits:

The Non-Alcoholic Beverage Taxes - the revenues from taxes on the purchase of non-alcoholic beverages (including a tax on bottled water, pre-packaged soft-drinks, and fountain syrup) have reached $24.3 million, or 0.66 percent of Corporate Fund resources in 2017, an increase from $18.8 million in 2008.[79] Peter Gleick, co-founder and president of the water policy think-tank Pacific Institute writes that in the first five years of the tax,[80] the city raised some $38 million from the sale of 763 million bottles of water, based on data from the Chicago Department of Finance.

Structure:

The flat tax rate is calculated as $0.05 per bottle of water. Taxable products are all brands of non-carbonated bottled water intended for human consumption. Non-taxable products are any beverage that qualifies as a soft drink per the Chicago Soft Drink Tax ordinance, mineral or distilled water, or water provided by home or business water delivery services, where the water is delivered in a reusable container that is not sold with the water.[81]

Administration:

The Bottled Water Tax applies to the retail sale of bottled water in the City at a rate of $0.05 per bottle of water. Wholesalers are required to collect the tax. Retailers are required to collect if wholesaler does not. The Bottled Water Tax does not apply to sales of bottled water to passengers on an interstate carrier.

Economic Efficiency:

Taxing bottled water has been shown to be effective by a couple of measures. First, in terms of consumer behavior: Washington state passed a bottled water tax in 2010, and though it was repealed shortly thereafter, it produced a marked reduction in bottled-water consumption. A 2013

[79] Annual Financial Analysis 2018, City of Chicago. Accessed July 8, 2019. https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2019Budget/2018AnnualFinancialAnalysis_CityofChicago.pdf

[80] Science Blogs, The effects of bottled water tax in the US, Peter Gleick. Accessed July 8, 2019. http://scienceblogs.com/significantfigures/index.php/2013/05/09/bottled-water-tax/

[81] Chicago Bottled Water Tax Guide. Accessed July 9, 2019. https://www.chicago.gov/content/dam/city/depts/rev/supp_info/TaxSupportingInformation/BottledWaterTaxGuide.pdf

study of that tax from U.C. Berkeley[82] found that, "when taxed, the average quantity of bottled water purchased in treated states drops significantly, by 6.4 percent, as compared to the untaxed control states."

6.7. Tax on dogs – Berlin

Background:

The tax on dogs was first introduced in several German speaking kingdoms in the early 19th century for the purpose of reducing the prevalence of associated diseases. This tax was also common in many European countries throughout much of the 20th century but were discontinued in most countries starting with mid-1970's. Germany is today one of the only European countries that held onto this pet payment, levied at the community level.

Benefits:

In 2011, Berlin was voted Germany's most dog-friendly city. Dog owners, Berliners and tourists enjoy the city accompanied by their dogs. As Berlin is known as "the capital for dog lovers,"[83] there are over 100,000 officially registered dogs leaving in the city. The taxes gathered every year are used to create a better infrastructure for dog-lovers around the city, from dog exercising areas to dog hostels or sightseeing tours with dogs.

Structure:

According to the Berlin Dog Act,[84] there is a tax rate of EUR 120 for the first dog and EUR 180 for each additional dog per household. A tax exemption is for service dogs, dogs in training to be medical, rescue, or service dogs, or the ones that serve exclusively and necessary for the protection and help of blind, deaf, or otherwise impaired persons. There is also a tax exemption for one calendar year for dogs taken into the household from animal shelters, animal asylums, and similar animal welfare facilities.

Administration:

The dog tax is an annual tax. The survey period is the calendar year. Anyone holding a dog must notify the tax office within one month of being admitted to the household (registration). If a dog is purchased, the name and address of the previous owner must be reported to the tax office.

Economic Efficiency:

There are 24 full-time employees working in the Berlin administration that are tasked with enforcing the dog tax. According to the 2016 reports,[85] more than EUR 11 million were brought to the local budget through the dog tax.

6.8. Dancing Tax – Brussels

Background:

[82] Measuring Consumer Responses to a Bottled Water Tax Policy, University of California-Berkeley. Accessed July 9, 2019. https://are.berkeley.edu/~sberto/WaterTaxNov27.pdf
[83] VisitBerlin.de. Accessed July 10, 2019. https://www.visitberlin.de/en/berlin-dog
[84] Berlin Dog Act (legislation). Accessed July 10, 2019. http://gesetze.berlin.de/jportal/?quelle=jlink&query=HuStG+BE&psml=bsbeprod.psml&max=true&aiz=true
[85] Why did Berlin dog owners pay over €11 million in 'dog tax' last year?, The Local. Accessed July 10, 2019. https://www.thelocal.de/20171102/why-did-berlin-dog-owners-pay-over-11-million-in-dog-tax-last-year

The city of Brussels has been enforcing several municipal entertainment taxes since more than half a century ago, including the dancing tax. Although the tax was intermittently enforced for some decades, a City Council decision[86] has reconsidered and renewed the tax back in 2014. The highly criticized tariff orders clubs and cafes to pay EUR 0.40 for each person "assisting or participating at habitual dancing venues." The tax is levied against establishments, not individual patrons, and numbers are supposedly estimated by tax assessors who visit the area, not by bar head counts or receipts.

Benefits:

The Brussels Municipality justifies this dancing tax by claiming that dance parties hosted in the capital city entail additional local costs for ensuring public order and security of citizens and travelers.[87] Although the contributions of the dancing tax are not presented in the Brussels Municipality tax revenue report, it is estimated that the tax brings around EUR 92,000 per year, a relatively modest contribution to the city budget.[88]

Structure:

According to the Council Decision, the owners of cafés, bars, and music clubs are to pay a fixed rate of EUR 0.40 for every person attending or participating in a dance party, per night. If a person randomly dances in a café or bar on a given night (without the establishment announcing such a dance party), the café is still required to pay the dance tax.

Administration:

The qualifying taxpayers are required to submit tax forms to the College of Mayor and Aldermen of the City of Brussels on a monthly basis, indicating the number of dance parties held during the previous month and the registered number of visitors. The failure to comply can result in an audit conducted by tax inspectors and appropriate sanctions. The media and social networks have been reported several incognito visits of inspectors from the financial department of the Brussels Municipality, with the purpose to count the number of dancing persons and verify if the establishments have complied with the tax regulation.

Equity:

Since the enforcement of this tax, there were several protests made by people in Brussels to reduce this tax burden. One Brussels club, which has been hit by a bill for almost €2,000 for its dancing customers, has even asked travelers to "please stop dancing" using different posters designs on its windows.[89] As the Council Decision leaves place for interpretation, taxable persons and dancers question the criteria that apply for the term "dancing," as the specifics are not defined by the legislative decision. The question posed to tax authorities pertain to the time allocated to dance, the possibility of dancing while seated, or the types of rhythmic movements.

6.9. Unoccupied or abandoned dwellings – Brussels

Background:

[86] Brussels Council Decision on 01/12/2014. Accessed July 12, 2019. http://blog.lesoir.be/docs/wp-content/uploads/sites/60/2016/11/Taxe-sur-les-parties-de-danse.pdf
[87] Brussels dance tax: partygoers asked to stop dancing in protest. ABC News. Accessed July 12, 2019. https://www.abc.net.au/news/2016-11-30/brussels-dance-tax-veues-charged-per-dancer/8079000
[88] NoMoreTax.eu. Accessed July 12, 2019. https://www.nomoretax.eu/dancing-tax/
[89] Authorities in Brussels hit nightclubs with tax on dancing. The Telegraph. Accessed July 12, 2019. https://www.telegraph.co.uk/travel/destinations/europe/belgium/brussels/articles/brussels-dance-tax-please-stop-dancing/

Unoccupied, empty, and/or abandoned buildings disturb and provoke many reactions in Brussels, with vacancy affecting the entire Belgium. Office buildings, abandoned lots, vacant houses, and unleased apartments make up what is effectively usable space that goes unused. In Brussels, it is estimated that there are more than 30,000 empty dwellings, accounting for about 6.5 million square meters of unused real-estate space.[90] Recent studies suggest that the number of homeless people has doubled in the last 10 years. 41,000 people are currently waiting on low-income housing in Brussels (many applying for their entire families), while up to 30% of Brussels residents pay upwards of two fifths of their income towards lodging. In 2016,[91] the Brussels City Council introduced a tax on abandoned, neglected, unoccupied, or unfinished buildings and land for the 2017 and 2018 fiscal years.

Benefits:

According to studies,[92] this tax presents multiple benefits. The tax on vacant buildings or abandoned lots helps low-income people access affordable houses, favors access to new home ownership, and has a positive impact on the surrounding landscape as deteriorating real-estate is encouraged to be sold to new owners. The objective of setting up the tax is, in part, to help people and contribute to municipalities' revenues.

Tax structure:

The tax is fixed at EUR 500 per meter of running house front (façade) on built property, or by the current length in meters when it refers to a land. When the property affects two or more streets, the basis for calculating the tax is the total development of the street front property. For built property, the amount of tax collected is multiplied by the number of unoccupied, unfinished, abandoned, or neglected levels, other than basements and attics.

Administration:

The administration manages to prove the vacancy of a property by looking for evidence such as bills for water, gas, and electricity consumption: from the perspective of the administration, if there is no consumption, the building must be unoccupied. Each authority within Belgium has its own taxation and can make such decisions independently.

Equity:

With an existing stock of real estate still largely underused, Brussels sees a redistribution of the residential stock in Brussels, with people deciding to move outside the city in a response to the partial saturation of the housing market. Although this issue was met with discontent from owners of multiple houses, it is one of the measures to address a less affordable housing stock in the city.

6.10. Stormwater charge - Mississauga

Background:

[90] The housing crisis paradox: How the Citizens of Brussels are Reclaiming Unused Space. The Brussels Time. Accessed July 12, 2019. https://www.brusselstimes.com/opinions/the-housing-crisis-paradox-how-the-citizens-of-brussels-are-reclaiming-unused-space/

[91] Brussels Council Decision on 05/12/2016. Accessed July 12, 2019. https://www.bruxelles.be/sites/default/files/bxl/imm%20abandon2017.pdf

[92] Housing in Brussels: diagnosis and challenges. Brussels Studies. Accessed July 12, 2019. https://journals.openedition.org/brussels/1353#tocto2n7

The City Council of the Canadian province of Ontario authorized staff to undertake a Stormwater Financing Study,[93] with the purpose to better manage stormwater and control runoff from rain and melted snow in a way that supports flood prevention, maintenance of water quality, and the reduction of downstream erosion. The study concluded with the implementation of a stormwater management user charge using the example of other Ontario municipalities, finding it to be a fair and dedicated source of funded that is needed to manage this issue for a growing city.

Benefits:

The goals of the stormwater charge are to plan, develop, construct, maintain, and renew a stormwater system that protects property, infrastructure, and the natural environment from erosion and flooding and enhances water quality.[94]

Figure 27. Strategic Service Delivery Model[95]

The rapid growth of Mississauga experienced an accelerated wear and tear of the stormwater infrastructure, forcing local authorities to find new ways of developing infrastructure and lowering maintenance costs. The solution came in the form of the service delivery model, which aims to establish a sustainable service level for stormwater (developing an integrated Asset Management Plan to manage stormwater infrastructure, increase the contribution pipe reserve fund, enhance

[93] Mississauga Stormwater Financing Study, April 2013. Accessed July 15, 2019. http://www7.mississauga.ca/Documents/TW/Environment/RPT_MississaugaStormwaterFinancingStudy_Apr2013_Final.pdf

[94] Mississauga Stormwater, 2019-2022 Business Plan & 2019 Budget. Accessed July 15, 2019. http://www7.mississauga.ca/eCity/Budget/img/serviceareas/business-plans/2019-stormwater-summary.pdf

[95] ibid

storm sewer by-law enforcement, and plan and deliver projects effectively), and to deliver mitigation and improvement projects (flood relief, erosion control, water quality enhancement).

Tax structure:

The stormwater charge is calculated and billed the same for all properties. It is calculated by multiplying the stormwater rate (calculated at CAD 106.10 for the year of 2019) by the number of stormwater billing units assessed for the property. The billing unit is calculated at 267 sqm and represents the hard surface area on a single detached residential property. The rate is reviewed each year as part of the city's annual budget planning process.

Table 71. Calculations of bills for residential properties in Mississauga

Property Size and Type	Rooftop Area in sqm	Estimated Fees per Year
Freehold town homes and row houses	26.7 – 99.0	CAD 53.05
Semi-detached homes, linked homes and small single detached homes	99.1 – 151.0	CAD 74.27
Medium single detached homes	151.1 – 194.0	CAD 106.10
Large single detached homes	194.1 – 242.0	CAD 127.32
Very large single detached homes	242.1 and above	CAD 180.37
Rooftops under 26.7 sqm		No charge

The City of Mississauga also provides an online tool called Stormwater Charge Estimator, which can be found at stormwatercharge.ca. The online tool provides an estimate of the charge and a picture of the area used to determine the charge for each property.

Administration:

The stormwater charge appeared in the Region of Peel water bill beginning in 2016. The bill is divided into a daily rate and shows the stormwater charge for the number of days that have passed since the last bill.

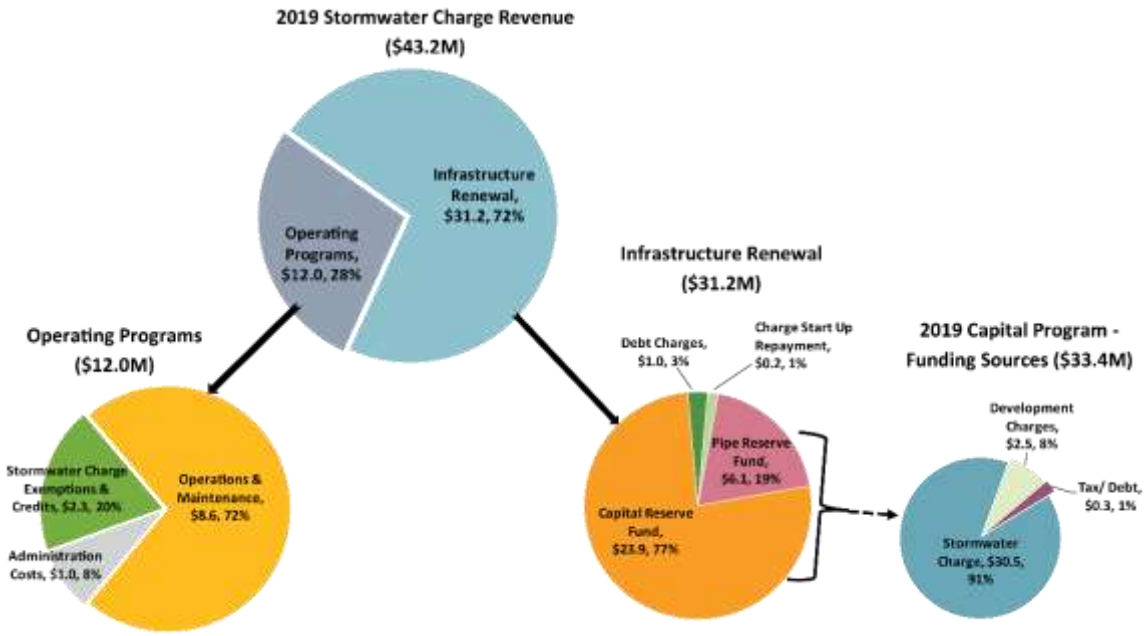
Equity:

As climate change continues to be one of the top priorities for the city of Mississauga, the city aims to use the stormwater charge to minimize potential risks for individual property and the environment. The city strives to build a resilient stormwater system by increasing its investment in stormwater infrastructure and supporting programs. Mississauga has implemented a credit system for multi-residential and non-residential properties to reward owners for proactively managing stormwater on their properties, corroborated with outreach and education programs to promote household-level initiatives.

Economic Efficiency:

According to the 2019-2022 Business Plan & 2019 Budget document issued by the Mississauga city hall, the revenues from the stormwater charge for 2019 will be CAD 43.2 million, with an estimated increase up to CAD 46 million by 2022. The chart below shows the distribution of the stormwater charge revenue (CAD millions) for 2019:

Figure 28. Overview of Stormwater Charge Revenue in Mississauga - segregated by the Operating and Infrastructure Renewal Programs for 2019[96]



6.11. Municipal Sales Tax - Toronto

Background:

The City of Toronto issued a 2019 capital budget briefing note[97] called "Unmet Capital Needs," where it assessed that the city requires a total of CAD 40.67 billion to fund capital projects that address health and safety, repairs, service improvement, and growth-related capital projects between 2019 and 2028. To meet the growing needs of Toronto, the authorities commissioned a KPMG report[98] in 2016 to review municipal tax options for generating revenue tools to help make city finances sustainable in the future. The report concluded that a municipal sales tax has the potential to bring annual net revenues to the city ranging from CAD 125 million (0.5% municipal sales tax) to CAD 515 million (2% municipal sales tax). Although the municipal sales tax is yet to be implemented in Toronto, this tax is quite popular in the United States.

Benefits:

The growing demand for new services and investment in the greater Toronto area have already exceeded the traditional taxing capacity, forcing local authorities to find new means of generating revenues without further increasing property taxes. The municipal sales tax is a simple and effective way to raise revenues, which will grow organically with the population and economy. The money raised from the municipal sales tax is set to be directed toward regional infrastructure projects. The

[96] Mississauga Stormwater, 2019-2022 Business Plan & 2019 Budget. Accessed July 15, 2019. http://www7.mississauga.ca/eCity/Budget/img/serviceareas/business-plans/2019-stormwater-summary.pdf
[97] 2019 Capital Budget Briefing Note "Unmet Capital Needs" – the City of Toronto. Accessed July 16, 2019. https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-129575.pdf
[98] City of Toronto – Revenue Options Study, KPMG (2016). Accessed July 16, 2019. https://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-94731.pdf

report called "A New Revenue Tool: The case for a Greater Toronto and Hamilton Area sales tax,"[99] estimates that the Greater Toronto and Hamilton Area could raise CAD2.53 billion from a two per cent sales tax or $1.25 billion if it implemented a one per cent sales tax.

Tax structure:

Although the new tax has not yet been adopted by Toronto, the analysis performed by KPMG and the Canadian Center for Policy Alternatives (Ontario Office) have considered the tax to range from 0.5% to 2%.

Equity:

The report[100] also addresses concerns about the ability of low-income residents to absorb a sales tax. It details this issue by illustrating how using some of the revenue to increase the existing Ontario sales tax credit will mitigate impact on low-income households. For example, increasing the Ontario sales tax credit by 50% would result in low-income residents paying only 3% of the revenues collected by a new two per cent municipal sales tax, while the richest 10% of residents would contribute by 22 per cent.

Economic Efficiency:

There are 443 Ontario municipalities that currently debate on the requirement of a municipal sales tax.[101] There are also discussions about creating a regional sales tax, which would be beneficial from a tax design, compliance, and revenue-raising perspective. As the region has not yet decided on a unilateral agreement, the City of Toronto could go ahead with a municipal sales tax on its own.

6.12. Personal Income tax – New York

Background:

The personal income tax in New York City is one of the most important sources of revenue for the local budget, with a history dating back to 1966.[102] According to this tax, every income-earning individual, estate, and trust residing or located in New York City must pay the New York City personal income tax. According to a local media outlet,[103] New York City collected in excess of $41.5 billion income tax revenues in 2017.

Tax structure:

This is a progressive tax. New York City has five tax brackets[104] ranging from 2.907 percent to 3.876 percent. Rates range based on different income levels depending on filing status. The lowest rate applies to single and married filing separately taxpayers on incomes up to $12,000. Head of

[99] A New Revenue Tool: The case for a Greater Toronto and Hamilton Area sales tax, Canadian Centre for Policy Alternatives. Accessed July 16, 2019. https://www.policyalternatives.ca/sites/default/files/uploads/publications/Ontario%20Office/2019/01/A%20New%20Revenue%20Tool.pdf

[100] ibid

[101] Municipal sales tax remains cities' elusive funding solution, The Star, February 17, 2018. Accessed July 16, 2019. https://www.thestar.com/news/gta/2018/02/17/municipal-sales-tax-remains-cities-elusive-funding-solution.html

[102] New York City and Philadelphia Income Taxes Research Report, Office of Legislative Research. December 6, 2017. Accessed July 17, 2019. https://www.cga.ct.gov/2017/rpt/pdf/2017-R-0237.pdf

[103] New York state tax revenues plummet by $3.7 billion. New York Post. April 19, 2019. Accessed July 17, 2019. https://nypost.com/2019/04/19/new-york-state-tax-revenues-plummet-by-3-7-billion/

[104] Full-Year Resident Income Tax Return, Instructions for Form IT-201. New York State Department of Taxation and Finance. Accessed July 18, 2019. https://www.tax.ny.gov/pdf/current_forms/it/it201i.pdf#page=61

household filers qualify for this rate on incomes up to $14,400. Those who are married and filing joint returns qualify on incomes up to $21,600 as of 2018. The next tax bracket jumps to 3.534 percent, then to 3.591 percent, then to 3.648 percent. The highest bracket applies to incomes of over $500,000 for all filing statuses.

Equity:

As the personal income tax has been in place since 1966, a series of amendments have been published to generate more equity among different social groups. Beyond the five tax brackets available for taxpayers, New York City's income tax is based on the New York State taxable income, which provides a tax deduction. A wide range of tax credits are available for the NY City residents[105]: the NYC Child and Dependent Care Credit; NYC Earned Income Credit; NYC Household Credit; NYC School Tax Credit; NYC Enhanced Real Property Tax Credit.

Administration:

The New York City personal income tax is filed together with the New York State income tax return and are due by April 15 each year. The forms and instructions can be found on the New York Department of Taxation and Finance's website. The returns can be filed by email or on the dedicated website platform.

Economic Efficiency:

As the personal income tax is one of the key revenue sources for New York City, it is subject to the financial market volatility driven by rising interest rates, trade tensions, and governmental instability. As an example, the NYC Division of Budget had seen a drop of income-tax revenues below the forecasts for December 2018[106] by approximately $500 million, a variance that started in the final weeks of the month. Due to stock market effects, the personal income tax revenues for 2018 fell by 6.6%[107].

6.13. The Street-Sweeping Tax - Paris

Background:

With over 40 million tourists visiting Paris and the Ile de France region in 2018 despite the yellow jackets' demonstrations, the city recorded the highest number of foreign visitors in its history. Although this number of visitors bring impressive contributions for the city's hotels, restaurants, museums and retail stores, it also creates a series of hurdles for the city administration. In order to keep the city clean despite the high numbers of visitors, the City of Paris instituted a street-sweeping tax back in 1873, which is still in effect to this day.

Benefits:

The street-sweeping tax is one of the primary sources of financing for the cleanliness services of sidewalks and streets for all of the 20 administrative districts of Paris. According to media sources, the yearly turnover from this tax amounts to more than €100 million.

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[105] The New York City Income Tax – Rates and Available Credits. October 31, 2018. Accessed July 18, 2019. https://www.thebalance.com/new-york-city-income-tax-3193280

[106] New York's Income-Tax Revenue Falls 'Abruptly' Under Forecast. Bloomberg, January 16, 2019. Accessed July 17, 2019. https://www.bloomberg.com/news/articles/2019-01-16/new-york-s-income-tax-revenue-falls-abruptly-under-forecast

[107] New York state tax revenues plummet by $3.7 billion. New York Post. April 19, 2019. Accessed July 17, 2019. https://nypost.com/2019/04/19/new-york-state-tax-revenues-plummet-by-3-7-billion/

Tax structure:

According to the last method for calculating the sweeping fee voted by the municipality of Paris in September 2011, the tax charges a flat fee of €9.22 per square meter. On average, each Parisienne household pays up to 45 to 50 euros for this tax. Its amount is calculated by multiplying the swept area, which extends along the entire length of the facade to the middle of the roadway by the tax rate per square meter.[108]

Administration:

The tax is due by the owners of buildings bordering the public road and is the object of a distinct taxation. Fees are collected by a dedicated department inside the Paris municipality and can be payed online, by check, interbank payment, or cash.

Equity:

When the latest tariff was established by the Paris Council back in 2012, it was met with great discontent by the citizens. Because the fee is a tax on expenses incurred in sweeping the area of lanes available to public traffic, these expenses do not depend on the height of a building or its number of inhabitants. The disadvantage of the current rules is that they do not allow the municipalities to adjust the tax rate depending on whether the subject property is a high-rise building or an individual house.[109]

6.14. Amusement Tax - Chicago

Background:

The "amusement tax," sometimes also referred as the entertainment tax, is levied on cultural events (performances, exhibitions, etc.), commercial events (promotional shows, presentations), sporting events (car races, tennis, horse-races, etc.), entertainment activities for public participation or attended based on paid membership (sport clubs, etc.), and virtually provided amusement services (paid television programs, etc.) on a streaming basis.[110]

Benefits:

According to the 2018 Annual Financial Analysis for the City of Chicago,[111] the amusement tax is estimated to bring approximately $189 million for 2018 alone. In 2008, the tax comprised a 2.2 percent of Corporate Fund resources or $69.0 million. In 2017, this has grown to 4.7 percent of Corporate Fund resources or $172.6 million due to rate changes and the elimination of exemptions.

Tax structure:

[108] 2011 deliberation DF 71 DPE 88 in Paris Council. Accessed July 19, 2019. https://api-site-cdn.paris.fr/images/123456.pdf

[109] Sweep fee: Should the rate be adjusted according to the category of the subject property? (translated). Mon Immeuble, January 31, 2019. Accessed July 19, 2019. https://monimmeuble.com/actualite/taxe-de-balayage-faut-il-moduler-le-tarif-selon-la-categorie-de-la-propriete-assujettie

[110] Department of finance, Chicago. "City of Chicago: Amusement Tax Ruling 5 Effective 7-1-2015. Accessed July 22, 2019. https://www.chicago.gov/content/dam/city/depts/rev/supp_info/TaxRulingsandRegulations/AmusementTaxRuling5-06092015.pdf

[111] 2018 Annual Financial Analysis for the City of Chicago. Accessed July 22, 2019. https://www.chicago.gov/content/dam/city/depts/obm/supp_info/2019Budget/2018AnnualFinancialAnalysis_CityofChicago.pdf

The amusement tax in Chicago has been in effect since 1986 and has gone through several amendments. The current form of the tax has a tax base of 9% of the charges paid. For a registered reseller, there is a 3% of the admission fees or other charges paid in the resale transaction. Certain live cultural performances and sponsored religious, charitable, and not-for-profit organizations for fundraising purposes are exempt from paying the amusement tax. Although there are exemptions, the above-mentioned organizations are restricted to two events per calendar year, not exceeding a total of 14 calendar days.

Administration:

The Chicago amusement tax is collected from owners, managers, and operators of amusements or places where amusements are conducted. It is a form of indirect tax levied on buyers, and is included in recreational ticket prices.

Equity:

The most debated aspect of the Chicago amusement tax is its implementation with respect to online services, especially the ones working on a streaming basis such as Netflix, Amazon, HBO, Spotify, Xbox Live and others. A policy introduced in 2015[112] to extend the amusement tax to online streaming services created a controversy on potential double and discriminatory taxation, as Chicagoans already paid a 9.25% on cable tax. Although the amusement tax for streaming services was challenged in court, a decision[113] ruled by the Circuit Court dismissed the case, rendering streaming services still subject to the 9% amusement tax rate.

Economic Efficiency:

The amusement tax revenues vary significantly from year to-year due to a myriad of factors, including tourism and the cost of attending live performances and sporting events. The revenues of this tax could potentially be impacted by ticket prices to professional sporting events and the popularity of certain shows and theatre performances opening in Chicago. Even so, the tax has seen increasing revenues since its adoption in 1986.

6.15. Outdoor Advertising Tax - Philadelphia

Background:

The outdoor advertising tax in place by the City of Philadelphia applies to the rental or purchase price of space used for outdoor advertising signs on any building, parcel, sign support structure, or newsstand located in the city. The outdoor advertising tax has been in place for Philadelphia since July 2005, as several other cities in the US have started this taxation both as revenue and support. The taxation was proposed by public interest groups, with the aim to bring compensation to the public they are intruding on. The form of taxation is also popular among European countries, such as Belgium, France, Italy, Netherlands, Austria, Sweden, or Spain.

Benefits:

[112]Informational Bulletin – Amusement Tax for Business Subscribers of Satellite Television. Accessed July 22, 2019.
https://www.chicago.gov/content/dam/city/depts/rev/supp_info/TaxSupportingInformation/AmusementTaxInfoBulletinforSatelliteTV-BusSub33117ext.pdf
[113] Decision issued by the Circuit Court on May 24, 2018. Accessed July 22, 2019.
https://www.civicfed.org/sites/default/files/labell-v.-chicago-2018.05.24-opinion-and-final-order.pdf

The tax rate is a flat 7% of the purchase price and brings important revenues to the Philadelphia city budget, contributing to the $129 million[114] miscellaneous taxes retrieved by the city in 2018. The outdoor advertising tax is contributing to the economic development, arts and culture of Philadelphia, as proceeds also contribute to the Office of Arts and Culture and to local museums.

Tax structure:

The Outdoor Advertising Tax is imposed at the rate of 7% of the rental or purchase price.[115] No discounts are available for the Outdoor Advertising Tax. The following forms of advertising, which fall outside the definition of an "outdoor advertising sign," are not subject to the tax:[116]

- Advertising displayed on a motor vehicle, if the vehicle is currently registered and in working order;
- Advertising displayed on pedestrians;
- Accessory advertising matter displayed on newsstands;
- Information required by law or ordinance to be placed on structures;
- Notices to the public that a property is for sale or rent;
- Signs owned and sponsored by a community, civic or charitable organization;
- Signs identifying a company performing on-site construction;
- On-site public art.

Administration:

The renter or purchaser of the advertising space pays tax on the price paid to the outdoor advertising sign company. The outdoor advertising sign company must collect the tax from the renter or purchaser at the time of the transaction. The company then files a tax return and sends the tax proceeds to the City. The Outdoor Advertising Tax must be filed and paid on or before the 15th day of each month for the prior month's activity.

6.16. Gambling Tax - Renton

Background:

The Washington State Gambling Commission[117] allows the legislative authority of any city and town to regulate and license most gambling authorities within its jurisdictions without requiring voter approval. With gambling legal in the state of Washington since 1973, there are a total of 29 casinos in the state, with most of them in the area and suburbs of Seattle. A large concentration of casinos is found in Renton, located south of Seattle.

[114] City of Philadelphia – Mayor's Proposed Budget for FY18. Accessed July 23, 2019. http://phlcouncil.com/wp-content/uploads/2017/03/FY18-Proposed-Budget-Document-Handout-Updated.pdf
[115] City of Philadelphia, excise tax on outdoor advertising transactions. Accessed July 23, 2019. https://www.phila.gov/media/20190325165243/Outdoor-Advertising-Tax-regulations-compiled-2019-February.pdf
[116] City of Philadelphia, Outdoor Advertising Tax. Accessed July 23, 2019. https://www.phila.gov/services/payments-assistance-taxes/business-taxes/outdoor-advertising-tax/
[117] Chapter 9.46 RCW. Washington State Legislature. Accessed July 24, 2019. https://app.leg.wa.gov/RCW/default.aspx?cite=9.46.110

Benefits:

The proceeds collected from the taxation of gambling tax authorities are primarily used for the purpose of public safety,[118] education campaigns to fight gambling addiction, and campaigns to combat any types of criminal activities in the city.

Tax structure:

The gambling tax rate in Renton varies depending on the gambling activity and the type of organization conducting the activity, as follows:

Table 72. Gambling tax rates in Renton

Gambling activities	Tax rate
Amusement games	0.02 (2%)
Card games	$500 annually / 0.10 (10%) – whichever is greater
Pull-tabs and punch boards	0.05 (5%)
Bingo games raffles	0.05 (5%)

No tax shall be imposed on the first ten thousand dollars of gross receipts less the amount awarded as cash or merchandise prizes from bingo games and raffles conducted by any bona fide charitable or non-profit organization. No tax shall be imposed on the gross receipts from bingo games and raffles conducted by a bona fide charitable or non-profit organization.

Administration:

Before conducting gambling activities in the area of Seattle, organizations shall register with the Washington State Gambling Commission to receive a gambling license and complete the notice of intent to conduct gambling activities. The administration and collection of the tax imposed are set by the Gambling commission, which will adopt, publish and/or enforce rules and regulations to determine the amount of taxes and enable the collection of taxes.

6.17. Parking Cards - Brussels

Background:

Due to the increasing number of cars transiting the growing city of Brussels, local authorities created a council order in January 2007 concerning the introduction of a municipal parking card. The parking card is available for different areas in the city marked with a certain color, which can allow users to park in those areas at no additional cost. The fees collected from parking cards are used to provide a secure place for everyone in the public space, allocating them to street facilities, parking spaces, and cyclists lanes to improve urban mobility. For the inhabitants of the 19 communes of Brussels, the municipality provides a card that allows them to park their vehicles in the area of their homes without having feed the parking meters.

Benefits:

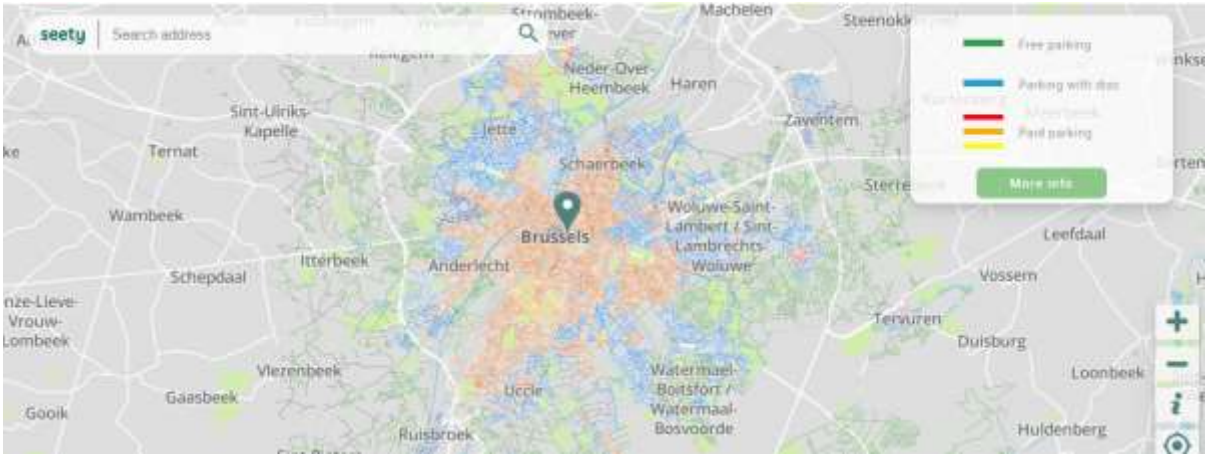
[118] Taxation of gambling activities—Disbursement. Washington State Legislature. Accessed July 24, 2019. https://app.leg.wa.gov/RCW/default.aspx?cite=9.46.113

The parking cards not only allow citizens to maintain available parking slots in front of their residences, but the collected fees help the municipality maintain infrastructure connectivity, improve public transport accessibility, and develop better mobility throughout the region.

Tax structure:

There are 6 different parking zones in Brussels, with different rules, prices and schedules for each parking zone. There are three types of parking cards issued by the City of Brussels: resident (individuals); professional (companies); and visitor.

Figure 29. Interactive map of parking areas in Brussels[119]



For residents,[120] parking card fees can start from as little as €10 per year (for the 1st card) and gradually increase depending on the number of cards or establishments/areas. For business users, the rates start from €200 per year (for the first 5 cards) and can range up to €800 per year (from the 31st card onward). Police officers, as well as staff members of schools and nurseries, only pay €75 per year on each card.

Administration:

According to the Regional Parking Policy Plan,[121] the City of Brussels has created the Parking Agency of the Brussels region, which is in charge of implementing the parking policy. Residents and companies in the City must register their vehicles with the parking agency, submitting a series of personal documents to receive parking cards corresponding to their areas. For visitors and non-residents, the parking cards can be purchased via e-payment (text message or mobile apps), or from different parking terminals or shops. The holder of a parking card is only authorized to park within the limits of the sector assigned. If the holder parks in a different area, then they are subject to hourly payments.

6.18. Green Municipal Bond - Johannesburg

Background:

The rapid growth of the market for green bonds has sparked interest among municipalities, cities, and state-owned utility companies all around the world. The fixed-income financial

[119] Parking Areas in Brussels. Accessed July 27, 2019. https://seety.co/parking-rules/brussels
[120] Parking permits fees available on the territory of the City of Brussels. Retrieved from the Brussels city hall website. Accessed July 27, 2019. https://www.brussels.be/parking-permits
[121] Brussels Regional Parking Policy Plan. Accessed July 27, 2918. https://mobilite-mobiliteit.brussels/sites/default/files/plan_stationnement.pdf

instrument for raising capital comes amid greater awareness of climate change and expanding investor appetite for environmentally friendly investment programs. Johannesburg was the first city in the C40 Cities Climate Leadership Group and the first city from an emerging economy to pioneer a municipal green bond.[122]

Benefits:

The green bond issued by Johannesburg provides a new funding source to expedite the implementation of its climate change strategy, moving the city toward a low-carbon infrastructure under its Growth and Development Strategy.

Figure 30. Project categories financed by the green municipal bond in Johannesburg[123]

Project category	Examples
Transport	• Bus rapid transit system • Cycling lanes and sidewalk construction to connect to clinics, train stations, educational facilities, and other key services • Hybrid fuel buses
Energy	• Rollout of smart grid to all substations • Smart meter installation • Installing new public lighting • Solar panel power generation
Water conservation	• Replacement of water and sewer pipes • Renewable electricity generation from biogas at wastewater treatment stations • Increasing the capacity of wastewater treatment facilities • City parks and zoo wetland rehabilitation and wetland studies
Waste	• Waste to energy plant and equipment • Waste separation and recycling facilities

According to the first annual investment report, over 50 projects[124] (renewable energy, water conservation, energy efficiency, climate change, carbon low-carbon busses, waste and wastewater management within the water, power, transport, and waste sectors) are benefitting from the green bond proceeds in the first year alone. The city also benefitted from the C40[125] international guidance to increase collaboration between the environment and finance departments, publicly highlighting its long-term commitment to sustainable development.

Bond structure:

[122] Official website of the City of Johannesburg. Accessed July 25, 2019. https://www.joburg.org.za/media_/Newsroom/Pages/2014%20Articles/Joburg-pioneers-green-bond.aspx

[123] Finance for City Leaders. Case study: Green bonds in Johannesburg. Accessed July 25, 2019. http://financeforcityleaders.unhabitat.org/handbook/part-2-designing-financial-products/chapter-7-green-municipal-bonds

[124] ERM on behalf of the City of Johannesburg Metropolitan Municipality, Green Bonds Investor Report (Johannesburg, ERM, 2015). Accessed July 25, 2019. https://www.joburg.org.za/documents/Documents/Annual%20Reports/20152016/CoJ%20Consolidated%20Integrated%20Report.pdf

[125] C40 Cities. C40 Good Practice Guides: Johannesburg - Green Bond, February 15, 2016. Accessed July 25, 2019. https://www.c40.org/case_studies/c40-good-practice-guides-johannesburg-green-bond

The green bond (AA- rating) issued by the city in June 2014 raised approximately USD 143 million, with an annual coupon of 10.18% per year (payable semi-annually). The bond was priced at 185 basis points above the R2023 government bond, was 1.5 times oversubscribed, and is a 10-year bond.[126] The green municipal bond was the 8th bond issuance for the city and the first one used specifically for funding green projects.

6.19. Transfer of Development Rights – Seattle, Washington

Background:

Transfer of Development Rights (TDR) is a land management flexibility technique that allows developers to transfer as-of-right density within or between development zones. Private developers are allowed to transfer rights from sending to receiving areas. Doing so provides a bonus to the private parties by increasing the volume of potential development. At the same time the TDR program allows municipalities to provide for public amenities and infrastructure without resorting to land condemnation or expropriation.

The City of Seattle began a comprehensive Downtown Restoration effort back in 1985,[127] focusing on retaining low-income housing, preserving historic landmarks, encouraging infill development in historic districts, and creating incentives for varying building scales. This program created a complex scheme of sending and receiving areas, varying between different districts.

Benefits:

The municipality introduced the TDR as part of its urban revitalization effort, developing an intricate program that has successfully preserved successfully preserved numerous landmark structures and affordable housing in the sending area (environmental protection zone where development rights are "sent" out). At the same time, this instrument allowed the municipality to indirectly interact with the real estate market and retain low-income housing in designated areas. Among the existing built stock that was targeted for preservation, the City Hall also included structures containing units of affordable housing.

Calculating development rights:

Before running the program, the municipality determined a base density for each targeted district, generally lower than what was allowed prior to the program. In addition, it created a list of incentives for developers to develop beyond that density, both in terms of use and design.

Since Seattle was already a highly urbanized setting at the start of TDR, the municipality chose to frame the valuation process more on the bulk of prospective development than the specific use. Although the specific use determines eligibility for sending and receiving areas, the value of rights was ascertained on square footage alone. This mechanism primarily encouraged residential buildings to transfer rights to buildings with other primary uses, such as commercial and office spaces.

[126] Finance for City Leaders. Case study: Green bonds in Johannesburg. Accessed July 25, 2019. http://financeforcityleaders.unhabitat.org/handbook/part-2-designing-financial-products/chapter-7-green-municipal-bonds

[127] The full case study can be consulted on the official website of the Commonwealth of Massachusetts: https://www.mass.gov/service-details/case-studies-transfer-of-development-rights-tdr

Administration:

The administration of Transfer Development Rights is made by the City Hall and its dedicated department within the urban unit. Seattle officials recognized that the City itself would need to provide a mechanism that makes it easier for developers to purchase TDRs without going through the complicated process of determining the number of development rights for individual sites. The answer to this problem, a TDR bank, has come to be the most successful aspect of the TDR program.

During the first decade of implementation, the municipality was the only entity to purchase TDRs, buying multiple development rights from 8 separate sites in the sending districts. More importantly to the long-term viability of the program, these purchases placed several million dollars' worth of development rights within easy grasp of the development community.

Equity:

On a conceptual level, the program works as a perfect development tool that facilitates the revitalization of protected areas or historic landmarks and growth of undeveloped districts. However, if not carefully monitored, it can provide developers a leverage to maximize the saleable area in a few prime locations, resulting in excessive construction. In fact, overbuilding in different areas can lead to traffic congestion, unplanned development, and intense pressure on existing infrastructure.

As a widely used instrument in the United States, the TDR has raised criticism in some cities where it has led to an increase in real-estate prices. Since the program acquisition costs are loaded into the project costs, real-estate developers tend to increase the final pricing of construction projects. One good mechanism for this issue raised by LGs was to monitor and intervene on the amount of available TDR and its trading price.

6.20. Tax Increment Financing – Chicago

Background:

Tax Increment Financing (TIF) allows municipalities to pay for their public capital expenditures by capitalizing on the impact that their intervention is going to have on property values in the area. TIF is usually possible in countries with ad-valorem property taxes and in municipalities that can get direct access to credit. If a certain investment in an area of the city is expected to increase the value of properties around it, the local authority can earmark the extra property tax that will be collected in the area in the future to pay for the investment.

TIF is not an added tax or a new tax per se, but rather an instrument that allows municipalities to be reimbursed the capital expenditures by the property owners that benefited from the investment. Since its inception in 1984, tax increment financing has proven to be a key tool to finance public improvements in Chicago. Funds are used to build and repair neighborhood streets, alleys, bridges, and lighting; modernize and improve schools; construct and upgrade the transit system; build and improve parks; increase affordable housing; and promote neighborhood economic development.

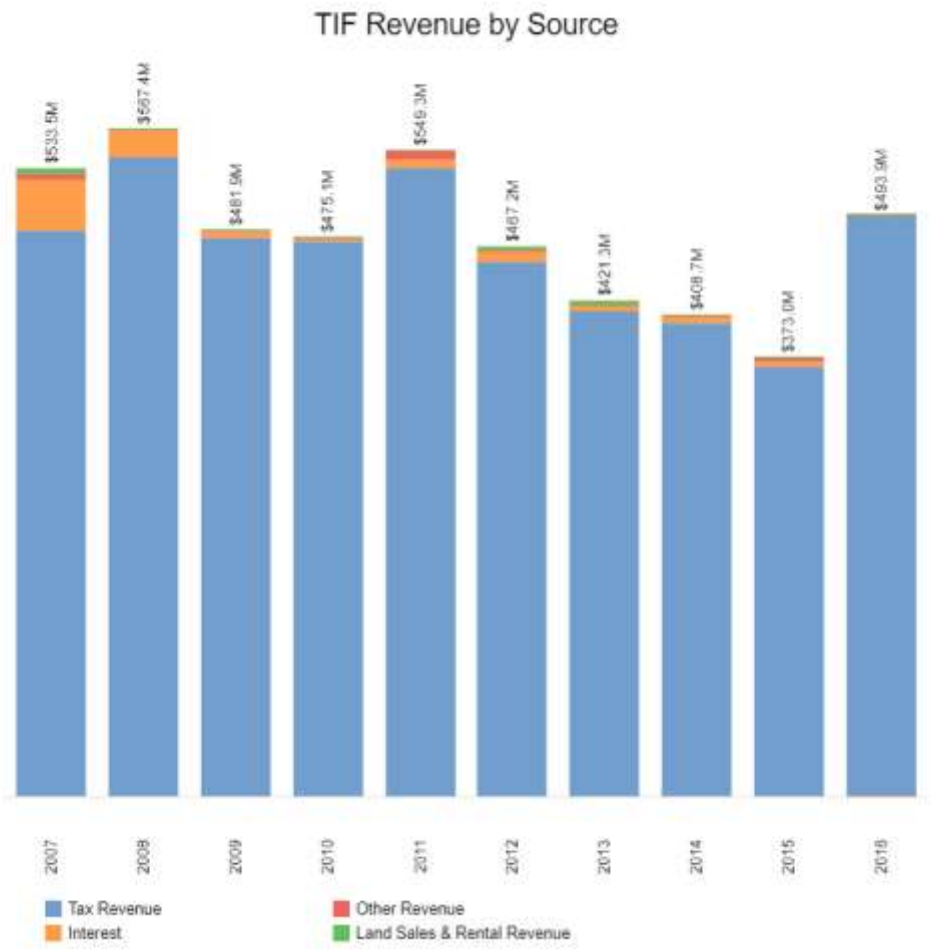
Benefits:

As of 2016, Chicago contains more than 145 active TIF districts, totaling upwards of 500 million dollars.[128] Since its inception and up to 2012, the mechanism brought approximately 6 billion dollars

[128] More information can be found here: https://chicago.github.io/afa-2017/TIF/

in consolidated income. Millennium Park was financed in this fashion, and its $340 million public investment have projected to yield $5 billion in private investment in the surrounding area in its first 10 years of operation. The figure below shows yearly TIF revenues by source in Chicago:

Figure 2. Yearly TIF revenue by source in Chicago[129]



Administration:

TIF funds are used to leverage public funds to promote private sector activity in a targeted district or area. TIF districts are typically established in areas with redevelopment potential and enable municipalities to use anticipated growth to raise money to finance essential infrastructure improvements by leveraging public sector bonds based on future tax gains.

Investments funds are generated by growing property values within a designated district over a period of 23 or 24 years, with a maximum of 36 years if extended by State of Illinois legislation. TIF is used by the local administration to incentivize private investment to the area and likewise to fund community projects and public improvements. The intention is that an effective use of tax increment funds helps expand the tax base, thus increasing the amount of tax increment generated in the district for re-investment within the district and ultimately increasing the property tax base for tax districts after the TIF ends.

[129] Source: official website of the Annual Financial Analysis of the City of Chicago, 2017. https://chicago.github.io/afa-2017/

Equity:

This instrument has been widely used in the United States, with several pitfalls in practice. There are municipalities that capture TIF revenues that would have been generated by normal appreciation in property values, even without the TIF investment. This over taxation of revenue diverts funds that could be used for general public services or other municipal expenditures.

Moreover, TIF can make municipal financial decisions less transparent, as they are separated from the normal budgeting process. In Chicago, over a third of municipal property taxes go to TIF district, making public scrutiny of these funds more difficult and preventing officials from re-prioritizing the spending. Finally, TIF carries the same risks as other types of business tax incentives, which can lead to inter-city competition and short-termism decision-making.

6.21. Business and Tourism Improvement Districts – Memphis, Tennessee

Background:

Business Improvement Districts (BIDs) or Tourism Improvement Districts (TIDs) provide supplemental services by private parties to preexisting public services. Owners of businesses in designated areas pay extra charges or fees to the local authority. These extra revenues go into a dedicated fund and are used exclusively to maintain and improve the district. Typically, if a majority of businesses in a designated area agree to a BID, then all businesses will be required to pay the new charge. BIDs and TIDs are usually managed by a special purpose NGO led by representatives of the business owners and the local authority.

To this end, the City of Memphis established the Downtown Memphis Commission (DMC) back in 1977, with the aim to capitalize on the district's importance in developing the region, acting as an economic core of the city. The role of DMC is to improve the economy of Memphis by coordinating a program for the development and economic growth of the central business district of the city, referred to as Downtown.

Benefits:

According to the official website,[130] property owners charged by DMC receive a variety of benefits included into separate programs, such as:

- Expanded Clean and Green Programs
- Expanded Safety Programs
- Expanded Hospitality Programs
- Access to free ongoing activations, events, and community happenings
- Blight remediation
- Dedicated staff working to attract investment
- Reduced interest rate loans available only through DMC programs, for Development projects in the CBID
- State incentives favor property/location within the CBID
- Collaboration between the DMC staff and neighborhood and community groups to create a stronger community

[130] More information on the Downtown District Commission can be viewed on the official website, by accessing the following link: https://www.downtownmemphiscommission.com/

Tax structure:

The DMC is solely relying on a $0.65 assessment per each $100 of assessed value for commercial property within the central business improvement district of Memphis. The DMC is not funded by any city or county taxes, and acts as a flat rate subject to change on a yearly basis.

Taxable commercial properties appraised below $25,000 are not included in the special assessment district. Likewise, the assessment does not apply to residential properties, tax-exempt properties, or churches. According to the FY2020 plan, the budget of DMC is evaluated at $4.3 million[131].

Within the CBID geography, only taxable commercial properties appraised at greater than $25,000 are included in the special assessment district, and the first $25,000 of appraised value on all commercial properties is exempt from the assessment. The assessment does not apply to residential properties, churches, or other tax-exempt properties, or commercial properties appraised at less than $25,000.

Administration:

For its full transparency, the Downtown Memphis Commission board works along with four other affiliate boards of organizations with complementary activities, to effectively use their resources. Acting solely on own-source revenues, the DMC reinvests the full amount of yearly funds to urban development projects in the district.

Equity:

With a wide-range of ongoing projects and previous achievements, DMC acts as a best practice model of charges levied to the betterment of an area or district. In practice, its achievements are mainly due to its complete independence from the local administration in terms of executive decisions, although a strong collaborator in development programs alongside private investors.

[131] Special Downtown tax rate to remain unchanged. The Memphis Business Journal. June 4, 2019. https://www.bizjournals.com/memphis/news/2019/06/04/special-downtown-tax-rate-to-remain-unchanged.html

Annex 1. Changes to the State Budget Law between 2015-2019 and how this has affected the financing of sub-national administrations

The Romanian State Budget Law includes the amounts of money collected at the disposal of the state, their sources of origin, and their uses. There are, however, recurrent exemptions from the law when adopting the annual public budget, which generate a considerable impact on the local budgets.

In Romania, according to the Law on Public Finances 273/2006, republished,[132] the share of income tax is distributed as follows:

- *41.75% to the local budgets of the communes, cities and municipalities;*
- *11.25% to the county budget;*
- *18.5% in a separate account for balancing local budgets. Out of the 18.5% allocation, a share of 27% is granted to the county level, while 73% is distributed among communes, cities, and municipalities.*

The subsequent tables reflect the volatility of allocations and exemptions adopted by the central government with impact on local budgets, particularly on account of changes in the allocations and taxation on both Personal Income Tax (PIT) and Value Added Tax (VAT).

Evolution of the share of personal income tax distributed to the local level

Year	Distribution amount of income tax
2019[133]	*By exemption from the Law on Public Finances,* ***the distribution of income tax is as follows:*** • *15% to the county budget* • *60% to the local budgets of the communes, cities, and municipalities* • *17.5% in a separate account for balancing local budgets*
2018[134]	*By exemption from the Law on Public Finance,* ***the distribution of income tax is as follows:*** • *11.25% to the county budget* • *43% to the local budgets of the communes, cities and municipalities* • *17.25% in a separate account for balancing local budgets*
2017[135]	*By exemption, the amounts deducted from the VAT approved by the state budget law and from the 18.5% share of the income tax for balancing the local budgets, are distributed as follows: 27% for the county budget and 73% for balancing the local budgets of the communes, cities and municipalities.*
2016[136]	*By exemption, the amounts deducted from the VAT approved by the law of the state budget and from the share of 18.5% of the income tax for balancing the local budgets are distributed as follows: 27% for the county budget and 73% for balancing the local budgets of the communes, cities, and municipalities.*

[132] http://www.dpfbl.mdrap.ro/legislatie/Legea_273_din_2006.pdf
[133] https://static.anaf.ro/static/10/Anaf/legislatie/L_50_2019.pdf
[134] https://static.anaf.ro/static/10/Anaf/legislatie/L_2_2018.pdf
[135] https://static.anaf.ro/static/10/Anaf/legislatie/L_6_2017.pdf
[136] https://static.anaf.ro/static/10/Anaf/legislatie/L_339_2015.pdf

Evolution of VAT share allocation to the local budgets (RON)

Year	Amount of VAT Tax allocated to local budgets	Amount of VAT Tax for balancing local budgets
2019	RON 14.792,3 billion	RON 11,409.9 billion
2018	RON 13,340.6 billion	RON 5,290.4 billion
2017	RON 22,190.5 billion	RON 2.469,5 billion
2016	RON 18,693.9 billion	RON 2.228,1 billion

Evolution of VAT and PIT rates in Romania (%)

Year	VAT Tax	PIT Tax
2019	19%	10%
2018	19%	10%
2017	19%	16%
2016	20%	16%
2015	24%	16%

Evolution of Quotas deducted from Income Tax and VAT Tax at the level of county capitals (RON)

Year	Quotas deducted from PIT Tax	Quotas deducted from VAT Tax	Total revenues
2012	3,195.328.442	2,924.615.531	11,024.162.100
2013	3,406.214.660	3,375.624.547	11,613.820.336
2014	3,456.224.669	4,072.314.472	12,351.928.465
2015	4,050.401.198	4,298.938.605	13,639.192.032
2016	4,199.961.006	4,298.164.978	13,057.161.580
2017	**4,728.928.933**	**5,245.036.534**	13,977.798.229
2018	**3,866.818.538**	**1,189.261.952**	10,038.903.807

Annex 2. The experience of Municipal Finances Self-Assessment in South Europe (data sheets)

ALBANIA MFSA

MUNICIPALITY OF BERAT

CITY PROFILE

Territorial organization: The municipality of Berat's territorial area and current administrative borders were established in 2015 by the Territorial and Administrative Reform. This set of government reforms involved the merger of the former municipality of Berat with the former communes of Roshnik, Sinjë, Otllak, and Velabisht. The total surface area of the municipality is 382.1 square kilometers.

Demography: According to 2011 census data, the municipality's population is the thirteenth highest in the country. According to 2015 data from the civil registry, there are 99,231 inhabitants in the municipality, which is about 3.4 percent of the country's overall population and a 0.15 percent increase over 2014.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €2,474.4 in 2014, about €982.6 below the national average; the qark-level unemployment rate was 11.4 percent. The city of Berat is a national center of cultural heritage, including the traditional neighborhoods of Mangalemi, Gorica, and Castle; Onufri, the national museum of iconography; and other galleries, museums, churches, and mosques. Berat is one of the oldest towns in Albania, with 2,400 years of history. Proclaimed a "museum city" in 1961, it is also a UNESCO World Cultural Heritage City. Exchange rate: €1 = ALL 139.7 (2015); inflation rate: 1.9 percent (2015). Source: Bank of Albania.

Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: The Joint Stock Company Berat–Kuçovë, which is owned by the municipality, provides water supply and wastewater services. The municipality, according to procurement procedures, contracts out the cleaning and waste management services to a third party, Infinity Construction Ltd. Under the authority of the public service company, the municipality of Berat and the public lighting service provides service and maintenance to the road infrastructure.

Municipal staff: Total, including central administration and the budgetary subordinated units: 492.

Capital investment plan: Investments have been broadly financed by an external fund competitively obtained from the Regional Development Fund and bank loans, mostly used to expropriate infrastructure investments.

Urban issues and challenges: Historical neighborhoods should be preserved, the lack of public services addressed, and the tourism sector strengthened to allow for year-round tourism. Obstacles include disparities between administrative units in terms of urban and economic development.

FINANCIAL SITUATION

	Items	2011	2012	2013	2014	2015	Growth index
1	Current revenue	895,613	933,916	988,265	1,414,099	962,005	1.8%
2	Operating expenditure	790,315	808,919	861,964	1,017,724	936,374	4.3%
3	Gross Operating balance	105,299	124,997	126,301	396,375	25,631	-29.8%
4	Debt service and borrowing costs	-	-	-	-	-	
5	NET CURRENT BALANCE	105,299	124,997	126,301	396,375	25,631	-29.8%
6	**Capital Revenues**	**55,728**	**52,503**	**43,362**	**63,245**	**136,749**	25.2%
7	Own capital revenues	510	6,905	2,084	15,297	31,000	179.2%
8	Investment grants and donations	55,218	45,597	41,278	47,948	105,749	17.6%
9	Capital investment expenditures	165,567	128,623	127,176	389,879	447,679	28.2%
10	BALANCE AFTER INVESTMENTS	(4,540)	48,877	42,486	69,741	(285,300)	181.5%
11	Cash reserves from previous years	-	-	-	276,727	41,993	
12	Loan proceeds	-	-	-	-	-	
13	OVERALL CLOSING BALANCE	(4,540)	48,877	42,486	346,468	(243,307)	170.6%

Source: Municipality of Berat and www.financatvendore.al

Current revenues followed an upward trend from 2011 to 2015; the average annual growth rate was about 1.8 percent. Registered current revenues revealed a substantial annual jump of 43.1 percent in 2015, mainly due to higher intergovernmental transfers. Operating expenditures followed the same trend, increasing by 4.3 percent on average over the five-year period. Higher revenues determined a positive gross operating margin over time, particularly in 2014. The net current balance was positive, with a five-year growth index of 8.8 percent. Balance after investments suggests that despite this and the municipality-generated capital revenues, investments were broadly covered by external sources of financing.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 73.8 percent of the municipality's total revenues. Own-source revenues represented only 22.3 percent, and other revenues, 3.9 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Revenues from shared taxes represented a marginal source of overall revenues—1.5 percent; and unconditional transfers, the municipality's primary disposable financing source, about 21.4 percent. In terms of own-source revenues, local taxes represented 11.4 percent of total revenues and proceeds from local fees, 8.8 percent. Income generated from asset management represented only 2 percent of total revenues.

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	2011	2012	2013	2014	2015	Average annual growth index	% of total revenues
Total Revenues	**924,088**	**934,426**	**995,170**	**1,416,184**	**1,098,753**	**4.4%**	**100.0%**
1. State revenues	**717,860**	**736,490**	**786,800**	**892,842**	**810,848**	**3.1%**	**73.8%**
- Shared taxes	22,019	27,705	22,269	16,673	16,673	-6.7%	1.5%
- Unconditional transfers	248,046	248,021	249,994	294,039	235,595	-1.3%	21.4%
- Conditional transfers	447,795	460,763	514,538	582,131	558,580	5.7%	50.8%
2. Own revenues	**206,228**	**197,937**	**208,370**	**245,609**	**244,775**	**5.2%**	**22.3%**
- Local taxes	150,682	138,564	155,851	167,399	125,752	-4.4%	11.4%
- Local fees	33,437	31,780	32,844	54,655	97,237	30.6%	8.8%
- Income from assets mng.	16,042	16,723	19,675	23,554	21,787	8.0%	2.0%
3. Other own revenues	**6,066**	**10,870**	**-**	**277,732**	**43,130**	**63.3%**	**3.9%**
- Dividends, rev. from PUC	-	-	-	-	-	-	0.0%
- Donations/Grants	6,066	10,870	-	1,006	-	-	0.0%
- Loans	-	-	-	-	-	-	0.0%
- Municipal bonds	-	-	-	-	-	-	0.0%
- Carryovers	-	-	-	276,727	43,130	-	3.9%
State revenues	717,860	736,490	786,800	892,842	810,848	3.1%	73.8%
Own revenues	206,228	197,937	208,370	523,341	287,905	8.7%	26.2%

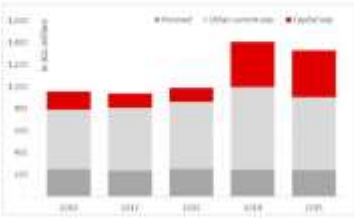
Source: Municipality of Berat and www.financatvendore.al

Revenues: The municipality's revenues trended upward during the observed period, measured by the average annual growth index (+4.4 percent). Both revenues from state transfers and own-sources contributed to positive developments in total revenues. State revenues increased by 3.1 percent, suggested by the average annual growth index, mainly due to conditional transfers. Revenues from shared taxes and unconditional transfers had negative growth rates of 6.7 percent and 1.3 percent, respectively. Own-source revenues performed well during the considered period, with an average growth rate of 5.2 percent. While revenues from services fees increased by 30.6 percent on average, revenues from local taxes contracted by -4.4 percent. Given the potential for tourism, much remains to be done to increase the municipality's overall revenues and financial autonomy.

Over the last three years, a reverse tendency is observed: while expenditures for capital investments increased, expenditures for personnel and operating expenses contracted. Investments were broadly financed with external funds competitively obtained from the Regional Development Fund and with bank loans, mostly used for expropriation of infrastructure investments.

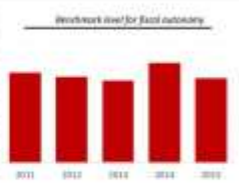
	2011	2012	2013	2014	2015
Total expenditures	**955,882**	**937,542**	**989,140**	**1,407,603**	**1,329,142**
1. Current expenditures	**790,315**	**808,919**	**861,964**	**997,511**	**904,321**
1.1 Personel	249,173	234,857	252,731	246,378	242,039
1.2 Operational	178,611	213,212	192,945	240,873	210,412
-Office materials and other administrative	7,866	9,499	6,991	6,847	6,307
-Services from third parties (energy, water,	87,487	127,173	105,953	134,304	114,427
-Transport Expenditures	11,613	13,498	15,552	19,079	15,583
-Travelling and allowances	3,415	2,645	2,428	3,174	1,353
-General Maintenance Expenditures	12,815	9,414	12,671	18,171	16,572
-Other Operating Expenditures	55,415	50,983	49,351	59,298	56,170
1.3 Subsidies	2,387	12,424	22,854	26,000	28,200
1.4Transfers	360,143	348,426	393,434	484,260	423,670
1.5Interest Payment	-	-	-	-	-
2. Capital Expenditures	165,567	**128,623**	**127,176**	**410,092**	**424,821**

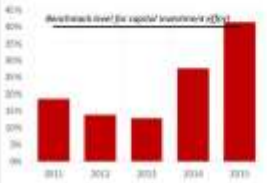
Source: Municipality of Berat and www.financatvendore.al

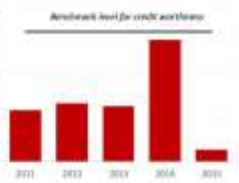


RATIO ANALYSIS

Indicator	2011	2012	2013	2014	2015
Credit worthiness	11.8%	13.4%	12.9%	28.0%	2.7%
Fiscal autonomy	14.2%	21.7%	46.6%	39.0%	49.8%
Capital investment effort	18.0%	13.8%	12.9%	27.6%	41.3%
Indebtedness	8.2%	7.7%	7.7%	6.1%	6.2%
Level of service sustainability			5.9%	6.8%	7.6%
Municipal employees per 1000 inh				3.6	5.0







The creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, improved substantially until 2014, suggesting an increased capacity to borrow from external sources. The 2014 event was brief and temporary; by 2015, the indicator registered 2.7 percent, well below the benchmark level.

The fiscal autonomy indicator, measured by the ratio of own-source revenues to total current revenues, suggests that the municipality still needs to concentrate its efforts on own-source revenue generation to reduce dependency from intergovernmental transfers.

The capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was volatile but improving over the considered period. The capital investment effort improved from 27.6 percent in 2014 to 41.3 percent in 2015, suggesting an increased effort by the municipality to channel resources into investments.

The indebtedness indicator, measured by the ratio of debt service to total current revenues, decreased progressively and stabilized at 6.2 percent over the last two considered years.

The level of sustainability from the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures, increased over the last three observed years. In 2015, the service sustainability indicator was about 7.6 percent, below the benchmark. Administrative efficiency, measured by the number of municipal employees per 1,000 inhabitants registered a value of 5.0 in 2015, up from 3.6 registered in the previous year. Despite this jump, the indicator was still below the benchmark of 25 employees per 1,000 inhabitants

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Multiannual financial projections are available and regularly updated as part of the MTBP document. There are no special models applied for projections that are mostly realized based on ministry of finance guidelines and historical trends analysis. Since 2016, the municipality of Berat is engaged in a new vision, as specified in the draft territorial development strategy. A capital investment plan guides the prioritization of investments despite constraints regarding access to capital, such as local borrowing and the issuance of debt.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing local tax collection rate with a particular focus on households; improve collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the drafting of a new local finances law to allow for more stable and substantial sources of financing for municipalities. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

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MUNICIPALITY OF ELBASAN

CITY PROFILE

Territorial organization: The municipality of Elbasan is composed of 13 administrative units: the former municipality of Elbasan and the former communes of Bradashesh, Papër, Gjergjan, Labinot Fushë, Labinot Mal, Funarë, Gracen, Tregan, Shushicë, Shigjan, Gjinar, and Zavalinë. The total surface area of the municipality is 872 kilometers, up from 7.9 kilometers prior to the 2014 Territorial and Administrative Reform (TAR).

Demography: According to 2015 data from the civil registry, the municipality of Elbasan has 208,460 inhabitants, which is about 7.2 percent of the country's overall population and a 0.67 percent increase over 2011.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €2,445.3 in 2014, about €1,011.6 below the national average. The municipality's reported unemployment rate for 2014 was 10.7 percent; qark-level data suggests a higher unemployment rate of 12.2 percent. Exchange rate (2015): €1 = ALL 139.7; inflation rate (2015): 1.9 percent. Source: Bank of Albania.

Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: The municipality outsources urban waste management services to a private enterprise. The municipality delivers public lighting and other services through its public utility company. Ujësjellës-Kanalizime ShA, a public company owned by the municipality, provides water supply and wastewater treatment services.

Municipal staff: . Total employees: 1,299; general administration: 440; technical services unit: 254; other units: 528; contractual (part-time): 77.

Capital investment plan: Over the next three years, the capital investment plan is mostly oriented at road infrastructure works, such as the reconstruction of the rural road Qaf Hajdaran–Byshek (€1.3 million), planned for 2017; rehabilitation and asphalting of 28 Nëntori street. (€1.4 million), planned for 2018; rehabilitation and asphalting Ahmet Hoxhapalli street and the palace squares in Beqir Dardha neighborhood (€0.3 million).

Urban issues and challenges: Issues include overbuilt urban spaces that lack public services; challenges include urban and economic development disparities between administrative units.

FINANCIAL SITUATION

	Items	2011	2012	2013	2014	2015	Growth Index
1	Current revenue	1,941,755	2,004,910	2,253,929	3,032,286	3,202,606	13.3%
2	Operating expenditure	1,850,547	1,946,496	2,224,433	2,612,583	2,458,340	7.4%
3	Gross Operating balance	91,209	63,414	29,496	419,703	744,266	69.0%
4	Debt service and borrowing costs	5,345	10,419	20,146	-	58,049	81.5%
5	NET CURRENT BALANCE	85,864	52,995	9,350	419,703	686,217	68.1%
6	Capital Revenues	227,542	135,404	182,937	170,936	268,848	4.3%
7	Own capital revenues	124,963	38,376	44,562	17,840	81,996	-10.0%
8	Investment grants and donations	102,579	97,028	138,376	153,097	186,852	18.2%
9	Capital investment expenditures	465,519	288,886	465,495	1,070,258	803,706	6.7%
10	BALANCE AFTER INVESTMENTS	(152,113)	(80,487)	(273,208)	(479,619)	151,359	
11	Cash reserves from previous years	-	-	-	-	218,552	
12	Loan proceeds	28,894	18,735	51,839	298,788	-	
13	OVERALL CLOSING BALANCE	(123,219)	(61,752)	(221,369)	(180,831)	569,911	

Source: Municipality of Elbasan and www.financatyendore.al

Current revenues followed an upward trend during the period 2011–15, and the growth index was about 13.3 percent. Current revenues increased substantially, by about 34.5 percent in 2014, mainly due to increased intergovernmental transfers. Operating expenditures grew an average of 7.4 percent, with a positive gross operating balance over the entire five-year period. The net current balance was volatile but positive, with a registered five-year growth index of 68.1 percent. Balance after investments suggests that, despite the positive net current balance and capital revenues generated by the municipality, investments were mostly covered by external financing sources such as the Regional Development Fund and loans.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 76.3 percent of the municipality's total revenues. Own-source revenues represented only 14.3 percent, and other revenues, 9.4 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Loan proceeds were broadly used to finance infrastructure investments in the municipality. Revenues from shared taxes represented a marginal source of financing, accounting for less than 1 percent of overall revenue. The primary disposable sources of municipal financing— unconditional transfers and own-source revenues—account for 16.3 and 14.3 percent, respectively.

	2011	2012	2013	2014	2015	Average annual growth index	% structure (total revenues)
Total Revenues	2,169,297	2,145,314	2,436,866	3,203,222	3,471,454	12.5%	100.0%
1. State revenues	1,671,186	1,699,868	1,962,063	2,436,407	2,649,378	12.2%	76.3%
- Shared taxes	51,434	63,288	58,388	94,726	30,919	-11.9%	0.9%
- Unconditional transfers	485,308	467,847	525,473	595,641	565,153	3.9%	16.3%
- Conditional transfers	1,134,464	1,168,733	1,378,202	1,806,040	2,053,306	16.0%	59.1%
2. Own revenues	464,069	419,105	415,139	468,027	496,108	1.7%	14.3%
- Local taxes	319,689	245,146	216,423	259,599	307,998	-0.9%	8.9%
- Local fees	112,566	132,735	154,593	158,238	101,923	-2.5%	2.9%
- Income from assets mng.	31,814	41,224	44,123	50,190	88,187	28.3%	2.5%
3. Other own revenues	34,042	26,341	59,664	298,788	325,968	75.9%	9.4%
- Dividends, rev. from PUC	-	-	-	-	5,222		0.2%
- Donations/Grants	5,149	7,606	7,825	-	866	-36.0%	0.0%
- Loans	28,894	18,735	51,839	298,788	101,328	36.8%	2.9%
- Municipal bonds	-	-	-	-	-		0.0%
- Carryovers	-	-	-	-	218,552		6.3%
Intergovernmental transfers, grants	1,671,186	1,699,868	1,962,063	2,436,407	2,649,378	12.2%	76.3%
Own source revenues	498,111	445,446	474,803	766,815	822,076	13.3%	23.7%

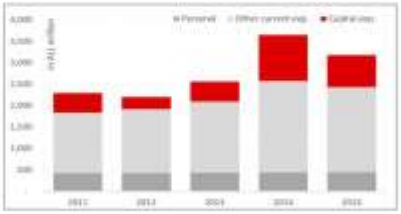
Source: Municipality of Elbasan and www.financatvendore.al

Overall revenues marked a positive average growth index of 12.5 percent during the considered period, primarily resulting from an increase in intergovernmental transfers. Shared taxes contracted by an average of 11.9 percent over the five-year period, but due to the small share of overall revenues that they represent, did not counterbalance the positive average growth rates of unconditional and conditional transfers. Own-source revenues showed a slight average annual increase of 1.7 percent, mainly due to income from the management of assets, such as rental properties. Revenues from local taxes and fees showed negative average growth rates of -0.9 and -2.5 percent, respectively.

The municipality of Elbasan channeled relevant financial resources into infrastructure investments such as roads, the rehabilitation of building facade, parks, and water and sewage systems. Most of these investments were financed through the Regional Development Fund. Overall current expenditures accounted for an average of 63 percent of total expenditures. Personnel expenditures were fairly stable, averaging about 20.7 percent; other current expenditures increased over the observed period.

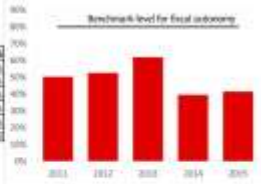
	2011	2012	2013	2014	2015
Total expenditures	2,292,234	2,198,899	2,560,513	3,644,687	3,175,145
1. Current expenditures	1,835,532	1,918,914	2,095,018	2,574,428	2,430,611
1.1 Personel	427,016	425,885	436,705	442,908	448,174
1.2 Operational	384,721	416,759	420,040	465,076	455,868
-Office materials and other administrative	17,376	15,588	16,382	12,866	12,931
Services from third parties (energy, water, phone)	182,716	192,752	182,591	227,717	260,821
-Transport Expenditures	37,535	44,646	39,467	43,871	28,734
-Travelling and allowances	1,312	610	50	633	135
-General Maintenance Expenditures	28,018	26,347	35,053	24,547	16,923
-Other Operating Expenditures	117,764	136,816	146,498	155,443	136,324
1.3 Subsidies	74,774	5,136	6,984	13,270	997
1.4Transfers	946,654	1,066,775	1,224,004	1,644,373	1,496,109
1.5Interest Payment	2,366	4,360	7,284	8,801	29,462
2. Capital Expenditures	456,702	279,985	465,495	1,070,258	744,534

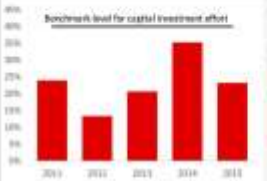
Source: Municipality of Elbasan and www.financatvendore.al

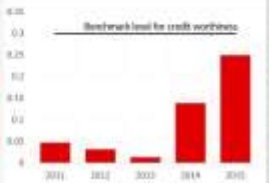


4. RATIO ANALYSIS

Indicator	2011	2012	2013	2014	2015
Credit worthiness	4.7%	3.2%	1.7%	11.8%	23.2%
Fiscal autonomy	58.3%	52.7%	62.0%	80.6%	41.5%
Capital investment effort	24.0%	14.4%	20.7%	35.3%	23.2%
Indebtedness	0.6%	0.5%	0.9%	0.9%	1.8%
Level of service sustainability	13.2%	10.8%	4.7%	4.6%	6.4%
Municipal employees per 1000 inh				3.6	6.2







The creditworthiness indicator, measured by the ratio of gross operating he creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, improved progressively over the observed period, reaching 23.2 percent in 2015, only 6.8 points below the international benchmark of 30 percent. Despite being on a relatively good track, creditworthiness needs to improve to support external borrowing in financial markets.

Fiscal autonomy, measured by the ratio of own-source revenues to total current revenues was volatile over the observed five years; results were low and below the benchmark level of 80 percent. The volatility of the indicator was determined by changes to the level of allocated unconditional transfers and the criteria used to divide it among municipalities.

Despite the enormous need for investments, the capital investment effort indicator, measured by the ratio of capital expenditures to current revenue, was volatile and below the benchmark level of 40 percent. Given the municipality's low level of fiscal autonomy, their investment policies were broadly subject to central government decisions, such as those regarding the Regional Development Fund.

The indebtedness indicator, measured by the ratio of debt service to total current revenue was 1.8 percent in 2015, up 0.9 points from the previous year. The level of sustainability on the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures, suggests an improvement from 13.2 percent in 2011 to 6.4 percent in 2015. The indicator's current level was below the benchmark, signaling the need for an increased emphasis on investments. Administrative efficiency, measured by the number of municipal employees per 1,000 inhabitants, registered a value of 6.2 in 2015, up from 3.6 in 2014. Despite this jump, the indicator was still below the benchmark level of 25 employees per 1,000 inhabitants.

5. FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Multiannual financial projections are available and regularly updated as part of the MTBP document. There are no special models applied for projections, which are mostly realized based on ministry of finance guidelines and on an analysis of historical trends. Since 2016, the municipality has been executing a new vision, as specified in the territorial development strategy. The capital investment plan guides the prioritization of investments despite constraints imposed by the central government regarding access to capital, such as local borrowing and the issuance of debt.

6. MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing local tax collection rate with a particular focus on households and improving the collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the drafting of the new local finances law to allow for more stable and substantial sources of financing for municipalities. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

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MUNICIPALITY OF FIER

CITY PROFILE

Territorial organization: The municipality of Fier is composed of 10 administrative units: the former municipality of Fier and the former communes of Mbrostar, Topojë, Dërmenas, Levan, Frakull, Cakran, Libofshë, Portëz, and Qendër. The total area of the municipality is 621 square kilometers, up from 8 square kilometers prior to the 2014 Territorial and Administrative Reform (TAR).

Demography: According to 2015 data from the civil registry, the municipality has 198,889 inhabitants, which is about 6.9 percent of the country's overall population and a 0.68 percent increase from 2014 data. Fier is one of the largest municipalities of Albania and its population is the fifth largest in the country.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €4,061.8 in 2014, about €604.8 above the national average. The qark-level unemployment rate in 2014 was 13.4 percent. Exchange rate (2015): €1 = ALL 139.7; inflation rate (2015): 1.9 percent. Source: Bank of Albania.

Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: The municipality outsources the delivery of urban waste management services to a private enterprise. The municipality delivers public lighting and other services through its public utility company. Ujësjellës-Kanalizime ShA, a public company owned by the municipality, provides water supply and wastewater treatment services.

Municipal staff: Total employees: 1,300; general administration: 426; technical services unit: 400; other units: 474.

Capital investment plan: Over the next three years, the plan is oriented mainly toward infrastructure works such as the rehabilitation of Mujo Ulqinaku street (€1.1 million), planned for 2016–17; reconstruction of Agim-Ndërmenas-Hasturkas, Libofshë road (€1.4 million), planned for 2017; reconstruction of Mirëkuptimi street (€1.0 million); and construction of an aqueduct in Buzmadh village, planned for 2020.

Urban issues and challenges: Issues include overbuilt urban spaces that lack public services; challenges include lower urban and economic development disparities between administrative units.

FINANCIAL SITUATION

Items	2011	2012	2013	2014	2015	Growth index
Current revenue	1,707,315	1,422,220	1,637,790	1,758,660	2,078,659	5.0%
Operating expenditure	1,653,840	1,474,374	1,584,445	1,762,980	1,513,141	-2.2%
Gross Operating balance	53,476	(52,153)	53,346	(4,320)	565,518	80.3%
Debt service and borrowing costs				35,800	35,800	
NET CURRENT BALANCE	53,476	(52,153)	53,346	(40,120)	529,718	77.4%
Capital Revenues	**293,609**	**101,322**	**110,456**	**256,410**	**208,834**	**-8.1%**
Own capital revenues	104,083	64,376	44,102	20,546	70,000	-9.4%
Investment grants and donations	189,326	36,945	66,354	235,864	138,834	-7.5%
Capital investment expenditures	327,273	221,044	170,474	351,292	566,662	14.7%
BALANCE AFTER INVESTMENTS	19,612	(171,876)	(6,672)	(135,001)	171,891	72.1%
Cash reserves from previous years	-	-	-	-	106,118	
Loan proceeds						
OVERALL CLOSING BALANCE	19,612	(171,876)	(6,672)	(135,001)	278,009	

Source: Municipality of Fier and www.financatvendore.al

Current revenues followed an upward trend during the period 2011–15; the average annual growth rate was about 5.0 percent. Current revenues increased by about 18.2 percent in 2015, mainly due to an increase in intergovernmental transfers. Operating expenditures contracted by an average of -2.2 percent on average over the five-year period. The gross operating margin was volatile over the observed period and substantially increased in 2015 due to higher current revenues and lower current expenditures. The net current balance was volatile, and the five-year growth index was 77.4 percent. Balance after investments suggested that despite the positive net current balance and capital revenues generated by the municipality, investments were broadly covered by external financing sources such as the Regional Development Fund and loans. The municipality had a volatile investment balance, which only became positive in 2015, driven by better performance of current revenues and the efficient use of financial resources.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 72.8 percent of total revenues for the municipality. Own-source revenues represented only 22.5 percent, and other sources, 4.6 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Revenues from shared taxes represented a marginal source of financing, accounting for about 3.2 percent of overall revenues. The municipality's main disposable sources of finance, the unconditional transfer and own-source revenues, accounted for 14.3 and 22.5 percent, respectively. Regarding own-source revenues, local taxes constituted 15.3 percent of total revenues, and proceeds from local fees, 3.7 percent.

	2011	2012	2013	2014	2015	Average annual growth index	% of total revenues
Total Revenues	**2,000,725**	**1,523,542**	**1,748,246**	**2,015,070**	**2,393,612**	**4.6%**	**100.0%**
1. State revenues	**1,512,054**	**1,046,571**	**1,354,394**	**1,554,365**	**1,743,281**	**3.6%**	**72.8%**
- Shared taxes	44,952	75,412	81,882	72,394	75,800	14.0%	3.2%
- Unconditional transfers	382,007	295,730	406,551	455,949	342,935	-2.7%	14.3%
- Conditional transfers	1,085,095	675,429	865,961	1,026,023	1,324,546	5.1%	55.3%
2. Own revenues	**486,561**	**476,139**	**389,582**	**457,315**	**539,384**	**2.6%**	**22.5%**
- Local taxes	347,535	352,713	281,078	302,227	366,986	1.4%	15.3%
- Local fees	85,157	62,918	61,012	98,566	89,733	1.3%	3.7%
- Income from assets mng.	53,868	60,508	47,493	56,522	82,665	11.3%	3.5%
3. Other own revenues	**2,110**	**832**	**4,270**	**3,390**	**110,947**	**169.3%**	**4.6%**
- Dividends, rev. from PUC	-	-	-	-	-		0.0%
- Donations/Grants	2,110	832	4,270	3,390	4,829	23.0%	0.2%
- Loans	-	-	-	-	-		0.0%
- Municipal bonds	-	-	-	-	-		0.0%
- Carryovers					106,118		4.4%
State revenues	*1,512,054*	*1,046,572*	*1,354,394*	*1,554,365*	*1,743,281*	*3.6%*	*72.8%*
Own revenues	*488,671*	*476,972*	*393,853*	*460,705*	*650,331*	*7.4%*	*27.2%*

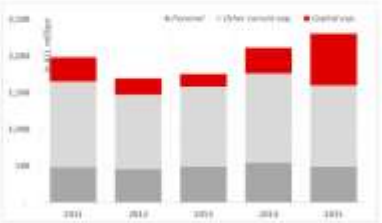
Source: Municipality of Fier and www.financatyendore.al

Revenues: Overall, revenues marked a positive average growth index of 4.6 percent during the considered period. Revenue performance was largely determined by an increase in intergovernmental transfers. Revenues from shared taxes grow progressively, by 14.0 percent on average over the five-year period. In average, revenues from the unconditional transfer contracted by -2.7 percent over the observed period. Own-source revenues registered a slight average annual increase of 2.6 percent, mainly due to income from asset management (rent from assets). Revenues from local taxes and fees point to low positive average growth rates of -1.4 and -1.3 percent, respectively. The data point to a large gap between revenues generated by own sources and those from state transfers and grants, despite both exhibiting an increasing trend over time, especially after 2012.

During the period of 2011–15, the municipality channeled relevant financial resources into infrastructure investments such as roads, rehabilitation of building facades, parks, and water and sewage systems. Most of these investments were financed through the Regional Development Fund. Meanwhile, overall current expenditures still accounted for a large share of total expenditures. Personnel and operational expenditures were mostly stable over the observed period, representing an average about 25.3 and 57.4 percent of total expenditures, respectively.

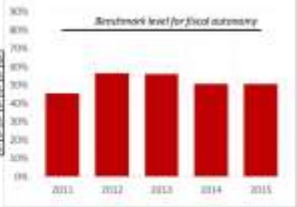
	2011	2012	2013	2014	2015
Total expenditures	**1,981,113**	**1,695,418**	**1,754,919**	**2,114,271**	**2,306,518**
1. Current expenditures	**1,653,840**	**1,474,374**	**1,584,445**	**1,762,980**	**1,600,205**
1.1 Personnel	480,800	458,483	492,261	546,690	491,186
1.2 Operational	351,737	321,041	301,145	325,472	312,617
-Office materials and other administrative	21,660	11,741	15,942	14,312	12,346
-Services from third parties (energy, water,	68,953	75,918	65,026	81,990	85,909
-Transport Expenditures	66,792	60,793	56,244	66,554	49,458
-Travelling and allowances	5,164	6,048	2,395	6,247	2,989
-General Maintenance Expenditures	38,702	35,825	41,319	29,460	27,637
-Other Operating Expenditures	150,466	130,716	120,219	126,910	134,279
1.3 Subsidies	99,488	90,975	4,857	3,000	-
1.4 Transfers	721,814	603,874	786,182	887,818	796,401
1.5 Interest Payment	-	-	-	-	-
2. Capital Expenditures	**327,273**	**221,044**	**170,474**	**351,292**	**706,313**

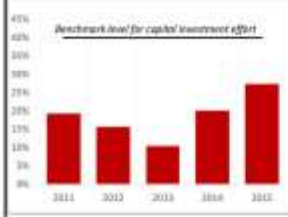
Source: Municipality of Fier and www.financatyendore.al

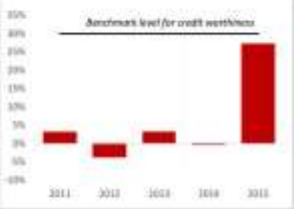


RATIO ANALYSIS

	2011	2012	2013	2014	2015
Credit worthiness	5.1%	-1.7%	1.3%	-0.2%	27.1%
Fiscal autonomy	45.3%	56.3%	55.0%	50.4%	50.4%
Capital investment effort	19.2%	15.5%	10.4%	20.0%	27.3%
Indebtedness				2.0%	1.8%
Level of service sustainability				8.1%	8.1%
Municipal employees per 1000 inh.				3.1	6.5







Despite the substantial improvement during 2015, the creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, was still below the benchmark level of 30 percent. The current level of this indicator in 2015 suggests that the municipality lacked the capacity to borrow to finance its investments.

Fiscal autonomy, measured by the ratio of own-source revenues to total current revenues, was volatile over the five-year period with low-level results below the benchmark level of 80 percent. The volatility of the indicator was determined by changes in the level of allocated unconditional transfers and the criteria used to divide them among municipalities.

The capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was quite volatile and below the benchmark level of 40 percent during the considered period. Given the municipality's low level of fiscal autonomy, their investment policies were broadly subject to central government decisions, including the Regional Development Fund. The indebtedness indicator, measured by the ratio of debt service to total current revenues, was 1.8 percent during 2015, down by 0.2 points from 2014. The level of sustainability on the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures stabilized at 9.1 percent during 2014–15. The indicator was below the benchmark, signaling a need for an increased emphasis on investments. Administrative efficiency, measured by the number of municipal employees per 1,000 inhabitants, was 6.5 in 2015, up from 3.1 in 2014, but despite this jump, it was still below the benchmark level of 25 employees per 1,000 inhabitants.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Multiannual financial projections are available and regularly updated as part of the MTBP document. There are no special models applied for projections that are realized mostly based on ministry of finance guidelines and an analysis of historical trends. Since 2016, the municipality has been executing a new vision as specified in the territorial development strategy. The capital investment plan guides the prioritization of investments, despite constraints to accessing capital, such as through local borrowing or the issuance of debt.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing the rate of local tax collection with a particular focus on households and by the better collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the drafting of the new local finances law to allow municipalities to access more stable and substantial sources of financing. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

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MUNICIPALITY OF GJIROKASTËR

CITY PROFILE

Territorial organization: The municipality of Gjirokastër comprises seven administrative units: the former municipality of Gjirokastër and the former communes of Antigone, Cepo, Lazarat, Lunxheri, and Odrie dhe Picar. The total are of the municipality is about 478 square kilometers.

Demography: According to 2015 data from the civil registry, the municipality has 52,169 inhabitants, which is about 1.8 percent of overall population and a 0.68 percent increase over 2014. According to 2011 census data, the municipality of Gjirokaster's population is the 25th largest in the country.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €3,343.4 in 2014, about €113.5 below the national average. The qark-level unemployment rate in 2014 was 15.9. Exchange rate (2015): €1 = ALL 139.7; inflation rate (2015): 1.9 percent. Source: Bank of Albania.

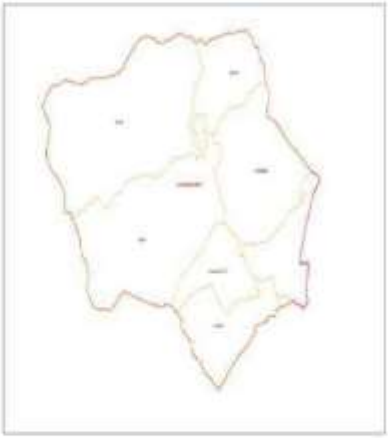
Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: The municipality's main and exclusive responsibilities are the provision and maintenance of local infrastructure, including roads, amenities, waste disposal, public lighting, buildings, social services, preuniversity education, infrastructure, and irrigation systems. The municipality provides urban waste management and public lighting services through its public utility company. Ujesjellës-Kanalizime ShA, a public company owned by the municipality, provides water supply and wastewater treatment services.

Municipal staff: Total employees: 568; general administration: 84; technical services unit: 172; other units: 312.

Capital investment plan: Over the next three years, the plan is oriented mostly toward infrastructure works such as reconstruction of Square– Checkpoint street (€1.4 million), planned for 2016; urban waste treatment at the Gerhot dumpsite (€18,000), planned for 2017; reconstruction of "Prom. 18 Shtatori and other lanes "Rexhep Qosja " and "Gole Gushi " (con. from 2015) (€1.2 million); and construction of the city's industrial market, planned for 2016.

Urban issues and challenges: Issues include the preservation of historical buildings and the lack of public services; challenges include lower urban and economic development disparities between administrative units.



FINANCIAL SITUATION

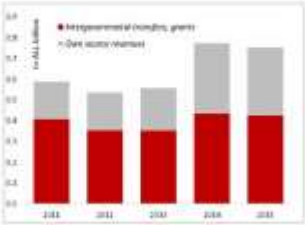
	Items	2011	2012	2013	2014	2015	Growth Index
1	Current revenue	466,917	515,188	546,197	741,202	716,441	11.3%
2	Operating expenditure	394,430	353,567	426,752	478,052	468,104	4.4%
3	Gross Operating balance	72,486	161,621	119,445	263,150	248,337	36.0%
4	Debt service and borrowing co	-	-	-	-	-	
5	NET CURRENT BALANCE	72,486	161,621	119,445	263,150	248,337	36.0%
6	**Capital Revenues**	**120,210**	**19,484**	**10,495**	**32,103**	**35,785**	-26.1%
7	Own capital revenues	21,245	8,436	3,064	1,052	1,388	-49.4%
8	Investment grants and dona	98,965	11,048	7,431	31,051	34,397	-23.2%
9	Capital investment expenditur	187,585	39,685	101,120	289,396	283,505	10.9%
10	BALANCE AFTER INVESTMENTS	5,111	141,419	28,820	5,856	617	-41.0%
11	Cash reserves from previous y	11,387	20,173	79,908	204,488	190,580	102.3%
12	Loan proceeds						
13	OVERALL CLOSING BALANCE	16,497	161,592	108,728	210,344	191,197	

Source: Municipality of Gjirokastër & www.financatvendore.al

Current revenues followed an upward trend during the observed period of 2011–15, and the annual average growth index was about 11.3 percent. Current revenues increased substantially, by about 35.7 percent in 2014, mainly due to an increase in intergovernmental transfers. Operating expenditures grew an average of 4.4 percent over the five-years, allowing for a positive gross operating balance during the whole period. Net current balance was volatile but positive, with a five-year growth index of 36 percent. While covering overall current expenditures, the positive margin allowed for capital expenditures undertaking backed up also from intergovernmental funds. Overall, the financial management of the municipality was prudent, with a clear orientation toward capital expenditures.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 56.5 percent of the municipality's total revenue. Own-source revenues represented only 18.0 percent, and other revenues 25.5 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Revenues for shared taxes represented a marginal source of financing, accounting for less than 1.8 percent of overall revenues. The municipality's main disposable financing sources, the unconditional transfer and own-source revenues, accounted for 23.9 and 18 percent, respectively. Other own-source revenue developments are defined by the substantial level of carryovers (earmarked and not), which alone accounted fo 25.3 percent of total revenues.



	2011	2012	2013	2014	2015	Average annual growth index	% of total revenues
Total Revenues	**587,126**	**534,672**	**556,692**	**773,905**	**752,228**	**6.4%**	**100.0%**
1. State revenues	**407,055**	**353,219**	**352,017**	**433,965**	**424,899**	**1.1%**	**56.5%**
- Shared taxes	11,567	18,599	16,772	12,710	13,460	3.9%	1.8%
- Unconditional transfers	139,661	141,673	136,139	173,357	179,892	6.5%	23.9%
- Conditional transfers	255,827	192,946	199,106	247,899	231,546	-2.5%	30.8%
2. Own revenues	**167,862**	**141,434**	**123,019**	**130,610**	**133,620**	**-5.2%**	**18.0%**
- Local taxes	109,046	84,613	76,295	78,181	81,887	-6.9%	10.9%
- Local fees	45,010	38,366	29,458	33,531	36,790	-4.9%	4.9%
- Income from assets mng.	13,826	18,456	17,267	18,899	16,973	5.3%	2.3%
3. Other own revenues	**12,189**	**40,019**	**81,655**	**208,729**	**191,708**	**99.1%**	**25.5%**
- Dividends, rev. from PUC	-	-	-	-	-		0.0%
- Donations/Grants	802	19,847	1,747	4,242	1,128	8.9%	0.1%
- Loans	-	-	-	-	-		0.0%
- Municipal bonds	-	-	-	-	-		0.0%
- Carryovers	11,387	20,173	79,908	204,488	190,580	102.3%	25.3%
State revenues	*407,055*	*353,219*	*352,017*	*433,965*	*424,899*	*1.1%*	*56.5%*
Own revenues	*180,071*	*181,453*	*204,675*	*338,339*	*327,328*	*16.1%*	*43.5%*

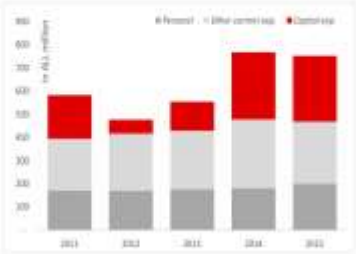
Source: Municipality of Gjirokastër & www.financatvendore.al

Overall revenues marked a positive average growth index of 6.4 percent during the considered period. Revenue performance was broadly defined by an increase in intergovernmental transfers. While state revenues increased by 1.1 percent, revenues from own sources contracted by an average of 5.2 points. The overall increase in revenues was sustained by higher unconditional transfers and shared tax revenue in average annual terms. Revenues from unconditional transfers widened by -6.5 percent over the five-year period. Own-source revenues contracted by an average of 5.2 percent due to lower revenues from local taxes and fees. Revenues generated through asset management positively contributed to the municipality's overall revenue performance. In other own-source revenues, carryover levels were substantial, especially over the last two years. The average annual growth rate was about 102.3 percent over the considered period.

A large share—more than 60 percent over the considered period—of the financial resources available to the municipality was channeled through current expenditures. Investments were volatile, with a minimum level of 12.6 percent of total expenditures in 2012 and a maximum level of 38 percent in 2014–15.

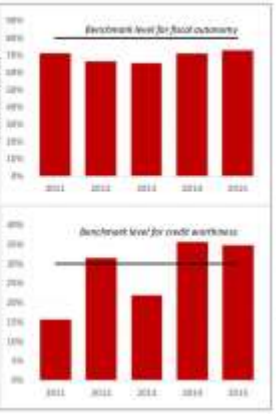
	2011	2012	2013	2014	2015
Total expenditures	**582,016**	**476,639**	**554,163**	**767,448**	**751,609**
1. Current expenditures	**394,430**	**416,751**	**429,252**	**478,052**	**468,104**
1.1 Personel	171,167	169,862	176,291	181,471	200,305
1.2 Operational	100,676	106,448	129,674	109,844	102,143
-Office materials and other administrative	6,956	6,267	5,653	3,836	4,490
-Services from third parties (energy, water,	25,082	24,666	45,898	23,117	25,581
-Transport Expenditures	16,553	16,365	14,609	16,695	15,340
-Travelling and allowances	5,364	9,741	6,323	4,790	3,841
-General Maintenance Expenditures	6,538	6,449	5,750	5,046	6,157
-Other Operating Expenditures	40,183	42,960	51,440	56,360	46,734
1.3 Subsidies	4,000	3,988	2,500	4,200	3,500
1.4Transfers	118,588	137,452	120,788	182,537	162,156
1.5Interest Payment	-	-	-	-	-
2. Capital Expenditures	**187,585**	**59,888**	**124,911**	**289,396**	**283,505**

Source: Municipality of Berat and www.financatvendore.al



RATIO ANALYSIS

Indicator	2011	2012	2013	2014	2015
Credit worthiness	15.5%	31.4%	21.9%	35.5%	34.7%
Fiscal autonomy	71.0%	66.3%	65.5%	70.9%	71.7%
Capital investment effort	48.2%	7.7%	18.1%	39.6%	39.6%
Level of service sustainability				4.6%	4.6%
Municipal employees per 1000 inh.					10.9



The creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, improved steadily and stood well above the benchmark level of 30 percent, suggesting an adequate capacity for borrowing to finance investments. In 2015, the indicator was registered at 34.7 percent, about 4.7 points above the benchmark level.

Fiscal autonomy, measured by the ratio of own revenues to total current revenues, followed a upward trend over the considered period, remaining below but close to the benchmark level of 80 percent.

The capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was volatile and below the benchmark level of 40 percent. The indicator marked its lowest level of 7.7 percent in 2012, but grew in the subsequent three-year period to 39.6 percent in 2015. The municipality had no current loans, but could consider such an option in the future.

The level of sustainability on the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures, stabilized at 4.6 percent in 2014–15. The indicator is currently below the benchmark, signaling the need for an increased emphasis on investments. Administrative efficiency, measured by the number of municipal employees per 1,000 inhabitants, was 10.9 in 2015, well below the benchmark of 25 employees per 1,000 inhabitants.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing local tax collection rate with a particular focus on households; improve collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the drafting of a new local finances law to allow for more stable and substantial sources of financing for municipalities. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

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MUNICIPALITY OF PËRMET

CITY PROFILE

Territorial organization: The current administrative borders were established in 2015, by the Territorial and Administrative Reform, which involved the merger of the former municipality of Përmet with the former communes of Çarçovë, Frashër, Petran, and Qendër Piskovë. The total area of the municipality is 606.6 square kilometers

Demography: According to 2011 census data, the municipality of Përmet has the 51st largest population in the country. According the 2015 data from the civil registry , the municipality has 21,833 inhabitants, which is about 0.8 percent of overall population.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €3,343.4 in 2014, about €113.5 below the national average. The qark-level unemployment rate in 2014 was 15.9 percent. Tourism is a very important economic sector for the municipality; other sectors include agriculture and industry. If further developed, the tourism sector has great potential to generate additional revenues and jobs for the residents of Përmet. Exchange rate (2015): €1 = ALL 139.7; inflation rate: 1.9 percent. Source: Bank of Albania.

Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: The water supply and sewerage company in Përmet operates as a joint stock company, with an independent status from the municipality, regardless of the fact that the municipality is the only shareholder, owning 100 percent of the of company shares. Cleaning services, waste collection, and greening services are provided by the municipality through the jurisdiction's greening and cleaning department. The service is provided throughout the entire municipality, including the recently added administrative units. Solid waste disposal occurs in an open area near the city of Përmet, because a suitable a landfill that meets the municipality's needs remains lacking.

Municipal staff: Central administration: 77; Total number of employees, including budgetary units: 294.

Capital investment plan: The municipality's investment capacity is quite limited. Some small investments have been made using the municipality's own-source revenues—mostly emergent interventions such as new cemeteries and reconstruction of sidewalks and inner streets. For large-scale investments, the municipality must compete for grants from other sources.

Urban issues and challenges: Issues include a lack of roads and public services; challenges include challenges in urban and economic development disparities between administrative units and strengthening capacities in tourism destination management.

FINANCIAL SITUATION

	Items	2011	2012	2013	2014	2015	Growth Index
1	Current revenue	296,516	262,062	266,621	373,641	238,620	-5.3%
2	Operating expenditure	204,625	204,013	196,679	249,496	217,727	1.6%
3	Gross Operating balance	91,891	58,049	69,942	124,145	20,892	-30.9%
4	Debt service and borrowing costs	-	-	-	-	-	-
5	NET CURRENT BALANCE	91,891	58,049	69,942	124,145	20,892	-30.9%
6	**Capital Revenues**	**38,821**	**37,962**	**45,848**	**70,000**	**9,924**	**-28.9%**
7	Own capital revenues	8,538	8,810	1,221	3,654	985	-41.7%
8	Investment grants and donations	30,283	29,152	44,627	66,346	8,938	-26.3%
9	Capital investment expenditures	99,016	51,206	64,606	124,644	30,031	-25.8%
10	BALANCE AFTER INVESTMENTS	31,696	44,805	51,184	69,501	785	-60.3%
11	Cash reserves from previous years	24,847	33,391	16,676	53,367	12,359	-16.0%
12	Loan proceeds	-	-	-	-	-	-
13	OVERALL CLOSING BALANCE	56,543	78,196	67,860	122,867	13,143	-30.6%

Source: Municipality of Përmet and *www.financatvendore.al*

Current revenues followed a downward trend during 2011–15, and the average annual growth rate was about -5.3 percent. Current revenues increased by about 40.1 percent in 2014, mainly due to an increase in intergovernmental transfers. Operating expenditures increased by an average of 1.6 percent over the five-year period. Gross and net margins, despite being positive over the whole considered period, were -30.9 percent on average. The balance after investments suggests that despite the positive net current balance and capital revenues generated by the municipality, investments were mainly covered by external financing sources such as the Regional Development Fund and loans. The overall financial snapshot suggests that, despite the restricted availability of financial resources, the municipality was very efficient in the use of its financial resources.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 81.2 percent of the municipality's total revenues. Own-source revenues represented only 13.6 percent, and other sources, 5.2 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Revenues from shared taxes represented a marginal source of financing, accounting for about 1.1 percent of overall revenues. Unconditional transfers accounted for about 35.7 percent of total revenues, representing the main source of financing for the municipality. In addition to intergovernmental transfers, own-source revenues generated from local taxes, fees, and asset management also contributed to the municipality's overall financial performance. Local taxes and service fees accounted for 6.3 and 75.2 percent, respectively. Asset management must be improved to generate financial resources and sustain investment levels.

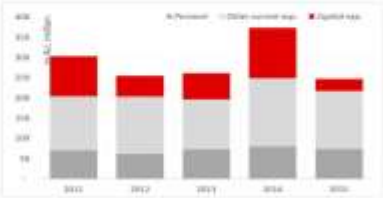
	2011	2012	2013	2014	2015	Average annual	% of total revenues
Total Revenues	**305,054**	**270,872**	**267,843**	**377,295**	**248,543**	**-5.0%**	**100.0%**
1. State revenues	**240,063**	**202,223**	**219,881**	**287,414**	**201,775**	**-4.3%**	**81.2%**
- Shared taxes	2,461	2,136	3,276	2,562	2,707	2.4%	1.1%
- Unconditional transfers	76,818	78,488	82,849	102,006	88,840	3.7%	35.7%
- Conditional transfers	160,784	121,599	133,757	182,847	110,228	-9.0%	44.3%
2. Own revenues	**40,117**	**34,411**	**30,164**	**36,514**	**33,871**	**-4.1%**	**13.6%**
- Local taxes	23,738	17,020	13,978	17,373	15,567	-10.0%	6.3%
- Local fees	12,200	12,286	12,703	12,433	12,912	1.4%	5.2%
- Income from assets mng.	4,179	5,104	3,483	6,708	5,392	6.6%	2.2%
3. Other own revenues	**24,874**	**34,238**	**17,797**	**53,367**	**12,897**	**-15.1%**	**5.2%**
- Dividends, rev. from PUC	-	-	-	-	-	-	0.0%
- Donations/Grants	27	848	1,121	-	538	111.3%	0.2%
- Loans	-	-	-	-	-	-	0.0%
- Municipal bonds	-	-	-	-	-	-	0.0%
- Carryovers	24,847	33,391	16,676	53,367	12,359		5.0%
State revenues	*240,063*	*202,223*	*219,881*	*287,414*	*201,775*	*-4.3%*	*81.2%*
Own revenues	*64,991*	*68,649*	*47,961*	*89,880*	*46,768*	*-7.9%*	*18.8%*

Source: Municipality of Përmet and www.financatvendore.al

Revenues tendencies: Overall, revenues marked a negative average growth index of -5.0 percent during the considered period. Overall revenue performance was determined by negative developments in both state and own-source revenues. Revenues from state transfers decreased by an average of 4.3 percent annually, mainly due to lower conditional transfers. Revenues from shared taxes increased an average of 2.4 percent over the five-year period, and revenues from unconditional transfers increased by 3.7 percent. Own-source revenues contracted an average of -4.1 percent annually, mainly due to lower revenues from taxes (-10). Services fees and revenues from asset management performed better than taxes, with an average annual increase of 1.4 and 6.6 percent, respectively. Carryovers from previous years are an important element of other revenues but demonstrate a declining trend.

The data show that a large share of available financial resources were used to cover personnel and operating expenses over the 2010–15 period. On average, these two categories represented about 75 percent of total expenditures during the observed period. Capital expenditures represented about 25 percent of total expenditures during the same period. Operating and personnel expenditures seem to have increased reasonably during 2015, accounting for about 87.9 percent of total expenditures detriment investment expenditures.

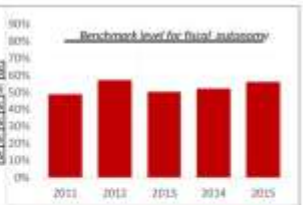
	2011	2012	2013	2014	2015
Total expenditures	**303,641**	**255,219**	**261,598**	**374,140**	**247,902**
1. Current expenditures	**204,625**	**204,013**	**196,992**	**249,496**	**217,870**
1.1 Personel	71,254	62,322	73,619	80,788	74,681
1.2 Operational	47,723	43,062	40,451	56,253	48,093
-Office materials and other administrative	4,034	4,266	3,271	2,877	2,197
-Services from third parties (energy, water,	10,577	7,359	6,389	11,448	10,842
-Transport Expenditures	7,697	8,034	8,037	8,515	6,046
-Travelling and allowances	3,784	3,113	2,545	2,619	2,117
-General Maintenance Expenditures	9,694	10,229	10,000	16,146	17,101
-Other Operating Expenditures	11,937	10,060	10,209	14,648	8,801
1.3 Subsidies	9,000	10,125	1,577	1,000	2,500
1.4Transfers	80,648	88,504	81,346	111,454	92,596
1.5Interest Payment	-	-	-	-	-
2. Capital Expenditures	**99,016**	**51,206**	**64,606**	**124,644**	**30,031**

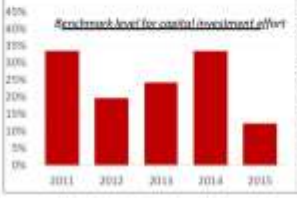


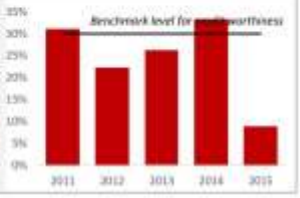
Source: Municipality of Fier and www.financatvendore.al

RATIO ANALYSIS

Indicator	2011	2012	2013	2014	2015
Credit worthiness	31.8%	22.2%	26.1%	33.2%	8.8%
Fiscal autonomy	48.7%	57.0%	50.1%	52.0%	55.3%
Capital investment effort	33.4%	18.5%	24.2%	33.4%	12.1%
Level of service sustainability				28.7%	28.8%
Municipal employees per 1000 inh.					13.5







The creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, deteriorated substantially during 2015, registering at a level of 8.8 percent, well below the benchmark level of 30 percent and the previous year's level. Results suggest that the municipality lacked the capacity to finance its investments.

Fiscal autonomy, measured by the ratio of own-source revenues to total current revenues, was significantly below the benchmark of 80 percent over the five-year period, despite some amelioration during 2015. As a very small municipality with a limited budget, the possibilities to undertake large-scale investments with own-source revenues were limited.

The capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was volatile during the observed period. The indicator dropped from 33.4 percent in 2014 to 12.1 percent in 2015.

The level of sustainability on the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures, was about 28.8 percent in 2015 (almost the same level as in 2014). The current level of the indicator was quite close to the benchmark level of 30 percent.

Administrative efficiency, measured by the number of municipal employees per 1,000 inhabitants, was 13.5 in 2015. The indicator remained below the benchmark level of 25 employees per 1,000 inhabitants.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing the local tax collection rate with a particular focus on households and improving the collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the draft of the new local finances law to allow for more stable and substantial sources of financing for municipalities. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

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MUNICIPALITY OF VLORË

CITY PROFILE

Territorial organization: Current administrative borders were established during 2015, as a result of the national governmental reform (the Territorial and Administrative Reform -TAR), which involved the merger of the former municipality of Vlorë with the former communes of Orikum, Novoselë, Qendër and Shushicë. The total surface of the Vlorë Municipality is 619 km2 from 12 km2 before the 2014 TAR.

Demography: According to 2011 census data, the municipality of Vlorë has the seventh largest population in the country. According to 2015 data from the civil registry, the municipality has 194,857 inhabitants, which is about 6.7 percent of overall country's population.

Economy: Municipal-level data are unavailable, but the gross domestic product of the qark (county) to which the municipality belongs was €3,237.3 in 2014, about €219.7 below the average national level. The qark-level unemployment rate in 2014 was about 15.5 percent, 2.2 points higher than the national average of 13.3 percent. Exchange rate (2015): €1 = ALL 139.7; inflation rate (2015): 1.9 percent. Source: Bank of Albania.

Decentralization of city-level functions: Since the adoption of Law 139/2015 on local self-government, local government units in Albania can conduct their own functions as well as mandatory or optional delegated functions transferred to them by law or agreement, which are totally financed by conditional transfers. Municipalities exercise their own functions in terms of infrastructure and public services; social services; culture, sports, and recreational services; environmental protection; agriculture, rural development, public forests and pastures, nature, and biodiversity; local economic development; and public safety.

Utilities management: Ujësjellës-Kanalizime, the public company owned by the municipality, provides water supply and wastewater services. Currently, Vlora Water Utility is under reconstruction, in the process of including all the existing water companies in one. However, at the moment, aside from the main water utility in Vlorë, there are two other water and sewage companies operating in Orikum and Novoselë that report to the municipality of Vlorë. A private enterprise contracted by the municipality provides urban waste management service sin compliance with the public procurement regulatory framework.

Municipal staff: Total employees: 653; general administration: 331; technical services unit: 196; other units: 126.

Capital investment plan: The plan for the next three years is primarily oriented toward infrastructure works, such as the reconstruction of infrastructure on the Vlorë-Skelë Boulevard (€2.9 million), planned for 2017–19; parks, sidewalks, recreational spaces, and parking on both sides of the main boulevard (€2.8 million), planned for 2017–19; and the rehabilitation of a series of roads connecting the city of Vlorë with other administrative units.

Urban issues and challenges: Issues and challenges include overbuilt urban spaces, a lack public services, disparities between urban and economic development and among administrative units, and the need to promote year-round tourism.

FINANCIAL SITUATION

	Items	2011	2012	2013	2014	2015	Growth index
1	Current revenue	2,251,483	1,881,439	1,916,149	2,200,004	777,508	-23.3%
2	Operating expenditure	1,542,812	1,499,295	1,695,979	1,849,251	1,526,659	-0.1%
3	Gross Operating balance	708,671	382,144	220,170	350,753	(759,151)	
4	Debt service and borrowing costs	-	-	-		14,961	
5	NET CURRENT BALANCE	708,671	382,144	220,170	350,753	(774,112)	
6	Capital Revenues	108,748	169,406	39,215	240,639	553,855	50.2%
7	Own capital revenues	-	35	2,065	2,109	384,685	
8	Investment grants and donations	108,748	169,371	37,150	238,530	169,170	11.7%
9	Capital investment expenditures	708,671	392,919	189,307	496,329	247,126	-23.2%
10	BALANCE AFTER INVESTMENTS	108,748	158,630	70,078	95,063	(467,383)	
11	Cash reserves from previous years	380,750	402,306	123,115	103,767	49,119	
12	Loan proceeds			43,451	(14,961)		
13	OVERALL CLOSING BALANCE	489,498	560,936	236,645	183,868	(418,264)	

Source: Municipality of Vlorë and *www.financatvendore.al*

Current revenues trended upward trend during 2011–14. Overall current revenues dropped substantially due to large revenue inflows from a 2015 infrastructure impact tax. The five-year average annual growth was negative, at -23.3 percent. Operating expenditures contracted by an average of -0.1 percent over the five-year period. In 2015, current revenues were not sufficient to cover the overall current expenditures incurred by the municipality, resulting in a negative gross operating margin. The positive net current balance turned negative in 2015. The balance after investments suggests capital revenues supported the municipality's investment efforts. Investments were also financed by external sources such as the Regional Development Fund and loans.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenue structure: State revenues accounted for 71.4 percent of the municipality's total revenues. Own-source revenues represented only 23.6 percent and other revenues, 4.9 percent. The revenue structure was clearly dominated by central government transfers to the municipality, indicating its poor capacity to rely on its own resources. Revenues from shared taxes represented a marginal source of financing, accounting for about 2.2 percent of overall revenue. Unconditional transfers accounted for about 24.6 percent, almost the same as own-source revenues. Own-source revenues generated from local taxes and fees and from asset management also contributed substantially to the municipality's overall financial performance. Local taxes and service fees accounted for 15.6 and 7.9 percent of total revenues, respectively; asset management requires improvement before it can generate financial resources and sustain investment levels.

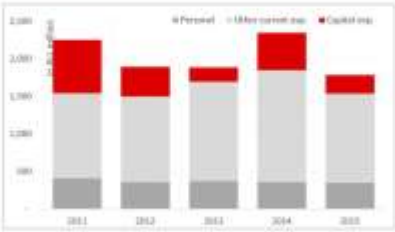
	2011	2012	2013	2014	2015	Average annual growth	% of total revenues
Total Revenues	2,251,483	1,881,474	1,918,214	2,202,112	1,845,764	-4.8%	100.0%
1. State revenues	1,180,333	1,245,184	1,254,292	1,540,238	1,318,438	2.8%	71.4%
- Shared taxes	43,137	36,380	82,474	35,880	40,483	-1.6%	2.2%
- Unconditional transfers	394,983	407,434	373,685	452,173	453,785	3.5%	24.6%
- Conditional transfers	742,212	801,370	798,133	1,052,186	824,169	2.7%	44.7%
2. Own revenues	690,400	233,984	497,356	676,835	436,105	-10.8%	23.6%
- Local taxes	586,081	107,221	387,934	509,368	287,837	-16.3%	15.6%
- Local fees	104,319	126,763	109,421	167,467	144,935	8.6%	7.9%
- Income from assets mng.	-	-	-	-	3,333		0.2%
3. Other own revenues	380,750	402,306	166,566	(14,961)	91,221	-30.0%	4.9%
- Dividends, rev. from PUC	-	-	-	-	-		0.0%
- Donations/Grants	-	-	-	-	-		0.0%
- Loans	-	-	43,451	(14,961)	-		0.0%
- Municipal bonds	-	-	-	-	-		0.0%
- Carryovers	380,750	402,306	123,115	-	91,221		4.9%
State revenues	1,180,333	1,245,184	1,254,292	1,540,238	1,318,438	2.8%	71.4%
Own revenues	1,071,150	636,290	663,922	661,874	527,326	-16.2%	28.6%

Revenues tendencies: Overall revenues marked a negative average growth index of -4.8 percent during the considered period. Revenue performance was broadly determined by own-source revenue contraction. Revenues from state transfers increased by an average of 2.8 percent annually, mainly due to unconditional transfers. Revenues from shared taxes contracted by an average of 1.6 percent over the five-year period. Own-source revenues contracted at a annual rate of -10.8 percent, mainly due to lower tax revenues. Service fees performed better than taxes, registering an average annual increase of 8.6 percent. Carryovers from previous years were an important element for other revenue streams. Given the municipality's tourism potential, much remains to be done to increase its overall revenues and financial autonomy.

On the expenditure side, most resources were used to cover personnel and operating expenses. On average, these two categories represented about 80 percent of total expenditures over the period of 2010–15. These expenditure categories mostly accelerated over the last three years. Capital expenditures represented about 19.5 percent of total expenditures.

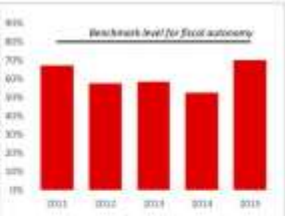
	2011	2012	2013	2014	2015
Total expenditures	2,251,483	1,892,215	1,885,285	2,345,580	1,783,785
1. Current expenditures	1,542,812	1,499,295	1,695,979	1,849,251	1,536,659
1.1 Personel	411,712	359,944	371,788	357,933	348,595
1.2 Operational	528,135	470,666	448,422	599,767	543,587
-Office materials and other administrative	11,540	10,549	8,959	12,536	6,919
Services from third parties (energy, water, phone)	280,291	284,040	264,825	360,891	372,609
-Transport Expenditures	34,882	30,507	27,471	42,597	24,490
-Travelling and allowances	9,352	6,574	3,612	6,128	3,748
-General Maintenance Expenditures	19,382	8,378	9,265	18,304	5,105
-Other Operating Expenditures	172,889	151,618	134,290	159,311	130,722
1.3 Subsidies	66,298	69,211	182,828	86,805	72,764
1.4Transfers	532,217	594,072	684,942	796,511	566,427
1.5Interest Payment	6,550	5,403	7,998	8,236	5,286
2. Capital Expenditures	708,671	392,919	189,307	496,329	247,126

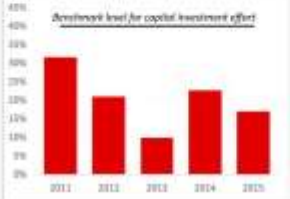
Source: Municipality of Vlorë and *www.financatvendore.al*

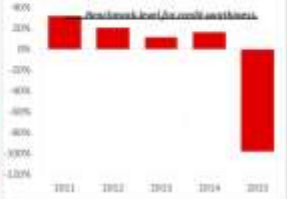


RATIO ANALYSIS

Indicator	2011	2012	2013	2014	2015
Credit worthiness	31.5%	30.0%	11.5%	15.9%	-97.6%
Fiscal autonomy	67.0%	57.4%	58.5%	52.3%	68.9%
Capital investment effort	31.5%	30.9%	9.9%	22.6%	16.9%
Level of service sustainability			2.2%	3.1%	3.0%
Municipal employees per 1000 inh				3.8	3.4







The creditworthiness indicator, measured by the ratio of gross operating savings to current revenues, deteriorated substantially during 2015, turning negative to -97.6 percent, well below the benchmark level of 30 percent. Resultsb suggest that the municipality lacks the capacity to borrow to finance its investments.

Fiscal autonomy, measured by the ratio of own revenues to total current revenues, was volatile over the five-year period and was below the benchmark level of 80 percent despite amelioration in 2015. The volatility of the indicator was determined by changes in the level of unconditional transfers allocated and the criteria used to divide them among municipalities.

The capital investment effort indicator, measured by the ratio of capital expenditures to current revenues, was volatile over the considered period. Since 2014, and especially in 2015, investments were mostly financed through state transfers rather than own-source revenues.

The level of sustainability on the expenditure side, measured by the ratio of maintenance work expenditures to operating expenditures, stabilized at around 3.0 percent during 2015.

Administrative efficiency, measured by the number of municipal employees per 1,000 inhabitants, was 3.4 in 2015, down from 3.8 in 2014. The indicator remained below the benchmark level of 25 employees per 1,000 inhabitants.

FINANCIAL PROJECTIONS AND INVESTMENT PROGRAMMING

Multiannual financial projections are available and regularly updated as part of the MTBP document. There are no special models applied for projections that are mostly realized based on ministry of guidelines and an analysis of historical trends. Since 2016, the municipality has been executing a new vision as specified in the draft territorial development strategy. The capital investment plan guides the prioritization of investments, despite constraints to access to capital, such as local borrowing and the issuance of debt.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve budget process and credibility by increasing the local tax collection rate with a particular focus on households and improving the collection of property taxes, including on buildings, agricultural land, and urban land. Actively contribute to the draft of the new local finances law to allow for more stable and substantial sources of financing for municipalities. Efforts to date have resulted in the approval of Law 68/2017: On Local Self-Government Finances.

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CITY OF BANJA LUKA

CITY PROFILE

Territorial organization: Administrative center of the Bosnia and Herzegovina of Republic of Srpska, consists of 57 sub-municipalities. Total area of the city: 1.239 km2. Situated on 17°12' of longitude and 44°46' of latitude.

Population: Total population in 2013-180.056; 2016-182.848 (estimate RS Bureau of Statistics); preliminary census in 2013 BiH-199.191 (BiH Agency of Statistics) Annual growth: +0.4%. (2013-16) status in the country: 2nd place (status in the RS: 1st place). Density: 147.6/km2.

Economy: GDP per capita: 3.302 EUR (estimate 2016).Banja Luka holds 9.497 business entities, not including individual entrepreneurs, and a labor force of 58.482, (basic activity, head office on the city territory). The unemployment rate declined from 20% in 2015 to 17% in 2016. Banja Luka is a university, economic, political and administrative center of the Republic of Srpska with favorable geographic location (highway 50 km, connected to the highway Zagreb-Belgrade; highway Banja Luka-Doboj is nearly completed, as a connection between corridor 5c;international airport is 25 km from the city).Its economic potential is related to development of trade, services (IT), tourism, agriculture and processing industry. Due to the large number of green areas (parks and alleys),it is called the "City of greenery. It is also called "the city of young people, sports and culture. The City is preparing its candidacy for the European Capital of Culture in 2024.

Utilities management: The city of Banja Luka is either majority or significant owner of 5 utility companies operating in: waste management and recycling, heating, water supply and sewerage management, sanitation and funeral services. Also, the city is the founder of 1 public company providing entertainment and recreation, majority owner of 1 shareholders' company for utility fee collection and design and engineering work. Construction and maintenance of street lighting, construction and maintenance of road infrastructure, are funded by the city budget through public procurements and contracts with private companies. Public transport services are provided by private transport companies based on the city permit. Public parking services are provided by the city administration through one of its departments.

Municipal staff: 750 in city administration and 606 in public institutions and organizations funded through city budget in 100% (2016).

Current Project Investment Plan: Capital expenditure plan was adopted for the period 2015-2017. **Planned investments in millions of BAM** (defined source of funding): **8.7** (2015), **49** (2016), **59.4** (2017). Investment structure: 17% economy; 41,4% transport and utility infrastructure; 41,6% for housing, education, social welfare and health care, and sports and culture, environment protection. Development of a new capital investments plan is under way, which will define new list of priorities and realistic sources of funding.

Urban issues & challenges: Upgrading the City as a regional center. Strategic goals: sustained development and larger efficiency in resource management, (goal 1); diversified economic structure ensuring full employment (goal 2); infrastructure efficiency and efficacy (goal 3); well integrated local community (goal 4); revitalized rural areas with ensured conditions for self-sustainable development (strategic goal 5). (Source: Reviewed "City Development Strategy 2007-2019").

FINANCIAL SITUATION

Items (in BAM)	2013	2014	2015	2016	Growth Index
Current revenue	111,160,055	109,040,498	112,365,781	116,658,869	1.6%
Operating expenditure	85,771,700	84,756,429	79,901,232	82,576,098	-1.3%
Gross Operating balance	25,388,355	24,284,069	32,464,549	34,082,771	10.3%
Debt service and borrowing costs	56,656,439	27,985,095	24,120,911	27,106,485	-21.8%
NET CURRENT BALANCE	**-31,268,084**	**-3,701,026**	**8,343,638**	**6,976,286**	160.7%
Capital Revenues	3,370,173	3,512,335	2,595,594	2,522,616	-9.2%
Own capital revenues	3,130,171	3,151,784	2,905,471	2,358,115	-9.0%
Investment grants and donations	240,002	360,551	90,123	164,501	-11.8%
Capital investment expenditures	31,865,594	12,525,708	9,795,741	18,773,229	-16.2%
BALANCE AFTER INVESTMENTS	**-59,763,505**	**-12,714,399**	**1,143,491**	**-9,274,327**	46.3%
Cash reserves from previous years	92,124	60,238	99,200	4,962,571	277.7%
Loan proceeds	58,094,155	5,513,505	5,397,209	5,687,791	-53.9%
OVERALL CLOSING BALANCE	**-1,577,226**	**-7,140,656**	**7,039,900**	**1,376,035**	n.a

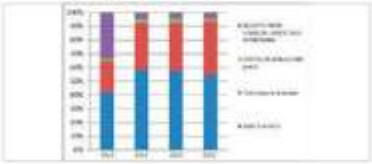
Exchange: 1 BAM = 0.51129 EUR / 1 EUR = 1.95583 **BAM. Inflation index:** 2013 / 2014 / 2015 / 2016 / 2017 (RS, 2017-estimate) 0.0% 1.2% +1.4% -0.4% 1.3%

- 2016 actual budget of the City of Banja Luka is EUR 65.1 million, of which EUR 59,7 million is from current revenues.
- Average annual growth of current revenues in the period under review was 1.6%, which is the result of decreased state tax transfers with increased own-source revenues.
- Debt service: 2013 refinancing of loans, which significantly reduced net current balance. Afterwards, due to the reduced current expenditures and rise in revenue, net current balance increased since 2014. In 2017, debt is refinanced again, hence annual debt service is reduced from 11.6 mil. EUR to 9.1 mil. EUR (around 6 mil. EUR in the following years).
- Operating exp. were in 2016 42.2 mil. EUR, with a decline of 1.3% in the period under review.
- Capital expenditures in 2016 were 9.6 mil. EUR. In 2013, 5.1 mil. EUR was invested in recapitalization of heating company (Toplana). Compared to 2013, decline in investment is for 16.2%, which is mainly a consequence of reduced credit inflow, decline in capital revenues and flood repairs in 2014 funded from the current revenues

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Description	Million BAM 2013 Execution	2014 Execution	2015 Execution	2016 Execution	Million EUR 2016 Execution	Growth 2013-16
TOTAL CURRENT REVENUES	111,2	109,1	112,3	116,7	59,6	1,6%
State Transfers	72,2	68,9	70	68,4	35,0	-1,8%
Shared taxes	69,3	65,7	65,9	64,7	33,1	-2,3%
Unconditional transfers	0	0	0	0	0,0	-
Conditional transfers-social protection and others	2,9	3,2	4,1	3,7	1,9	8,5%
Conditional transfers for development	0	0	0	0	0,0	-
Own-source revenues	39	40,2	42,3	48,25	24,7	7,4%
Local taxes	8,4	8,6	9,1	10,1	5,2	6,3%
Local fees	7,2	8	8	7,6	3,9	1,8%
Local income from property	11,3	10,5	13,8	20,25	10,4	21,5%
Other local income	12,1	13,1	11,4	10,3	5,3	-5,2%
CAPITAL REVENUES AND grants	3,4	3,5	3,8	2,5	1,3	-9,7%
RECEIPTS FROM FINANCIAL ASSEST AND BORROWING	58,1	5,5	5,4	5,7	2,9	-53,9%

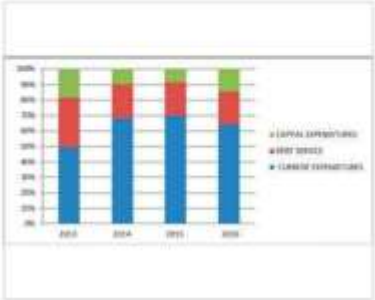
Current Revenues: The most significant sources of current revenue are shared taxes (58%), The most significant sources of current revenue are shared taxes (15%), asset revenues (19%), and other local revenues (8%).



The highest share of current revenue comes from indirect taxes with an average share of 37%. Local property tax with an average share of 6% has the potential to be increased in the future. Revenue from state transfers showed a high volatility and decline of 1.8%, while own-source local revenue recorded an average annual growth of 7.4%. In 2013, there was a high share of proceeds from borrowing represented due to refinancing of long-term loans. The share of state transfers from the Republic is reduced and in 2016 it reaches the share of 58%, whereas the share of own-source revenues is increased (42%). Unconditional and conditional (development) transfers, were not allocated. Capital revenues are in decline (-9.7%), but activities were taken to increase it ("Asset Management" project). Proceeds from borrowing became stable after 2013 on 4.5% of the City budget.

Description	Million BAM 2013 Execution	2014 Execution	2015 Execution	2016 Execution	Million EUR 2016 Execution	Growth 2013-16
CURRENT EXPENDITURES	85,7	87	79,9	82,5	42,2	-1,3%
Expenses for payroll	36,8	38,8	36,1	36,2	18,5	-0,8%
Expenses for goods and services	29	29,2	23,8	28	12,8	-4,8%
Current subsidies and grants (except capital), social transfers to citizens	17,9	18,9	18,3	19,8	10,1	3,4%
Other current expenditures (VAT)	2	2,3	2	1,6	0,8	-9,1%
DEBT SERVICE	56,7	28	24,1	27,1	13,9	-21,8%
CAPTIAL EXPENDITURES	31,9	12,5	9,8	18,8	9,6	-16,2%
OVERALL EXPENDITURES	174,3	127,5	113,8	128,4	65,6	-9,7%

The shares of current expenses for payroll (except for 2013, when the budget framework was increased due to refinancing), ranged between 28% and 31% with regard to total budget expenditures. These expenditures were reduced (-0.5%) as well as for goods and services (-4.8%). Current transfers, subsidies and grants rose (3.4% with social transfers to citizens and subsidies to companies) and have average share of around 15% (except 2013). Capital expenditures dropped from 18% in 2013 to 15% in 2016. Because of refinancing of loan debt in 2017, large capital investments are expected primarily in the construction of new city heating plan on wood chops and transport infrastructure.



RATIO ANALYSIS

Ratios	Benchmarks	2013	2014	2015	2016
1 Credit worthiness					
Gross Operating savings/ Current revenue	> 30%	23%	22%	29%	32%
2 Indebtedness					
Debt outstanding /Gross operating savings	< 10 years	7.9	7.9	5.4	4.1
Debt service / Total current revenue	< 10 %	51%	26%	22%	22%
Debt outstanding /Budget total	< 60%	116%	163%	140%	125%
3 Fiscal autonomy					
Own (taxes + fees + unconditional grants)	> 80 %	35%	37%	38%	41%
4 Capital investment effort					
Capital investment expenditure / Total Cu	> 40 %	29%	12%	9%	16%
5 Level of service sustainability					
Maintenance works expenditure / Operat	> 15 %	8%	7%	8%	9%
6 Other ratios					
Salaries & wages / Operating actual expen	< 40 %	43%	43%	45%	44%
Number of municipal employees/1000 cit	< 25	7.5	7.4	7.3	7.4
Actual revenue / Planned revenue	95<A/P<1,05	94%	92%	102%	95%

- **Operating margin** increased from 23% to 32% of current revenues and net margin shows rise as positive changes.
- **The debt burden** is reducing, which is good, but annual share of debt service in current revenue is still high.
- Ratio analysis indicates a need to increase the city's **fiscal autonomy.**
- **Share of capital investments** shows volatility (2013 5mil EUR invested in recapitalization of city heating plant). Apart from 2013, share of these expenses gradually increased. As the refinancing of loans was successfully completed in 2017, conditions for additional capital investments in the future period have been created.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

City's revenues are expected to rise by 2% on an annual basis. Smaller operational costs are also expected. New employments are not expected in the forthcoming period. Refinancing will enable lower annual amounts of debt repayment,which will lead to investments in the new district heating plant,business zones,water supply.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Financial improvement plan has two main objectives with financing estimate of 1.5 mil. BAM: (I) Financial improvement and (II) Improved local funds management. **Goal I** has 3 specific objectives which are under the competence of central state or entity (increased share of the City in distribution of income on indirect taxes and personal income tax; control over the implementation of the Income Tax Law; introduction of new utility fees) and 5 specific goals under the competence of local self-governance (debt restructuring; revenue management based on immovable property tax, rental and utility contribution; implementation of public-private partnership projects and the project "Asset Management). **Goal II** has 5 specific objectives: An advanced model of program budgeting (implementation of more complex models and precautionary principle); development of financially sustainable "Capital Investments Plan" and the new "Development Strategy", which will be more focused on public policies; advanced control of budget execution (centralized procurement, improved implementation analysis and monitoring);additional internal audit control; improved budget liquidity (collection of all receivables; write off of suspicious and controversial receivables).

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MUNICIPALITY OF FOČA

CITY PROFILE

Territorial organization: Foča is one of the largest municipalities in Bosnia and Herzegovina, with a total area of 1,115 square kilometers. It is located in the south-eastern part of RS, and it occupies a prominent place in the Upper Drina region. Foča comprises 24 local community units (mjesne zajednice).

Demography: Total resident population (2016): 17,200; annual population growth: -0.0232 percent; country population ranking: 65; population density: 15 inhabitants per square kilometer.

Economy: Gross domestic product (GDP) per head (country level): 6,454; GDP real growth (country level): 0.7 percent; active population: 7,200; city unemployed population (registered at national employment service): 3,700; city unemployment rate (percent of active population): 47.3 percent. Tourism, agriculture, and energy are the most prominent economic sectors. The National Park Sutjeska, is in the municipality's territory. It is the oldest and the largest national park in Bosnia and Herzegovina, with an area of 17,250 square kilometers [[ok as added?]]. Perucica, the best preserved primeval forest in Europe with unique beauty is also in this area.

Utilities management: Water supply and wastewater treatment and drainage: Izvor AD (public utility company); collection and disposal of waste, maintenance of municipal cemetery, city streets and parks, and public spaces: Komunalac AD (public utility company). The administrative committee [[define]] and utility companies determine prices for water supply and wastewater services.

Municipal staff: Municipal administration: 157; general administration, including 3 representatives: 104; preschool administration: 16; social care administration: 16; municipal tourism organization: 5; and cultural administration (culture center and museum): 19.

Existing project investment plan: Foča's development strategy until 2026 includes detailed situational analyses of sectors, a SWOT analysis, a vision statement, main strategic objectives, and strategic programs. The first three-year implementation plan was adopted for 2017–19 in accordance with the development strategy. Financing will be shared by the city budget and funds from international and domestic donors, the European Commission, and the UNDP.

Urban issues & challenges: Improve the quality of life through capital investments. Roads, water supply, sewage, and kindergarten are among the most significant issues. Challenges include land management, commercialization, and employment.

FINANCIAL SITUATION

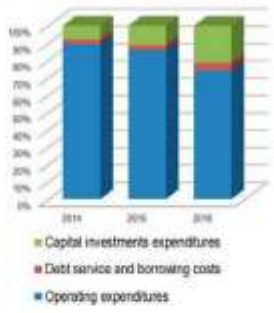
Items (in BAM)	2011	2012	2013	2014	2015	2016	Growth index (percent)	2016 (€)
Current revenue	8,412,028	10,828,477	8,953,302	8,963,839	9,540,966	10,533,976	6.8	5,560,453
Operating expenditure	6,115,023	7,161,550	7,460,074	9,200,285	8,117,504	8,447,862	8.4	4,319,323
Gross Operating balance	2,297,005	3,666,927	1,495,228	(236,446)	1,423,462	2,486,114	2.0	1,271,130
Debt service and borrowing costs	792,172	130,780	264,682	292,384	288,159	475,207	-12.0	242,969
NET CURRENT BALANCE	**1,504,833**	**3,536,147**	**1,230,546**	**(528,830)**	**1,135,333**	**2,010,907**	**7.5**	**1,028,160**
Capital Revenues	165,427	95,588	149,544	119,632	383,725	575,235	36.6	294,113
Own capital revenues	161,515	90,894	9,000	14,047	79,330	58,400	-22.5	29,859
Investment grants and donations	3,912	4,694	140,544	105,585	304,386	516,835	239.0	264,254
Capital investment expenditures	1,643,182	4,775,533	522,012	806,489	1,060,240	2,455,464	10.6	1,255,459
BALANCE AFTER INVESTMENTS	**27,078**	**(1,143,798)**	**858,078**	**(1,215,688)**	**458,818**	**130,678**	**48.2**	**66,815**
Cash reserves from previous years	-	-	-	-	-	-	-	
Loan proceeds	-	2,000,000	-	1,130,000	-	300,000	-	153,386
OVERALL CLOSING BALANCE	**2,967**	**(3,812)**	**(2,741)**	**(2,337)**	**(4,452)**	**(4,452)**	**-**	**(2,276)**

Exchange: €1 = BAM 1.95583 / BAM 1 = €0.51129

Inflation index (percent)

2011	2012	2013	2014	2015	2016
+3.9	+2.1	0.0	-1.2	-1.1	+0.5

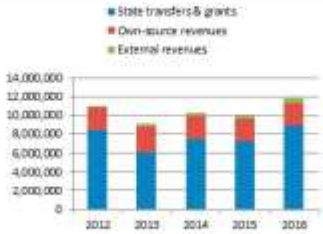
Structure of public expenditures



Revenues and expenditures: The highest share of expenditures went to operating expenditures (2016—74 percent). Capital investments increased during the last three years: 8 percent in 2014, 11 percent in 2015, and 21 percent in 2017; as did borrowing costs and debt services: 2.8 percent in 2014, 3.0 percent in 2015, and 4.1 percent in 2016. Municipal capital revenues, including own-source capital revenues, were much lower than capital investments so a large portion of capital investments were financed with current revenues.

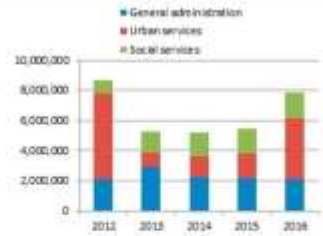
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	Items (in BAM)	2011	2012	2013	2014	2015	2016	Share 2016 (percent)
1	State transfers and grants	6,451,086	8,386,701	6,117,689	7,497,864	7,258,431	8,902,908	75.4
2	Own-source revenues	2,207,688	2,560,670	2,715,507	2,518,484	2,441,225	2,388,575	20.2
3	External revenues	80,196	6,694	280,650	211,169	304,395	516,836	4.4
4	**TOTAL REVENUES**	**8,738,970**	**10,924,065**	**9,113,846**	**10,227,517**	**10,004,051**	**11,808,319**	**100.0**



Current Revenues: The most significant current revenues were state transfers and grants (75 percent in 2016). The share of revenues increased in correlation with an increasing VAT (value-added tax) and decreasing own-source (non-tax) revenues. State grants financed with the support of donors (European Union and others) were implemented in parallel with the municipal budget.

	Items (in BAM)	2011	2012	2013	2014	2015	2016	Share 2016 (percent)
1	General administration	1,716,705	2,116,156	2,521,152	2,202,600	2,153,055	2,120,350	27
2	Urban services	3,320,523	5,878,611	929,073	1,402,536	1,625,678	3,990,764	51
3	Social services	783,987	898,074	1,409,112	1,590,810	1,661,896	1,727,704	22
4	**TOTAL EXPENDITURES**	**5,821,215**	**8,693,041**	**5,259,337**	**5,195,946**	**5,440,629**	**7,838,838**	**100**



Current Revenues: The share of current expenses for payroll and goods and services (general administration) were relatively stable accounting for 27 percent of budget expenditures. Current social transfers jumped from BAM 783,987 in 2011 to BAM 1,727,704 in 2016 due to increased social transfers to citizens. The share of capital expenditures to total expenditures was very variable, making it difficult to determine a trend over the short term.

RATIO ANALYSIS

Indicator (definition)	Comparative Index	2011	2012	2013	2014	2015	2016
Creditworthiness							
Gross operating savings/current revenue (percent)	> 30	27.3	33.9	18.7	-2.6	14.9	22.7
Indebtedness							
Debt outstanding/gross operating savings (years)	< 10	0.0	0.0	0.0	-15.7	2.4	1.2
Debt service/total current revenue (percent)	< 10	0.4	1.2	3.0	3.3	3.0	4.3
Debt outstanding/budget total (percent)	< 60	0.0	0.0	8.1	40.8	34.8	25.8
Borrowing/current revenues (percent)	< 15	0.0	18.5	0.0	12.6	0.0	2.74
Fiscal autonomy							
Own (taxes + fees) + unconditional grants/total current revenue (percent)	> 60	26.2	23.6	30.3	28.1	25.6	21.8
Capital investment effort							
Capital investment expenditure/total current revenue (percent)	> 40	19.5	44.1	5.8	9.0	11.1	22.5
Capital investments from earmarked grants/total investment expenditures (percent)	< 50	0.0	0.0	0.0	0.5	1.3	1.3
Level of service sustainability							
Maintenance work/operating expenditures (percent)	> 15	8.7	8.4	8.7	7.5	8.7	8.7
Other ratios							
Salaries and wages/actual operating expenses (percent)	< 40	19.6	19.9	19.4	19.7	17.0	17.0
Number of municipal employees per 1,000 citizens (percent)	< 25	8.0	10.0	10.0	9.0	9.0	9.0
Actual revenue/planned revenue (percent)	95<Act/P<105	95.5	110.7	102.7	102.0	98.7	98.7

Operating savings were below the benchmark but relatively volatile over the observed period due to changes in revenues and expenditures. Indebtedness levels were within acceptable limits.

Fiscal autonomy was significantly low because a major portion of the revenues comes from state transfers. The municipality of Foča has no fiscal autonomy. It depended on state transfers and grants. Foča's lack of fiscal autonomy is based in legislation and compounded by the fact that the VAT (value-added tax) is collected at the state level.

Capital investment efforts by the municipality were below the benchmark. Foča can only increase this indicator by increasing revenues because operating expenditures cannot be significantly reduced. The number of municipal employees per hundred citizens was 9, and salaries and wages were lower than 20 percent of operating expenditures, in accordance with benchmark.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Financial projections: The main assumptions behind revenue projections are historical analyses and DOB. Historical analyses are important because a large portion of municipal revenues is state transfers (shared taxes) on which the municipality depends. Own-source revenues are variable, and it is very difficult to make accurate projections.

Investment programming: The municipality of Foča adopted a development strategy for capital projects and plans for capital investment over three years, including the reconstruction of the primary and secondary water supply system for €3.5 million; reconstruction of the primary and secondary sewerage network for €3.4 million; building of a municipal landfill for €1 million; and building a health center for €1 million.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the municipality's financial situation through the acquisition of additional donations by applying for IPA (Instrument for Pre-Accession) funds; improve land management and commercialization of unused land and forest; **improve the municipality's financial management by** reducing the influence of politics at the budget planning stage rejecting unrealistic capital budget investment requests; and adhering to multiannual financial plans.

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MUNICIPALITY OF NOVO SARAJEVO

CITY PROFILE

Territorial organization: Municipality of Novo Sarajevo is one of the four municipalities of the City of Sarajevo, the capital of Bosnia and Herzegovina, which has 297,416 inhabitants and covers 141.5 km². Novo Sarajevo municipality is one of the 9 local communities in the Sarajevo Canton. The total area of the municipality is 9.9 km2, and includes 18 local communities (mjesna zajednica).

Demography: Population (Census 2013) was 68,802 and estimates for 2015 is 73,862; Annual population growth is 1%. Density: 7,461 inhabitants / km²

Economy: Total income per capita 209 EUR in 2015, Population activity rate 43,2; Unemployment rate (% of active population) 26.9%; employment rate 74.1%(% of active population); Development Index in the Federation of BiH 146.2.

Utilities management: None of the utility companies are included in the municipal budget, since utility companies are not under the jurisdiction of municipalities in Sarajevo Canton. However, in some cases, the municipality transfers funds to some utility companies for specific projects.

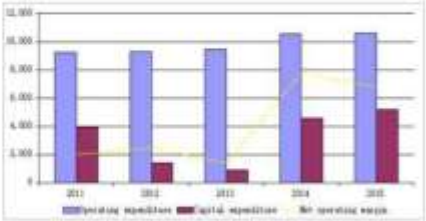
Municipal staff: 200 employees in municipal administration.

Current Project Investment Plan: Main capital projects and capital investment plan for next three years: Construction of the sewerage network according to the Development strategy, investment of 0.8 EUR, Reconstruction of the Bosko Buha facility for educational and cultural events, investment of 0, 7mil EUR, Construction of a community building and an outpatient clinic in the settlement Hrasno Brdo, investment of 0.8 mil EUR

Urban issues & challenges: Development strategy of the municipality includes social, economic and environmental development in order to improve quality of citizens' life and overall development of the municipality. New sectoral goals are set for following 5 years, while operating plans are prepared for 3 years as well as capital investment plans with new projects. Issues to address include local asset management and illegal constructions. Challenges are improving citizens' quality of life, creating conditions for attracting investment, and creating new employment opportunities for the citizens.

FINANCIAL SITUATION

Items in 000 BAM	2011	2012	2013	2014	2015	Growth index (2011-15)	2015 (000 EUR)
Current revenue	11,220	11,758	10,845	18,322	17,404	12%	8,898
Operating expenditure	9,217	9,278	9,450	10,551	10,622	4%	5,431
Gross operating balance	2,011	2,439	1,394	7,771	6,781	36%	3,467
Debt service and borrowing costs	0	0	0	0	0		0
NET CURRENT BALANCE	2,011	2,439	1,394	7,771	6,781	36%	3,467
Capital revenues	0	0	0	0	0		0
Own capital revenues	0	0	0	0	0		0
Investment grants and donations	0	0	0	0	0		0
Capital investment expenditure	3,926	1,417	866	4,584	5,187	7%	2,652
BALANCE AFTER INVESTMENT	-1,914	1,021	528	3,187	1,594		815
Cash reserved from previous years	0	0	0	0	0		0
Loan proceeds	0	0	0	0	0		0
OVERALL CLOSING BALANCE	-1,914	1,021	528	3,187	1,594		815



Exchange: 1 EURO= 1.95583 BAM

Inflation index:

BiH. 2012: 2.1%, 2013: -0.1%, 2014:-0.9%, 2015:-1.0%, 2016:-1.1%, (Central bank of BiH)

The budget for 2015 was realized in the amount of 8.9 million euros, with strong revenue growth from 2011 to 2015 by 12% annually.

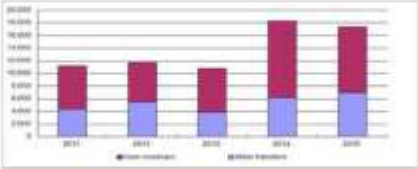
In the period 2011-2015 capital expenditure recorded strong growth in investment activities by 7% annually on average.

The municipality does not have any debt.

Operating margin was only in 2011 lower than capital investment expenditure. Capital expenditure decreased in 2013, but recovered in last two years. Capital expenditure is financed from ongoing revenues, no sales of assets, donations or capital intergovernmental transfers were recorded.

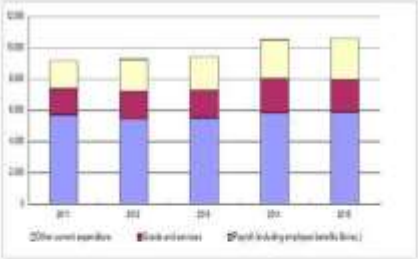
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

'000BAM	2011	2012	2013	2014	2015	Growth index	2015in EUR
State transfers	4,312	5,489	6,870	6,231	7,204	13%	3,581
Own revenues	6,916	6,229	6,975	12,091	10,400	11%	5,317
External revenues	0.0	0.0	0.0	0.0	0.0	n.a.	0.0
Total current revenues	11,228	11,718	13,845	18,322	17,604	12%	8,898



Total municipal revenue increased in 2014, mainly due to higher revenue collected from land development fees. Shared tax were rather stable, until 2015 when state general transfers (indirect tax) increased due to change of Law on public revenue sharing in FBiH (which effects only Sarajevo Canton and its municipalities). Property tax is the sole local tax in FBiH, but in Novo Sarajevo it is shared with the Canton (which also administers it).

Expenditure in 000 BM	2011	2012	2013	2014	2015	Growth (2011-15)	2015 (000 EUR)
Payroll (including employee benefits &r	5,731	5,442	5,558	5,871	5,906	1%	2,039
Goods and services	1,680	1,822	1,798	2,163	2,068	-1%	1,057
Other current expenditure	1,885	2,015	2,145	2,517	2,629	-4%	1,344
Interest expense	0	0	0	0	0	0%	0
TOTAL OPERATING EXPENDITURE	9,297	9,279	9,450	10,551	10,602		5,421



Expenditure structure is dominated by payroll expenditure (including employees benefits), and shows 1% annual growth. In 2011 payroll expenditure were 62% out of total operating expenditure, but since then until 2015 shows decreasing trend and 2015 make 56% in the structure. Other current expenditure from 20% amounted to 25% in the structure, mostly as result of increasing current transfers of social benefits to citizens and NGOs.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2013	2014	2015
1. Credit worthiness						
Operating savings before interest/Current revenue	> 0.3	0.2	0.2	0.1	0.4	0.4
2. Indebtedness						
Debt services / Total current revenue	< 10 %	No Loans				
3. Fiscal authonomy						
Own taxes + fees + unconditional grants/Total Current revenues	> 80 %	62%	53%	64%	66%	60%
4. Capital investment effort						
Capital investment expenditure/Current actual revenue	> 40 %	35%	12%	8%	25%	30%
Expenditures for capital investments delegated by the state / total investment expenditures	> 50 %	0%	0%	0%	41%	35%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	2%	2%	2%	2%	3%
6. Others						
Salaries/Operating actual expense	> 40 %	62%	59%	59%	56%	56%
Actual revenue / Planned revenue	> 95%	46%	55%	52%	82%	67%

Creditworthiness: Operating margin shows stable trend and above benchmarks in 2014-15 after a particularly low level in 2013.

Fiscal autonomy is low, substantially below the benchmark. State grants are low about 30% of current revenues, but most earmarked.

Capital investment effort shows great fluctuation, was the lowest in 2013, but effort is on the rise in last two years.

Labor efficiency: Salaries comparing to operating expenses are substantially above the benchmark which indicates issues of over-employment and low rationality of the municipal administration.

Budget predictability is low, but improving.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

It is necessary to harmonize the Development strategy with the municipal finance system. Financial analysis should be prepared every year as a base for revision of the three year operating plans annually.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve financial situation of the municipality: Change legislation in order to stop current sharing property tax with the Canton, give more flexibility on the local tax policy and Improve coordination with tax administration in local tax collection.

Improve financial management of the municipality: Improve reliability of forecasting revenues and expenditures, Improve cost analysis of main expenditure categories, Improve expenditure monitoring, Improve Budget execution reporting, Establish an asset management system.

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MUNICIPALITY OF ODŽAK

MUNICIPAL PROFILE

Territorial organization: The municipality of Odzak is located in the northern part of Bosnia and Herzegovina and is one of the 3 local self-government units in the Posavska County. The total area of the municipality of Odžak is 158.4 km² and includes 22 local communities (mjesne zajednice). The municipality was hit by floods on two occasions in 2014, which was the biggest natural disaster this municipality has ever experienced.

Demography: According to the 2013 Census, the number of inhabitants is 21,289, and 18,397 according to estimates for 2016, with a population density of 116 inhabitans/km². The number of inhabitants has a steady downward trend, and in 2016, the annual growth was -149, while natural increase per 1000 inhabitants was - 8.10.

Economy: In 2016, the municipality had 160 active legal entities and 203 small craft businesses. All economic indicators analyzed have a growth trend (total income, profit, employment, equity, coverage of import by export amounts to over 90%). The strongest economic activity in the municipality of Odzak is the manufacturing industry: 42 entities, 860 employees, 80 million KM of the total income, more than 50% products are exportes to the market, over 3 million EUR profit). Tax revenue per capita in 2016 amounted to 56 EUR. The employment rate of the active population in 2016 was 51.4; the unemployment rate (% of the working population) is 48.6%, and the employment rate is 17.1%; According to the development of municipalities, Odzak is 57th out of 79 municipalities in the Federation of Bosnia and Herzegovina.

Utility Management: The Odžak Municipality provides water, wastewater treatment and waste disposal services through its majority public company JP Komunalac.

Municipal staff: 48 employees in the municipal administration.

Current Investment Plan: The Key Strategic Planning Document is the Revised Development Strategy of the Municipality of Odžak for the period 2016-2020. A public debate on the new Spatial Plan of the Odžak municipality for the period 2016-2035 is under way and The Plan is expected to be adopted in 2017. Capital Investment Plan 2017-2019, among other, includes the following investments: construction and reconstruction of water supply; expansion of business zones North at a future border crossing; strengthening tourism especially hunting and fishing; expansion and rehabilitation of the sewerage system in the municipality of Odzak; rehabilitation of an existing landfill for the disposal of waste and illegal landfills; reconstruction of the existing road network destroyed in floods, field roads and channels; irrigation; completion of land consolidation; demining mines of contaminated surfaces; construction of terminal and other facilities at the future border crossing BiH/Croatia.

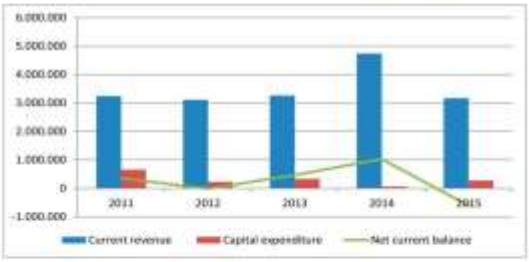
Urban Issues and Challenges: Urban issues in the municipality of Odzak are a lack of investment, production and business facilities; inactive privatized companies; wild dumps and damage from war and floods; large land area contaminated with mines. Challenges for the municipality of Odžak are: improving the quality of life of citizens; creating conditions for attracting investment and employment by respecting environmental standards, and thus reducing the outflow of the working-age population.

FINANCIAL SITUATION

Items in BAM	2011	2012	2013	2014	2015	Growth Index	2015 (000)
Current revenue	3.241.476	3.113.431	3.281.081	4.740.798	3.171.580	-1%	1.622
Operating expenditure	2.828.907	3.045.421	2.712.610	3.638.185	3.722.721	7%	1.903
Gross Operating balance	412.571	68.010	568.471	1.102.573	-551.121		-282
Debt service and borrowing costs	57.013	81.011	78.970	70.522	50.178	-3%	26
NET CURRENT BALANCE	355.558	-13.001	489.501	1.032.049	-601.299		-307
Capital Revenues	659.221	230.761	330.260	66.584	276.923	-20%	141
Own capital revenues	0	0	0	0	276.923		141
Investment grants and donations	659.221	230.761	330.260	66.584	0		0
Capital investment expenditures	1.209.298	446.993	286.320	249.623	633.750	-15%	324
BALANCE AFTER INVESTMENTS	-194.519	-229.153	513.441	846.010	-958.540	49%	-490

Exchange rate (2011-2015):
1 EURO = 1.95583 BAM .

Inflation index BiH (Central bank of BiH).
2012: 2.1%,
2013: -0.1%,
2014: -0.9%,
2015: -1.0%.
2016: -1.1%

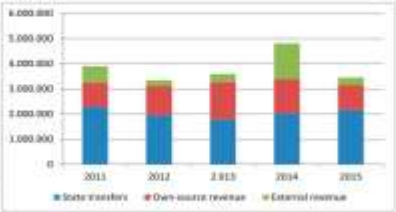


Current revenue show 1% average annual decline while operating expenditure grew fast by 7% annually. Operating expenditure show significant increase from 81% of current revenue in 2011 to 99% in 2014, and resulted in negative gross and net current balances in 2015).

The volatile net savings and the sharply decreasing investment grants resulted in fast decreasing capital investments, the growth index shows (-15% per year). The low predictability and high volatility of revenues resulted in unpredictable closing balances that were negative in three of the surveyed five years. These attributes signal low level of sustainability of the city's financial growth.

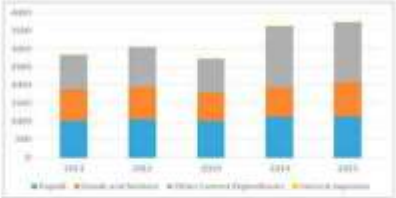
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Items in BAM	2011	2012	2013	2014	2015	Growth index	2015 (000 EUR)
State transfers	2.284.741	1.954.828	1.783.991	2.016.094	2.151.458	-1%	1.100
Own-source revenue	956.737	1.158.603	1.477.060	1.373.190	1.009.937	1%	516
External revenue	659.221	230.741	330.260	1.415.656	286.715	-19%	147
Total revenue	3.900.699	3.344.172	3.591.344	4.804.940	3.448.080	-3%	1.763



Average growth of total revenue 2011-15 per year was -3%. Average growth of transfers from other government levels was -1%; this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue have grown by 1% annually, but was vulnerable because of the volatile nature of local fees (such as development fee). External revenue increased in 2014 due to larger amounts of intergovernmental capital transfers and donations received for flood recovery. Structure of the revenue: State transfers were 51% of total revenues in 2011, but lowest 38% in 2013; own-source revenue increased from 46% in 2011 to 51% in 2015.

Items in BAM	2011	2012	2013	2014	2015	Growth index 2011-15	2015 (000 EUR)
Payroll (including employee benefits &nt.inc.)	1.010.299	1.043.837	1.009.327	1.123.133	1.131.701	3%	579
Goods and services	864.658	900.708	792.091	812.800	851.350	2%	486
Other current expenditure	954.907	1.099.067	924.055	1.697.099	1.656.871	15%	847
Interest expense	13.793	17.570	13.122	9.052	6.082	-19%	3
Total operating expenditure	2.843.617	3.061.182	2.738.595	3.642.084	3.746.004	7%	1.915



Average annual growth of total budget expenditure was 7%. In the structure of total operating expenditures, the share of payroll expenditure decreased from 36% in 2011 to 30% in 2015. Expenditures on goods and services varied from 30 to 33% of total budget expenditures. Interest expense declined by 19% annually. The other current expenditures were spent largely on transfers to individuals for social care (employment rate is only 17.1%;), which additionl increased in 2014 and 2015 as transfers to help in the flood recovery.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2014	2015
1. Credit worthiness					
Operating savings before interest/current income	> 0,3	0,1	0,0	0,2	-0,2
Net margin/Current acctual revenue	> 0,2	0,1	0,0	0,2	-0,2
2. Indebtedness					
Debt services/total current revenue	< 10 %	2%	3%	1%	2%
3. Fiscal authonomy					
own taxes and undconditionla grants/current actual revenues	> 80 %	46%	46%	29%	47%
4. Capital investment effort					
Capital investment expenditure/Current acctual revenue	> 40 %	37%	14%	5%	20%
5. Others					
Salaries/Operating actual expense	> 40 %	33%	32%	28%	28%
Total number of local officials / population	> 25	2,0	2,5	2,2	2,1
6. Level of services					
Maintenance expenses / operating expenses	> 30 %	3%	6%	6%	8%

Creditworthiness is very low; the ratio is below the benchmark and was declining in the period. Indebtedness was low, but the annual debt repayment is not adequate with regard to operating income. Fiscal autonomy is low due to the current legislation and the administrative structure of FBiH. There is practically no tax policy which municipalities exercise full discretion. Capital investments were at the benchmark in 2011, but drastically fell by 2014, because of the flood, but somewhat recovered in 2015. Salaries compared to operating expenses are below the benchmark, and total number of employees per 1000 inhabitants is low, which indicates the rationality of the city administration.

Maintenance are way below the benchmark and municipality need to improve it.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Most of the project proposals in the operational annual and three-year plans were linked with the budget of the municipality of Odzak to a less linked to the level of the Canton, and not at all with the higher levels of the Federation and Federal and state agencies. Existing legislation on the repayment of foreign debt in BiH is not in favor of local governments, so the change of related laws and laws on the distribution of public revenues between levels of government and local self-government units will improve the financial capacities of local governments in the FBiH.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial situation of the municipality: Improve cooperation with the Tax Administration in collection of tax and non-tax revenues of the municipality of Odzak. Municipality requests from Tax office all resources belonging to the Odzak municipality. The municipality insist on compliance with bylaws that regulate the procedures and deadlines for collecting revenues from the tax administration. Municipality need to improve internal control, improve collection of communal fees, introduce internal audit, increase cost monitoring, accelerate the introduction of program budgeting.

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MUNICIPALITY OF ORAŠJE

MUNICIPALITY PROFILE

Territorial organization: The municipality Orašje is located in the northeast of Bosnia and Herzegovina and covers a space of 125 km2. The municipality consists of 13 inhabited places, of which one is urban and the other rural. According to the Dayton Peace Agreement, the municipality of Orašje is one of 3 municipalities in Posavina canton.

Demography: The population is 21,584 (Census 2013) and 18,988 according to estimates for 2015. The annual population growth of -0.1% in 2013 increased to 0.6% in 2015. According to the number of inhabitants (Census 2013) Zenica is 4th largest city in BiH with density: 152 inhabitants / km². In Orašje is situated one of the main border crossings between BiH and Republic of Croatia (EU), which is one of the most significant comparative advantages of this area.

Economy: The most significant activities in Orašje are: wholesale and retail trade and maintenance, manufacturing, transport, warehousing and communications and construction. Total revenue per capita in 2015, based on estimate population, 151 EUR. Tax revenue per capita 61 EUR. Population activity rate is 70.5; unemployment rate (% of working population) is 31; employment rate 52.8; and development index (in the Federation of Bosnia and Herzegovina) is 79.

Utilities management: The municipality provides services through its public utility companies, as well as through its own department such as parking service. Public companies provide services: water supply and waste water treatment, waste disposal and cemetery.

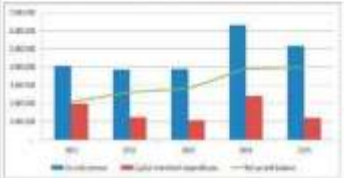
Municipal staff: number of employees in municipal administration is 80

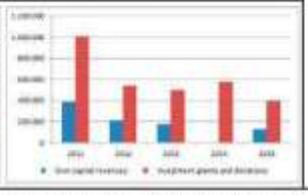
Urban Issues and Challenges: Due to the lack of investment, manufacturing and business facilities, the unemployment of young, working-active population has increased, which has led to emigration. The main challenge is to stop emigration and create a favorable climate for work and development, create a favorable climate for new investors and thereby raise the quality of life of citizens.

Current Project Investment Plan: Key Strategic Plans are Revised Strategy for Development of the Orašje Municipality 2016-2020. and the Plan for the Implementation of Strategic Projects and Measures for the Period 2017-2019, where we particularly emphasize the project for the construction of a water supply and drainage system worth EUR 3,000,000, the construction of infrastructure in the Business Zone, the construction of a fridge for fruits and vegetables and a Distribution Center in values of 250,000 EUR etc.

FINANCIAL SITUATION

Items in BAM	2011	2012	2013	2014	2015	Growth index (2011-15)	2015 (000 EUR)
Current revenue	4.069.704	3.866.818	3.902.651	4.215.919	5.173.099	6%	2.645
Operating expenditure	3.604.104	3.564.896	3.550.509	4.513.745	4.315.998	5%	2.207
Gross Operating balance	465.600	301.922	352.122	-1.802.100	857.501	16%	438
Debt service and borrowing costs	-	-	-	1.808	5.743		3
NET CURRENT BALANCE	465.600	301.922	352.122	-1.800.381	851.758	16%	435
					-		
Capital Revenues	1.985.021	1.216.898	1.079.740	2.407.571	1.192.079	-12%	610
Own capital revenues	385.202	209.452	177.835	0	131.147	-24%	67
Investment grants and donations	1.007.177	509.425	497.192	1.012.508	487.914	-17%	249
Capital investment expenditures	1.985.021	1.216.898	1.079.740	2.407.571	1.192.079	-12%	610
BALANCE AFTER INVESTMENTS	465.600	301.922	352.122	-1.800.381	851.758	16%	435





Exchange rate (2011-2015): 1 EURO = 1.95583 BAM.

Inflation index BiH (Central bank of BiH):
2012: 2.1%,
2013: -0.1%,
2014: -0.9%,
2015: -1.0%,
2016: -1.1%.

The municipality has a stable but small operating surplus, which has grown fast 16% per year over the last 5 year. Current revenue show average growth 6%, while operating expenditure are growing slower (5% annual growth). Operating expenditure show decrease from 89% of current revenue in 2011 to 83% in 2014.

Capital investments increased in 2014 and funded from large donations due to the floods which have brought enormous destruction in the municipality.

The city does not have cash provisions from previous years to finance capital investments, so it depends on current revenues and borrowings.

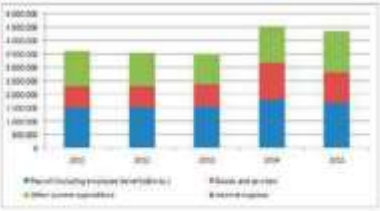
The city's budget is under good control and shows stable positive balances that have grown by 16% over the analyzed 5 year period, albeit the large balances often are due to the slow utilization of the development grants

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Items in BAM	2011	2012	2013	2014	2015	Growth index (2011-15)	2015 (000 EUR)
State transfers & grants	2.971.962	2.538.980	2.371.593	2.910.193	2.979.716	-1%	1.472
Own-source revenues	1.483.844	1.537.390	1.713.910	2.533.763	2.341.476	11%	1.148
External revenues	1.007.177	539.425	497.192	1.448.528	579.440	-13%	295
Total current revenues	5.462.983	4.615.695	4.582.678	6.892.484	5.799.634	1%	2.915

Average growth of total revenue 2011-15 is only 1%. Average growth of transfers from other government levels is -1%, this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue has increased since 2013 because of revenue from local fees but is vulnerable because of the volatile nature of those fees. External revenue increased in 2014 due to the floods which were the worst in 120 years and have brought enormous destruction in the municipality. Structure of the revenue: State transfers were 54% of total revenues in 2011, but lowest 50% in 2013; own-source revenue increased from 27% in 2011 to 39% in 2015.

Items in BAM	2011	2012	2013	2014	2015	Growth index (2011-15)	2015 (000 EUR)
Payroll (including employee benefits&misc.)	1.479.133	1.509.525	1.525.279	1.772.171	1.679.029	3%	858
Goods and services	820.202	787.007	829.192	1.399.794	1.129.786	8%	576
Other current expenditure	1.304.769	1.288.364	1.150.539	1.341.780	1.504.784	4%	769
Interest expense	0	0	0	1.808	5.743		3
Total operating expenditure	3.604.104	3.584.896	3.505.010	4.515.554	4.316.341	8	2.207



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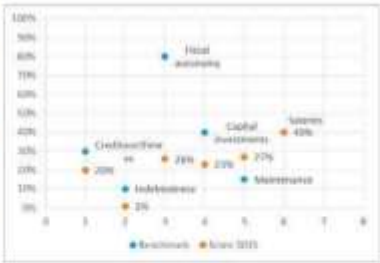
RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2013	2014	2015
1. Credit worthiness						
Operating savings before interest / current income	> 0.3	0.1	0.1	0.1	0.3	0.2
Net margin/Current actual revenue	> 0.2	0.1	0.1	0.1	0.3	0.2
2. Indebtedness						
Debt services/total current revenue	< 10 %	0.0%	0.0%	0.0%	0.03%	0.1%
3. Fiscal authonomy						
own taxes and unconditional grants/current actual revenues	> 60 %	38%	22%	21%	38%	26%
4. Capital investment effort						
Capital investment expenditure/Current actual revenue	> 40 %	49%	32%	28%	38%	23%
Expenditures for capital investments delegated by the state / total investment expenditures	> 50 %	44%	46%	24%	33%	29%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	23%	28%	25%	19%	27%
6. Others						
Salaries/Operating actual expense	> 40 %	42%	43%	39%	39%	40%
Number of municipal employees/1000 citizens	< 25	4	4	4	5	4



Ratio Analysis: The ratio analysis reflects a generally good performance of the municipality with good control of expenditures, however improvements are constrained by the low fiscal autonomy and thus the low level of local revenues.

Credit worthiness ratio (operating Savings before interest/current revenue) is way below the benchmark, only 2014 was on the level of the benchmark. The debt service is very low, easy to serve from operating savings. **Fiscal autonomy** is low due to the current legislation and the administrative structure of FBiH. There is practically no tax policy which municipalities exercise full discretion. **Capital investments** were decreasing from to 2011 to 2014, the high investments in 2014 were mostly investments in the flood recovery. **Maintenance** ratios were stable and steadily above the benchmark that show good policies of the local government. **Salary expenditures** comparing to operating expenditure were above the benchmark in 2011 and 2012, but were below or at the benchmark in the last three years. **Number of employees** were way below the benchmark which indicates the rationality of the city administration.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

It is necessary to harmonize the Development strategy with the financial system (the financial capacity of the City), which implies previous financial analysis; at the local level, the level of cantons, federation and state government. Existing legislation of foreign debt repayment in BiH is not in favor of local governments, thus change of related laws and laws of public revenues allocation between level of governments and local self-government units will improve financial capacity of local governments in FBiH.

MUNICIPAL FINANCE IMPROVEMENT ACTION PLAN

The municipal finance improvement plan is primarily possible with greater control: increase internal control, introduce internal audit, and increase cost control. Also, emphasis should be placed on improving the cooperation with the FBiH Tax Administration in collecting municipal tax and non-tax revenues, as well as insisting on compliance with subordinate legislation governing the procedures and deadlines for revenue collection by the tax administration.

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CITY OF PRIJEDOR

CITY PROFILE

Territorial organization: Prijedor is located in the northwestern part of Bosnia and Herzegovina and it is the third largest city in the Republic of Srpska and the sixth in Bosnia and Herzegovina. The city is divided into 49 local communities. City area: 834 km2.

Population: Prijedor has about 105,000 inhabitants and the population density is 126 inhabitants / km2.

Economy: Representatives from trade, hotel and catering, services and light industry (wood, metal, mining and textile) are represented. The number of registered legal entities is 425 and the entrepreneur is about 1,327.

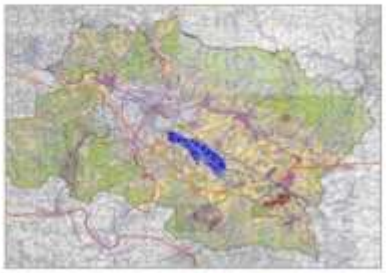
Public Utility Companies: In the majority ownership of the City of Prijedor there are 5 public companies: water supply and sewerage; garbage collection; city market; city heating plant and public transport company. The distribution of electricity is under the jurisdiction of Republika Srpska.

City staff: A total of 426. The City Administration employs 258 civil servants and 168 employees in public institutions financed by the City of Prijedor (Children's Nursery, Center for Social Work, Agency for Local Economic Development, Film Center, Theater, Gallery and Tourism Organization).

Current Capital Investment Plan: It was adopted for the period 2016-2018 and is adopted annually for the current and next two years. The most important projects are: (1) The Water and Sewerage Project in the Republic of Srpska with the EIB, which implementation is in the process from 2012-2020 and for the City of Prijedor, amounts to 35,832,594 KM; (2) Reconstruction of the Fire Station in Prijedor in the amount of 2.000.000 KM and implemented in the period 2017-2019. (3) The Social Housing Project funded by the Development Bank of the Council of Europe in the amount of 1.845.000 KM and implemented from 2016-2018 (4) The World Bank Emergency Rescue Project in the amount of 451.751,23 SDR for the reconstruction of communal infrastructure for the period 2016-2017. (5) Construction of a City Heating Plant on biomass in the amount of KM 20,000,000 (14,000,000 KM of EBRD loan and 6,000,000 grant). The plant for the production of electricity was built with this investment as the part of this congenerative energetic complex.

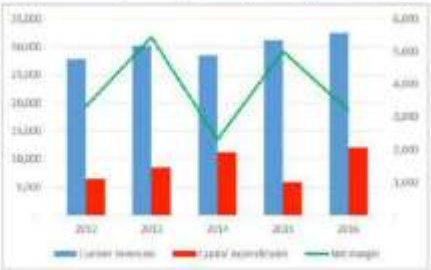
Urban issues & challenges: Vision of the City of Prijedor from the Integrated Development Strategy of the City of Prijedor for the period 2014-2024 is as follows:
"Prijedor - a City of Real Investments and Successful People"

The strategic goals of the City of Prijedor are: Built a strong economy that uses all the resources of the city of Prijedor and its surroundings, recovered and reconstructed existing and built new physical infrastructure, developed network of institutions for supporting social development and improved quality of life of citizens and established functional capacities for sustainable environmental management with the application of energy efficiency principles.



FINANCIAL POSITION

'000 KM	2012	2013	2014	2015	2016	Growth index
Current revenues	27,891	30,147	28,528	31,174	32,535	3.93%
Operating expenditure	23,545	23,113	24,607	24,352	27,256	3.73%
Operating margin	4,346	7,034	3,921	6,822	5,279	4.99%
Debt repayment	1,023	1,593	1,608	1,808	2,091	19.57%
Net margin	3,323	5,441	2,313	5,014	3,188	-1.03%
Capital revenues	2,698	1,385	2,460	621	568	-31.67%
- Own capital investment	142	322	168	354	81	-13.09%
- Investments grants	2,556	1,063	2,292	267	507	-33.26%
Capital expenditure	6,471	8,470	11,277	5,908	12,049	16.81%
Investment balance	(451)	(1,644)	(6,504)	(273)	(8,273)	n.a
Cash reserves from previous	2,348	295	578	-	1,479	-10.91%
Loan proceeds	0.0	0.0	0.0	0.0	0.0	n.a
Overall closing balance	**1,898**	**(1,349)**	**(5,926)**	**(273)**	**(6,794)**	n.a



Exchange: 1 EUR = 1,95583 KM

Inflation index (percent)
2012: 2.1%; 2013: 0.0%; 2014: -1.2%; 2015: -1.6%; 2016 : -0.20%.

Total current revenues had a 3.93% growth trend due to a change in the decision on the allocation of VAT revenues belonging to local communities that, due to the results of the population census and the number of inhabitants as distribution criteria, increased the City's revenues on this basis.

Operating expenses had a growth trend of 3.73% due to the large increase in the number of social protection beneficiaries. According to the Law on Social Protection, local communities co-finance 50% of social protection, and due to the difficult economic situation, the number of users of these services is increasing.

Debt repayment had a growth trend of 19.6% due to repayment of previouse loans for capital investments and new borrowing for the same purposes.

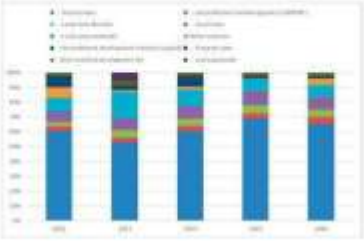
Capital expenditures in 2016 amount to KM 12.049.725. If we compare 2012 and 2016, the average increase in capital expenditures is 16.8% and varies by age in accordance with the Development Strategy and Capital Investment Plan of the City of Prijedor.

The net margin has an average downward trend of -1.03%, which is the result of a faster growth of current expenditures than current revenues, as well as the advances and increases in repayments for loans invested in capital investments from an earlier period. Current expenditures also include interest expense for previously borrowed loans.

Own capital revenues have an average downward trend of -31.7% due to a decrease in private construction activity and thus drop of cevelopment fee revenues caused by a major economic crisis and falling demand on the market for residential and business premises.

HISTORICAL ANALYSIS: REVENUES AND EXPENDITURES

Items	2012 actual	2013 actual	2014 actual	2015 actual	2016 actual	Average annual growth %
TOTAL CURRENT REVENUES	20.244.559	20.442.923	21.171.267	21.174.267	24.014.757	2,98
Some transfers	21.461.696	19.317.231	20.615.769	21.302.519	24.812.360	3,71
- Shared taxes	20.299.809	18.267.118	19.462.128	20.296.930	23.206.837	3,40
- Unconditional transfers/grants (CURRENT)	1.161.891	1.100.113	1.153.644	1.205.983	1.605.523	8,78
Own revenues - land development fee excluded	6.434.826	10.700.200	7.911.847	7.671.844	7.703.079	-4,60
- Local taxes & levies	880.991	1.862.741	1.800.925	1.758.930	1.756.249	19,94
- Local taxes	2.475.094	2.747.146	2.920.652	3.043.107	2.949.788	4,46
- Local asset proceeds	3.099.141	6.190.313	3.090.271	2.871.747	2.966.042	-0,85
Other revenues	2.348.037	299.372	677.588	0	1.479.318	-10,91
- Surplus Y-1	2.348.037	299.372	677.588	0	1.479.318	-10,91
TOTAL NON-RECURRENT REVENUES (CAPITAL)	3.388.148	6.126.089	3.065.886	1.214.719	1.428.888	-19,16
Some transfers and grants	2.553.884	1.063.491	2.291.348	266.648	507.491	-33,25
-Unconditional development transfers/grants	2.553.884	1.063.491	2.291.348	266.648	507.491	-33,25
Own revenues	788.240	1.050.098	772.771	946.314	920.238	3,96
- Property sales	142.124	302.488	167.866	353.834	81.067	-13,10
-Rent and land development fee	646.116	727.629	604.905	592.480	839.161	6,76
External revenues	24	2.012.103	1.667	1.757	1.139	182,47
- Loans proceeds	24	2.012.103	1.667	1.757	1.139	182,47
TOTAL REVENUES SURPLUS INCLUDED	23.388.707	26.568.012	22.171.266	22.389.082	25.443.645	1,36



The most important revenue is from revenues shared with the entity (VAT and personal income tax) 70,1%, revenues by city decisions (property tax, concession fee, taxes, etc.) 21,7%

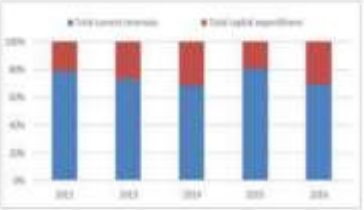
The revenues from indirect taxes make the most significant share in local community revenues and amount to about 63%. The potential risk of this type of revenue is the fact that from these revenues the external debt is first settled, then the expenditures of joint state bodies, the costs of the entity and then the needs of local communities. Any increase in external debt repayment significantly jeopardizes the functioning of local communities that have identified the distribution among local communities according to commonly established criteria.

The wage tax is about 8% and depends on economic development and the rate of increase in employment, while concession fees, annuities and construction land and other fees depend on the level of construction activity.

Property tax represents potential in this local community because a large number of citizens reside abroad and did not even register in the register of assets, which is the prerequisite for tax collection and collection.

Unconditional transfers have a significant trend of growth, but they represent the provision of 50% in the participation of the total social security costs of citizens and thus increase the participation of this type of expenditures from the local level.

Items	2012 actual	2013 actual	2014 actual	2015 actual	2016 actual
Total current revenues	**23.545.295**	**23.113.712**	**24.607.225**	**24.352.709**	**27.255.968**
Staff wages	8.574.116	8.513.934	8.546.782	8.661.544	9.044.425
Operative costs	12.922.246	13.038.441	14.038.662	13.849.159	15.826.870
Meintenance costs	2.048.933	1.561.337	2.021.781	1.842.006	2.384.673
Total capital expenditures	**6.471.008**	**8.470.518**	**11.277.036**	**5.908.441**	**12.049.725**
Total expenditures	**30.016.303**	**31.584.230**	**35.884.261**	**30.261.150**	**39.305.693**



The share of wages and salaries in total costs before interest payment is around 26%, current maintenance costs are 7% and increase with increasing capital investments, interest rates on loans increase with the level of indebtedness and other operating expenses are also affected by the increase in retail prices.

RATIO ANALYSIS

CRITERIA INDICATOR	COMPARATIVE INDEX (BENCHMARK) - EU	2012	2013	2014	2015	2016
1. Credit worthiness						
Operating Savings before interests / Current actual revenue	>0,3	0,38	0,27	0,35	0,34	0,23
Net Operating Surplus (after debt service including capital expenditure) / Current actual revenue	>0,2	0,18	0,19	0,1	0,16	0,14
Cash (end of the year) / current liabilities (divided by 365 days)	90 days	53	79	41	68	35
2. Indebtedness						
Debt outstanding / operating surplus (capacity to clear its debt)	<10 years	8	7	13	9	9
Debt service / Total current revenue	<18%	9,64%	9,05%	8,24%	8,48%	9,07%
3. Fiscal autonomy						
Own tax receipts + unconditional grants / Current actual revenue	>60%	21,28%	25,44%	27,18%	24,61%	22,63%
4. Capital investment effort						
Capital investment expenditure / Current actual revenue	>40%	22%	38%	40%	15%	37%
Capital investment expenditure delegated by State / Total investment expenditure	<50%	39,10%	12,96%	20,13%	4,61%	4,21%
5. Level of service						
Maintenance works expenditure / Operating expenditures	<30%	8,70%	6,70%	8,23%	7,58%	8,79%
6. Other						
Salaries & wages / Operating actual expense	<40%	36,42%	36,83%	34,73%	35,57%	33,18%
Actual revenue / Estimated revenue	>95%	98,60%	95,55%	89,63%	95,14%	87,03%

Capital expenditures in 2016 amount to KM 12.049.725. If we compare 2012 and 2016, the average increase in capital expenditures is 16,8% and varies by age in accordance with the Development Strategy and Capital Investment Plan of the City of Prijedor.

The net margin has an average downward trend of -1.03%, which is the result of a faster growth of current expenditures than current revenues, as well as the advances and increases in repayments for loans invested in capital investments from an earlier period. Current expenditures also include interest expense for previously borrowed loans.

Own capital revenues have an average downward trend of -11.7% due to a decrease in private construction activity and thus drop of cevelopment fee revenues caused by a major economic crisis and falling demand on the market for residential and business premises.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Financial projections are based on historical data on revenues and expenditures and are projected on the basis of the Framework Budget Document issued by the Government of Republika Srpska for the current and next two years. It is necessary to constantly balance the vision of urban development with the city financial system.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Financial Sustainable Capital Investment Plan with the aim of implementing the objectives of the City Development Strategy for the period 2014-2024. Introduction of project budgeting instead of nominal; Improve monitoring of main revenues and expenditures during the year; Increase transparency and increase citizens' participation in planning and reporting on the budget process; Increase citizen satisfaction with local community services with other departments through the establishment of funding allocation criteria and the ongoing evaluation of the budget process; Consistent application of the Law on Public Procurement and other laws that indirectly influence the increase of revenues and reduction of expenditures; Improving the level of property management; By increasing the control over the operations of public companies etc.

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MUNICIPALITY OF PRNJAVOR

CITY PROFILE

Territorial organization: Prnjavor municipality is located in the northern part of Bosnia and Herzegovina, in Republika Srpska, near the Ljubić Mountain and Ukrina River and 50 kilometers from the capital city of Banja Luka. The municipality comprises 34 local communes (mjesna zajednica). The total area of the municipality is 630 square kilometers.

Population: Total, according to the 2013 census: 34,357; density: 57 inhabitants per hectare

Economy: Gross domestic product per capita: €4,145 (2016 estimate); business entities: 731; individual entrepreneurs: 1,554; number of unemployed: 5,725, 2,419 of whom are in the active labor force, and 3,306 of whom applied to exercise other rights; unemployment rate (2016): 19.3 percent. Prnjavor's favorable geographic position connects with neighboring municipalities by main roads, is close to the European Union border and the exit to the Belgrade-Zagreb highway (60 kilometers), and the new highway Doboj-Banja Luka will pass through the municipality. The business environment is dominated by the light metal industry, the woodworking industry, footwear production, trade, and catering.

Utilities management: The municipality is the founder and majority owner of two utility companies: PARK a.d. for waste management and sanitation and VODOVOD a.d. for water supply and sewerage, which are not included in the municipal budget but are co-financed through dedicated projects, funds, and grants.

Municipal staff: Total: 205; city administration: 161; preschool administration: 21; social care 13; other external budget users: 10.

Current Project Investment Plan: The municipality of Prnjavor has a development strategy for 2012–20. An evaluation was conducted in 2016 and the strategy revised in 2017. The capital investment program is annually renewed during the budget adoption process, which coincides somewhat with the development strategy. Currently, there are three stages of capital investment projects in different phases: POVEUĆ, a water supply project (2002–20); new music school construction (2015–17); and "Our Joy" kindergarten expansion (2015–17).

Urban issues & challenges: The most important issues include the completion of the project to supply water throughout the municipality, the opening of the business zone—Vijaka, road improvement through the construction of circular flows, wastewater treatment and expansion of the sewerage network, electricity network improvements throughout the municipality, and increasing the employment rate.

FINANCIAL SITUATION

	2014 (in €, millions)	2015 (in €, millions)	2016 (in €, millions)	2017 Projection (in €, millions)	Growth 2014–17 (percent)
Total current revenue	6.588	6.467	6.685	6.707	0.59
Balance N-1 (if surplus)					
Current revenue year N	6.588	6.467	6.685	6.707	0.59
Operating expenditures	3.944	3.951	4.116	3.945	0.01
Operating margin	2.644	2.516	2.570	2.761	1.43
Debt repayment	0.917	1.026	0.750	0.832	-3.20
Net margin	1.727	1.610	1.820	1.929	3.79
Capital expenditures	2.058	2.346	2.332	2.272	-5.00
Financing	0.931	0.438	0.511	0.343	-28.32
	0.463	0.911	0.211	0.343	-9.54
	0.005	0.046			-100.00
	0.463	(0.119)	0.001		-100.00
Investment balance					
Overall closing balance	**0.917**	**1.026**	**0.750**	**0.832**	**-3.20**

Exchange: BAM 1 = €0.51129 /€1 EUR = BAM 1.95583 (fixed exchange rate—currency board)

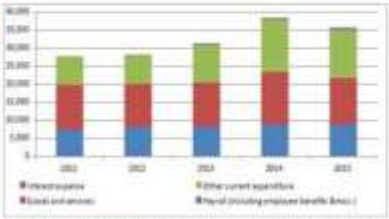
Inflation index (percent)

2014: -1..2%; 2015: -1.4%; 2016: -0.4%; 2017: +1.3% (projected)

The municipality's actual 2017 budget was €6.7 million, all from current revenues. The average annual growth rate for current revenues during the observed period was 0.59 percent. Debt service increased slightly. Capital investment spending remained at virtually the same level as current revenue, and investments were funded with the municipality's own-source revenues. Social benefits, salaries, and repayment of loans limited the potential for investment.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

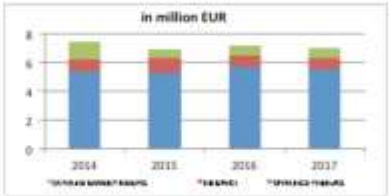
	2014 (€, millions)	2015 (€, millions)	2016 (€, millions)	2017 Projection (€, millions)	Growth of revenues
Current revenue	6.589	6.487	6.589	6.707	**100**
State transfers	5.404	5.39	5.582	5.614	84.45
Own-source revenues	1.284	1.098	1.024	1.093	15.31
Local taxes	0.378	0.381	0.413	0.411	6.17
Local fees	0.43	0.389	0.402	0.388	6.05
Fines	0.004	0.005	0.005	0.006	0.07
Local nontax revenues	0.472	0.325	0.207	0.308	5.1
Noncurrent revenue	1.14	0.557	0.164	0.161	**100**
State transfers	0.025	0.063	0.049	0	11.82
Own-source revenues	0.444	0.485	0.163	0.444	44.36
External revenues	0.672	0.009	0.158	0	43.41
Total revenues	7.729	7.044	7.053	7.040	**100**
State transfers	5.529	5.452	5.705	5.614	80.69
Own-source revenues	1.728	1.583	1.189	1.436	16.87
External revenues	0.672	0.009	0.158	0	2.24



Current revenues: The most significant sources of current revenues were shared taxes (VAT taxes represented 76 percent of current state transfers), local taxes and fees, and local nontax revenues.

The highest share of current revenue came from the VAT, with an average share of 62.4 percent; followed by personal income tax, with an average share of 8.4 percent. Local property taxes represented an average share of about 4 percent; and noncurrent state transfers were negligible during the observed period. The ratio of total municipality and state incomes of 81 percent: 17 percent shows little influence on total budget revenues by local politics.

Items (million EUR)	2014 (€, millions)	2015 (€, millions)	2016 (€, millions)	2017 (€, millions)	Growth 2014–17 (percent)
Operating expenditures	**5.377 5**	**.287 5**	**.734**	**5.539**	0.98
Payroll (including employee benefits)	2.165	2.171	2.126	2.089 -	1.50
Goods and services	1.401	1.324	1.611	1.272 -	3.16
Current subsidies, grants, and transfers	1.811	1.792	1.997	1.946 2	.42
Other current expenditures	0.000	0.000	0.000	0.252 -	
Debt service	**0.917**	**1.026**	**0.750**	**0.832**	-3.20
Capital investment expenditures	**1.225**	**0.611**	**0.716**	**0.679**	-17.87



RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2014	2015	2016	Plan 2017
Credit worthiness					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Indebtedness					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fiscal autonomy					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capital investment effort					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Level of service sustainability					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Other ratios					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Number of municipal employees per 1,000 citizens	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Actual revenue/Plan of revenue	[illegible]	[illegible]	[illegible]	[illegible]	

Creditworthiness was above the benchmark limit, but there was little space for new borrowing. The indebtedness parameters were above the reference values but within the limits allowed by Republika Srpska's law on borrowing. There was a high level of fiscal autonomy during the observed period. The level of capital investment is below the comparative index because the potential for investments was limited by the allocation of social benefits, the repayment of debts, and cost of salaries. Service sustainability was high above the benchmark, reflecting a stable and well-planned budget. Salary and wage allocations were above the benchmark but tended to decline; they will continue to be harmonized under the new local government law.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Financial projections are based on historical analysis as well as projections and guidelines from the ministry of finance's budget framework document.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Increase cooperation with the tax administration of the Republik of Srpska to increase property tax collection and better control tax returns. Improve the collection of doubtful and contested claims. Attract investors by creating a favorable business environment (Business Friendly Certificate/BFC), and expanding the base of local revenue sources.

Build a business-industrial zone as a prerequisite for expanding domestic entrepreneurial activities and for attracting new investments. Improve coordination among municipal administration departments in terms of monitoring, controlling, and collecting local revenues and educating budget users on planning and monitoring the execution of the budget. Increase the municipality's share of distributed joint budget revenues with Srpska's budget (Income Tax - ratio 36:65). Lobby through the Association of Local authorities of Republika Srpska to change legal regulations to prevent borrowing at the level of Bosnia and Herzegovina] from affecting the reduction of the amount of revenue from the allocation of VAT distributed to municipalities. Rationalize the costs of the municipal administration by it with the new Law on Local Self-Government.

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CITY OF TUZLA

CITY PROFILE

Territorial organization: Tuzla is located in north-east Bosnia and Herzegovina, on the slopes of the Majevica mountain. The elevation of the city is 239 meters above sea level. Its favorable geographic position enables Tuzla to have good connections with other regions in Bosnia and Herzegovina, as well as with neighboring countries, Croatia, Serbia and Monte Negro, but almost equally with the regions of South-East, Central and Western Europe. The total area of Tuzla is 294 km² and includes 40 local communities.

Demography: Population reaches 110,979 (list 2013) and 110,642 according to data for 2016. Tuzla is the third largest city in BiH with a population density of 376.3 inhabitants / km².

Economy: Tax revenues realized in the city of Tuzla amount to KM 19.8 million. The highest tax revenues per capita in the city of Tuzla amount to KM 179. Gross domestic product (GDP) of the city of Tuzla in the amount of about KM 1.2 billion represents 6.6% of the GDP of the entire Federation of BiH. GDP per capita of the city of Tuzla is estimated at KM 8.911 and it is about 43% higher than the average GDP of the Federation of BiH, estimated at KM 6.231. The development level of the city of Tuzla, i.e. the development index is 129.7, i.e. 29.9 points higher than the average development index of the Canton. The employment rate is 61.5%, i.e. higher than the average employment rate of the Canton, estimated at 46.2%. The registered number of legal entities in the city of Tuzla is 3,654, The registered number of craftsmen is 3.518.

Public Utility Services: The city of Tuzla provides services through its public utility companies: central heating delivery, collection, treatment and distribution of water, collection and drainage of waste water, collection and transport of waste, maintenance of green areas and hygiene in public areas, maintenance of public areas in winter, solid waste management at sanitary landfill, public parking management, horizontal, vertical and semaphore signaling maintenance, free wireless internet system management, video surveillance and funeral service management

The number of Public Administration employees: 431

Current Investment Plan: The key strategic planning document is the Development Strategy of the City of Tuzla 2026, followed by Draft Strategy for Youth of the City of Tuzla 2017-2026, Spatial Plan of the City of Tuzla 2010-2030. The Capital Investment Plan for 2017, among others, includes the following investments: construction and reconstruction of water supply system, reconstruction and rehabilitation of the existing road network, central heating supply to residential buildings.

Urban issues & challenges: Urban issues: Continuity in the development of culture, creative innovation, healthy and pleasant living, ensuring economic and social attractiveness, development opportunities and good quality of life for citizens and investors. Challenges of the city of Tuzla: improving the quality of life, continuing and intensifying activities to create more favorable conditions for new investments, economic growth that will lead to job creation.

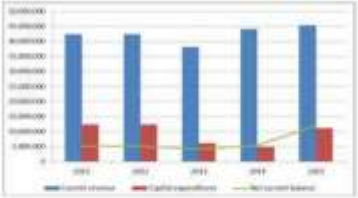
FINANCIAL SITUATION

Items in BiM	2011	2012	2013	2014	2015	Growth index 2011-15	2013-2000 EUR
Current revenue	38.281.286	42.463.845	38.239.122	44.140.908	45.400.822	6%	23.237
Operating expenditure	32.366.375	37.080.531	33.587.175	36.744.518	32.611.413	0%	16.674
Gross Operating balance	5.915.011	5.383.314	4.841.948	7.396.382	12.789.209	34%	6.539
Debt service and borrowing costs	575.611	262.970	722.025	2.018.588	792.457	21%	405
NET CURRENT BALANCE	5.338.499	5.120.344	4.119.924	5.377.794	11.996.752	36%	6.134
							0
Capital Revenues	928.832	1.777.199	1.412.250	547.303	2.000.033	34%	1.023
Own capital revenues	0	0	0	0	0		0
Investment grants and donations	928.832	1.777.199	1.412.250	547.303	2.000.033	34%	1.023
Capital investment expenditures	5.167.768	12.391.229	6.150.814	4.954.577	11.125.048	17%	5.688
BALANCE AFTER INVESTMENTS	1.489.536	5.483.489	818.860	-970.020	-3.661.737		-1.873

Exchange rate (2011-2015): 1 EURO = 1,95583 BAM

Inflation index BiH (Central bank of BiH).

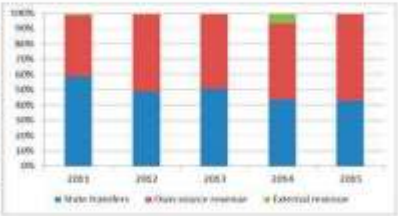
2012: 2.1%,
2013: -0.1%,
2014: -0.9%,
2015: -1.0%,
2016: -1.1%.



The city has a stable operating surplus, which has grown 34% per year over the 5 years. Current revenue show average growth 6%, while operating expenditure remained on the same level and grew only by 0.2% per year. Capital investment vary from year to year, but average growth was17% annually. The city does not have cash provisions from previous years to finance capital investments, so it depends on current revenues, donations, and borrowings. The city budget is under good control and shows stable positive operating balances, however, the overall closing balance turned to be negative in 2014 and 2015. But the overall balance were still positive when loan proceeds are accounted.

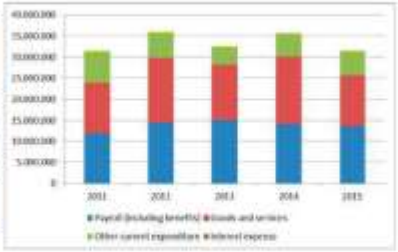
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Items 000 BAM	2011	2012	2013	2014	2015	Growth index	2015 (000 EUR)
State transfers	21.886.951	21.564.016	19.972.628	19.347.207	20.746.687	-1%	8.767
Own-source revenue	14.929.079	22.389.657	19.578.625	22.428.213	27.481.746	16%	11.485
External revenue	394.188	287.368	100.119	2.912.791	162.222	-20%	2.084
Total revenue	37.210.218	44.241.041	39.651.372	44.688.211	48.390.655	7%	22.335



Average growth of total revenue 2012-15 was 7% per year. Average growth of transfers from other government levels declined by 1% per year, this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue has increased by 16% annual mostly pursuant to the Law on allocation of the revenues collected by public companies and other legal entities which generate revenues from the operation of Thermal Power plant in Tuzla- External revenues were very volatile and decreased eventually by 20% on average annually. . .
Structure of the revenue: State transfers were 59% of total revenues in 2011, but only 43% in 2015; in turn own-source revenues increased from 40% in 2012 to 57% in 2015.

Items in BAM	2011	2012	2013	2014	2015	Growth index	2015 (000 EUR)
Payroll (including benefits)	11.777.706	14.516.522	15.008.158	14.075.865	13.672.980	4%	6.991
Goods and services	12.202.458	15.351.480	13.181.808	16.140.963	11.885.209	-0,4%	6.128
Other current expenditure	7.407.828	5.962.910	4.132.229	5.213.515	6.676.836	-9%	2.982
Interest expense	26.811	104.926	243.735	248.856	179.197	71%	92
Total operating expenditure	31.367.983	35.880.892	32.322.175	35.438.343	31.333.727	0,0%	16.021



Average annual growth of operating expenditure was virtually zero. In the structure of total operating expenditure however, the share of payroll expenditure increased from 36% in 2011 to 43% in 2015. Expenditure for goods and services were on the highest level of total budget expenditure were 46% in 2014. Interest expense annual growth was 71%, which is alarming, albeit it started from very low level.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2013	2014	2015
1. Credit worthiness						
Operating savings before interest / current income	> 0.3	0.11	0.13	0.12	0.17	0.28
Net margin/Current acctual revenue	> 0.2	0.12	0.11	0.12	0.26	0.19
2. Indebtedness						
Debt services/total current revenue	< 10 %	1.04%	0.62%	1.37%	4.57%	1.75%
3. Fiscal authonomy						
own taxes and unconditionala grants/current actual revenues	> 80 %	26%	27%	27%	26%	26%
4. Capital investment effort						
Capital investment expenditure/Current acctual revenue	> 40 %	29%	16%	11%	25%	28%
Expenditures for capital investments delegated by the state /total investment expenditures	> 50 %	14%	23%	11%	27%	14%
5. Others						
Salaries/Operating actual expense	> 40 %	39%	45%	38%	42%	41%
Total number of local officials / population		5	5	5	5	5
6. Level of services						
Maintenance expenses / operating expenses	> 15%	0.16125376	0.19	0.15	0.22	0.10

Ratio Analysis: The ratio analysis reflects a generally good performance of the municipality with good control of expenditures, however improvements are constrained by the low fiscal autonomy and thus the low level of local revenues.

Credit worthiness ratio is below the benchmark until 2015. The debt service is very low, easy to serve from operating savings. Fiscal autonomy is low due to the current legislation and the administrative structure of FBiH. There is practically no tax policy which municipalities exercise full discretion.

Capital investments were decreasing from to 2011 to 2013, the high investments in 2015 and seems the investments are increasing again. **Maintenance** ratios were stable and steadily above the benchmark that show good policies of the local government. **Salary expenditures** comparing to operating expenditure were above the benchmark in 2012, in 2013 were below, but in 2014 and 2015 above the benchmark. **Number of employees** were way below the benchmark which indicates the rationality of the city administration.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Obligation and commitment of Tuzla City Administration to align the development planning process with the financial plan, i.e. the plan for the implementation of strategic and other development documents must be aligned and in accordance with the Budget of Tuzla City Administration.

FINANCE IMPROVEMENT PLAN

Amendments to Legislative Regulations aimed at developing and creating a better business environment, related to the amendment of Real Rights Law, the Request for Transfer of the Right of Use of Abandoned Mines in order to become operational and turned into new business areas, Amendment of the Law on Public Revenue Initiative

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CITY OF ZENICA

CITY PROFILE

Territorial organization: The city of Zenica is located in the central part of Bosnia and Herzegovina and is one of the 12 local government units in the Zenica-Doboj Canton. The total area of Zenica is 558.5 km and includes 73 local communities (mjesna zajednica).

Demography: The population is 110,663 (Census 2013) and 109,950 according to estimates for 2015. The annual population growth of -0.1% in 2013 increased to 0.6% in 2015. According to the number of inhabitants (Census 2013) Zenica is 4th largest city in BiH with density: 198.14 inhabitants / km².

Economy: Total revenue per capita in 2015, based on estimate population, 203 EUR. Tax revenue per capita 91 EUR. Population activity rate is 69; unemployment rate (% of working population) is 48.2; employment rate 51,1; and development index (in the Federation of Bosnia and Herzegovina) is 105.3..

Utilities management: The city provides services through its majority owned enterprises and public utility companies: for heating distribution, water supply and waste water treatment, waste disposal (city co-founder and co-owner), funeral services, and for city parking services.

Municipal staff: 282 employees in city administration, 738 employees in public companies.

Current Project Investment Plan: Key strategic planning document is Integrated Development Strategy of Zenica 2012-2022. Public debate on new Spatial Plan of Zenica 2016 to 2036 is over and the Plan is in the process of adoption. Capital investment plan 2017-19 among others, list following investments: construction and reconstruction of water supply EUR 23.6 millions; expansion of the Business zone EUR 920,340; strengthening tourism 296,554 EUR, sewerage 10,8 million EUR, reconstruction and rehabilitation of the existing road network 1, 6 mil. EUR

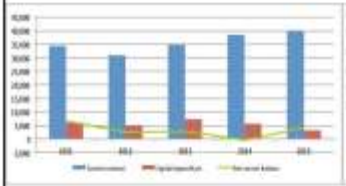
Urban issues & challenges: Urban issues in Zenica are lack of investment, production and business facilities; illegal constructions; wild landfills and landslides. Challenges for the city are: improving citizens quality of life, creating conditions for attracting investment and employment, while respecting environmental standards.

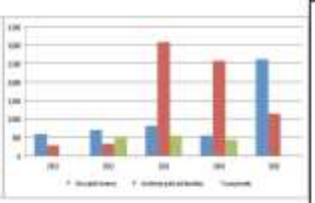
FINANCIAL SITUATION

Items in 000 BAM	2011	2012	2013	2014	2015	Growth index (2011-15)	2015 (000 EUR)
Current revenue	34,209	31,377	34,703	35,427	39,030	4%	20,478
Operating expenditure	27,830	27,823	30,908	37,508	34,687	8%	17,837
Gross operating balance	6,658	3,554	3,862	301	5,043	-7%	2,579
Debt service and borrowing costs	138	636	803	803	850	58%	354
NET CURRENT BALANCE	**6,518**	**2,918**	**3,018**	**-422**	**4,191**	**-10%**	**2,225**
Capital revenues	**873**	**1,828**	**5,802**	**3,117**	**3,753**	**44%**	**1,919**
Own capital revenues	594	705	810	952	2,617	-45%	1,338
Investment grants and donations	279	331	3,072	2,565	1,136	42%	581
Capital investment expenditure	8,113	4,975	7,445	5,533	3,283	-15%	1,680
BALANCE AFTER INVESTMENT	**1,278**	**-1,231**	**-553**	**-2,838**	**4,661**		**2,475**
Cash reserved from previous years	0	0	0	0	0		
Loan proceeds	0	597	553	443	0		0
OVERALL CLOSING BALANCE	**1,278**	**-634**	**0**	**-2,438**	**4,661**		**2,475**

Exchange rate (2011-2015): 1 EURO = 1,95583 BAM

Inflation index BiH (Central bank of BiH).
2012: 2.1%,
2013: -0.1%,
2014: -0.9%,
2015: -1.0%,
2016: -1.1%.





The city does not have cash provisions from previous years to finance capital investments, so it depends on current revenues and borrowings.

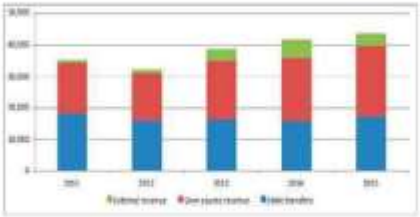
Current revenue show average growth 4%, while operating expenditure are growing faster and resulted in -7% annual growth. Operating expenditure show significant increase from 81% of current revenue in 2011 to 99% in 2014, and provided extremely low net current balance (-1% in 2014).

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

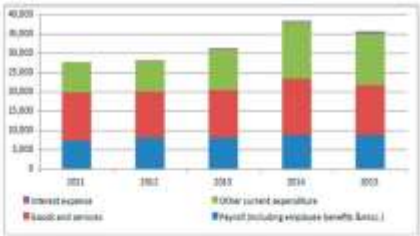
Items in 000 BAM	2011	2012	2013	2014	2015	Growth index	2015 (000 EUR)
State transfers	17,979	16,571	16,191	15,814	17,146	-1%	8,767
Own-source revenue	16,310	15,006	19,573	19,925	22,462	8%	11,485
External revenue	873	1,826	3,882	5,805	4,075	47%	2,084
Total current revenue	**35,162**	**32,403**	**38,645**	**41,544**	**43,683**	**6%**	**22,336**

Average growth of total revenue 2011-15 only 6%. Average growth of transfers from other government levels is -1%, this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue has increased since 2013 because of revenue from land development fees but is vulnerable because of the volatile nature of those fees. External revenue increased in 2013 and 2014 due to larger amounts of intergovernmental capital transfers and donations received.

Structure of the revenue: State transfers were 51% of total revenues in 2011, but lowest 38% in 2013; own-source revenue increased from 46% in 2011 to 51% in 2015



Items 000 BAM	2011	2012	2013	2014	2015	Growth index 2011-15	2015 (000 EUR)
Payroll (including employee benefits &misc.)	7,224	8,067	8,152	8,702	8,795	5%	4,497
Goods and services	12,487	11,929	12,250	14,688	12,636	1%	6,563
Other current expenditure	7,922	7,927	10,488	14,526	13,256	14%	6,778
Interest expense	138	129	302	490	692	50%	354
TOTAL OPERATING EXPENDITURE	27,771	28,052	31,192	38,416	35,578	6%	18,191



Average annual growth of total budget expenditure is 6%. In the structure of total operating expenditure, the share of payroll expenditure decreased from 26% in 2011 to 25% in 2015. (vary from 20 to 22%), for goods and services (vary from 30 to 33%) of total budget expenditure. Interest expense annual growth of 50% is result of 5 years grace period for 25 mil $ loan, which principal repayment started in 2016.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2013	2014	2015
1. Credit worthiness						
Operating savings before interest/current revenue	> 0,3	0,19	0,10	0,11	0,01	0,13
Net margin/Current actual revenue	> 0,2	0,24	0,09	0,10	-0,01	0,12
2. Indebtedness						
Debt services/total current revenue	< 10 %	0,4%	2,0%	2,2%	2,2%	1,8%
3. Fiscal authonomy						
Own taxes + fees + unconditionla grants/Total current revenues	> 80 %	46%	47%	48%	48%	51%
4. Capital investment effort						
Capital investment expenditure/Current actual revenue	> 40 %	18%	16%	21%	14%	8%
Expenditures for capital investments delegated by the state / total investment expenditures	> 50 %	3%	1%	23%	13%	24%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	8%	7%	6%	11%	7%
6. Others						
Salaries/Operating actual expense	> 40 %	24%	26%	24%	21%	23%
Actual revenue / Planned revenue	> 85%	95%	78%	82%	88%	97%

Credit worthiness ratio is bellow the benchmark. The annual debt repayment is not adequate with regard to operating income.
Fiscal autonomy is low due to the current legislation and the administrative structure of FBIH. There is practically no tax policy which municipalities exercise full discretion.

Capital investments tend to fall by the end of 2015. Ongoing capital projects are funded by with loans still in the grace period. However, the plan of capital investments from 2017 to 2019 is very ambitious, and expect significant investments.

Salaries comparing to operating expenses are below the benchmark, and total number of employees per 1000 inhabitants is low, which indicates the rationality of the city administration.

City improved budget estimations since 2012 and achieved reliable budget in 2015.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

It is necessary to harmonize the Development strategy with the financial system (the financial capacity of the City), which implies previous financial analysis; at the local level, the level of cantons, federation and state government. Existing legislation of foreign debt repayment in BiH is not in favor of local governments, thus change of related laws and laws of public revenues allocation between level of governments and local self-government units will improve financial capacity of local governments in FBIH.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve financial situation of the municipality: Improve cooperation with FBIH Tax administration in the collection of tax and non-tax revenues of the City. Insist on compliance with the bylaws that regulate the procedures and deadlines for collecting city revenues by the tax administration. Increase monitoring in collection of non-tax revenues by a sectoral principle (city services). Improve internal control, introduce internal audit, increase monitoring of expenditure, accelerate the introduction of program budgeting.

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MUNICIPALITY OF ŽEPČE

MUNICIPAL PROFILE

Territorial organization: Žepče is located in the central part of Bosnia and Herzegovina as one of the 12 local self-government in the Zenica-Doboj Canton. The total area of the Žepče municipality is 282.3 km and covers 43 local communities (mjesne zajednice). Žepče was hit by floods on two occasions in 2014. It was the biggest natural disaster this municipality has ever experienced.

Demography: The population is 30,219 (Census 2013) and 31,015 according to estimates for 2015. The average population density is 110 inhabitants per km2.

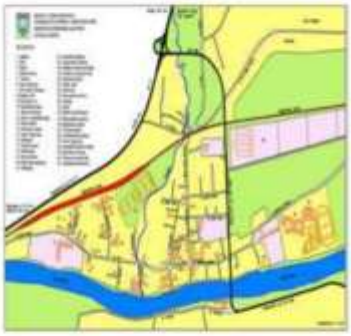
Economy: Total revenue per capita in 2015, based on estimate population, 96 EUR. Tax revenue per capita 74 EUR. Population activity rate is 70; unemployment rate (% of working population) is 48,8; employment rate 55,0; development index (in the Federation of Bosnia and Herzegovina) is 155,1 which brings Žepče to fourth place on the list of developed local governments in FBiH

Utility management: The city provides services through its majority owned companies and public utility companies: for the distribution of heating, water supply and wastewater treatment, waste disposal and parking services for the city.

Municipal staff: 59 employees in the municipal administration, 14 employees in the fire department and 12 employees in the Social Protection Center

Current investment plan of the project: The program of capital investments for 2017 plans 49 development and 37 infrastructure projects. In 2016, 46 projects have been planned, 24 projects have been fully implemented and the remainder will continue to work in 2017. In 2016 was allocated for: the road infrastructure 84023 thousands EUR, water supply and sewerage 245 thousands EUR, electricity 23 thousands EUR , economy and agriculture 102 thousands EUR, education, sport and culture 164 thousands EUR and for projects from other areas cca 205 thousands EUR.

Urban issues & challenges: Urban issues in the municipality of Zepce are a lack of investment, production and business facilities; wild landfills and landslides. The challenges for the city are: improving the quality of life of citizens, creating conditions for attracting investment and employment, while respecting environmental standards.

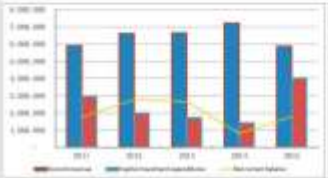


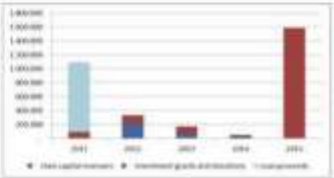
FINANCIAL SITUATION

Items in BAM	2011	2012	2013	2014	2015	Growth Index 2011-15	2015 in 000 EUR
Current revenue	5.805.485	6.617.679	6.846.974	7.215.158	5.878.453	-0,1%	3.006
Operating expenditure	4.043.842	3.817.539	3.947.942	6.378.270	4.064.680	0,1%	2.078
Gross Operating balance	1.861.603	2.800.346	2.899.032	834.888	1.813.973	-0,8%	927
Debt service and borrowing costs	103.018	37.456	31.195	25.302	25.302	-29,6%	13
NET CURRENT BALANCE	1.758.585	2.762.890	2.667.837	809.586	1.788.671	0,4%	915
Capital Revenues	89.535	330.799	168.809	45.450	1.584.799	105,1%	810
Own capital revenues	-	208.973	64.610	26.500	2.020		1
Investment grants and donations	89.535	121.826	104.199	18.950	1.582.179	105,0%	809
Capital investment expenditures	2.984.395	3.006.051	1.733.248	1.436.314	4.031.803	7,8%	2.061
BALANCE AFTER INVESTMENTS	1.139.275	1.675.252	1.564.437	581.878	658.333	-12,8%	337

Exchange rate (2011-2015): 1 EURO = 1,95583 BAM.

Inflation index BiH (Central bank of BiH):
2012: 2.1%,
2013: -0.1%,
2014: -0.9%,
2015: -1.0%,
2016: -1.1%.





The city does not have cash provisions from previous years to finance capital investments, so it depends on current revenues and borrowings.

Current revenue show average growth -0.1%%, while operating expenditure show avarage 0.1% annual growth. Operating expenditure show significant increase from 68% of current revenue in 2011 to 88% in 2014 (flood recovery transfers/grants), but amounted back to usual level (69%) in 2015.

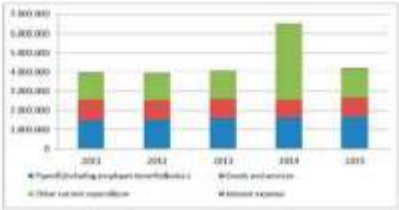
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Average growth of total revenue 2011-15 is -0.1%%. Average growth of transfers from other government levels is -2.4%, this trend is mostly result of decrease of general transfers from indirect taxation revenue because of large debt repayments for budget support loans to the Federation Government level. Own-source local revenue has increased since 2013 because of revenue from land development fees but is vulnerable because of the volatile nature of those fees. External revenue increased in 2014 and 2015 due to larger amounts of intergovernmental capital transfers and donations received for flood recovery.

Items in BAM	2011	2012	2013	2014	2015	Growth index 2011-15	2015 in 1000 BAM
State transfers & grants	4.384.978	4.384.978	4.267.619	4.010.114	3.980.148	-2,4%	2.035
Own-source revenues	1.456.384	2.232.901	2.379.355	3.203.044	1.898.305	6,8%	971
External revenues	64.083	123.826	104.199	481.404	2.034.585	137,4%	1.040
Total Current revenue	5.905.445	6.617.879	6.646.974	7.213.158	5.878.453	-0,1%	3.006

Structure of the revenue: State transfers were 74% of total revenues in 2015, but 68% in 2015; own-source revenue increased from 25% in 2011 to 34% in 2015. External revenue increased from 1% in 2011 to 35% in 2015 (due to the flood recovery grants and donations received)

Items in BAM	2011	2012	2013	2014	2015	Growth index	2015 (000 EUR)
Payroll (including employee benefits&misc.)	1.475.840	1.520.022	1.596.774	1.607.512	1.654.282	3%	522
Goods and services	1.069.929	978.992	1.027.543	909.473	1.021.544	-1%	782
Other current expenditure	1.380.588	1.388.190	1.432.016	3.931.881	1.491.007	2%	13
Interest expense	38.912	37.456	31.196	25.302	25.302	-10%	2.143
Total operating expenditure	3.955.269	3.934.660	4.087.529	6.504.148	4.192.135	1%	3.441



Average annual growth of total operating expenditure is 3%, . In the structure of total operating expenditure, the share of payroll expenditure increased from 37% in 2011 to 39% in 2015 , but still bellow the benchmark (40%) . Other current expenditure growth is result of goods and services (vary from 30 to 33%) of total budget expenditure. Interest expense annual growth of -10% since municipality has one loan which will be repaid 2018.

RATIO ANALYSIS

Indicators	Benchmark	2011	2012	2013	2014	2015
1. Credit worthiness						
Gross Operating savings/ Current revenue	> 0,3	0,32	0,42	0,43	0,12	0,31
Net margin/Current actual revenue	> 0,2	0,30	0,42	0,40	0,11	0,30
2. Indebtedness						
Debt service / Total current revenue	< 30 %	1,7%	0,6%	0,5%	0,4%	0,4%
Debt outstanding /Budget total	< 60%	0,0%	13,9%	11,6%	8,2%	6,0%
Borrowing /Current revenues	< 15%	16,7%	0,0%	0,0%	0,0%	0,0%
3. Fiscal autheonomy						
own taxes and unconditional grants/current actual revenues	> 80 %	24,7%	33,7%	35,8%	44,4%	32,3%
4. Capital investment effort						
Capital investment expenditure/Current actual revenue	> 40 %	49,8%	29,8%	25,7%	38,7%	51,0%
5. Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	8,3%	7,1%	6,4%	3,9%	6,6%
6. Others						
Salaries/Operating actual expense	> 40 %	37,6%	37,8%	34,2%	38,1%	37,3%
Number of municipal employees/1000 citizens	< 25	2,7	2,7	2,7	2,7	2,7

Credit worthiness ratio is bellow the benchmark only in 2014, due to the significiant incresease of awarded current grants to individuals for flood recovery. Othervise, creditwortnes indicator shows that municipality has capacity of borrowing and investing. The annual debt repayment is adequate with regard to operating income.

Fiscal autonomy is low due to the current legislation and the administrative structure of FBIH.

Capital investments tend to fall by the end of 2014, but sharply recovered in 2015.

Salaries comparing to operating expenses are below the benchmark, and total number of employees per 1000 inhabitants is low, which indicates the rationality of the city administration.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

It is necessary to harmonize the Development strategy with the financial system (the financial capacity of the City), which implies previous financial analysis; at the local level, the level of cantons, federation and state government. Existing legislation of foreign debt repayment in BiH is not in favor of local governments, thus change of related laws and laws of public revenues allocation between level of governments and local self-government units will improve financial capacity of local governments in FBIH.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve financial situation of the municipality: Improve cooperation with FBIH Tax administration in the collection of tax and non-tax revenues of the City. Insist on compliance with the bylaws that regulate the procedures and deadlines for collecting city revenues by the tax administration. Increase monitoring in collection of non-tax revenues by a sectoral principle (city services). Improve internal control, internal audit, increase monitoring of expenditure, accelerate the introduction of program budgeting.

CITY OF JASTREBARSKO

CITY PROFILE

Territorial organization: The city of Jastrebarsko is 30 kilometers away from Zagreb, the county's administrative center. Part of the Zagreb metropolitan area, it encompasses the town of Jastrebarsko and 58 surrounding suburbs. The city has two districts—Upper and Lower Jask, and its suburban settlements include 30 established local communes.

Demography: Total resident population, according to 2011 census: 15,886; in-country ranking: 36; vital index: 62.3; density: 79 inhabitants per square kilometer.

Economy: Gross income per capita (2015): €7.613; activity rate (2015): 62.4; unemployment rate (percent active population): 6.0; national development index: 100–125 percent; exchange rate: €1 = HRK 7.583; inflation index: 3.4 (2012), 2.2 (2013), -0.2 (2014), -0.5 (2015), -1.1 (2016). Source: CSO and Ministry of Finance.

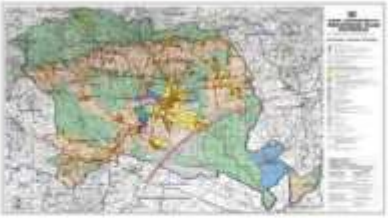
Utilities management: City utility (communal) companies: (1) Roads Jastrebarsko Ltd.: maintenance of roads, cleanliness of green and public spaces, winter services,] public lighting, and other items); (2) Waters of Jastrebarsko Ltd.: water supply and drainage; (3) Cemeteries Jastrebarsko Ltd.

Municipal staff: General administration: 26; representatives: 3; employees in budgetary user5 (2015): 98.

Decentralized functions: Primary and secondary education, welfare, and fire protection.

Existing project investment plan: Main capital projects and three-year capital investment plan: the development of economic zones—"Jalševac" (€2.2 million); road reconstruction (€320,000).

Urban issues and challenges: Increase the overall standard of living of the population; expand opportunities to create new jobs; improve the community's cultural, social, and sporting life.



FINANCIAL SITUATION

	Items	2012	2013	2014	2015	Average annual growth	average
		Outturn	Outturn	Outturn	Outturn		
1	Total current revenue	6.478.364	6.766.367	7.480.017	6.690.970	0.8%	7.353.934
2	Operating expenditure	4.687.803	5.484.767	4.706.425	4.884.796	1.0%	4.940.948
3	Gross operating balance	1.790.561	3.281.628	2.773.592	1.806.174	0.2%	2.412.987
4	Debt repayment and borrowing costs	127.678	155.080	166.800	183.221	9.4%	158.195
5	NET CURRENT BALANCE	1.662.883	3.126.548	2.606.792	1.622.952	-0.6%	2.254.792
6	Capital revenue	92.554	111.375	45.270	27.978	-25.9%	69.254
7	- Own capital investment revenue	92.554	111.375	45.270	27.978	-25.9%	69.254
8	- Investment grants	0	0	0	0		
9	Capital expenditure	2.123.417	2.445.734	2.736.042	1.301.958	-11.5%	2.151.788
10	BALANCE AFTER INVESTMENT	-367.979	792.181	-83.980	348.973		172.259
11	Cash reserves from previous year	0	0	0	0		
11	Loans proceeds	470.386	841.771	559.124	9.422	-62.4%	470.676
12	OVERAL CLOSING BALANCE	102.408	1.633.952	475.144	358.395	36.8%	642.475

Current revenues were higher than expenditures throughout the observed period. The city achieved an average budget surplus of 0.2 percent per year even after debt repayment expenditures were subtracted. The average net current balance (primary surplus) is about €2.2 million; it decreased by about 0.6 percent per year. Capital expenditures grew until 2014; they then decreased by 50 percent. Capital revenues are low and do not represent a significant source of financing for capital investment projects.

Even after the net interest on loan repayments was deducted from the balance after investment, the overall closing balance was positive or in surplus. Receipts from borrowing were low, and in 2015, almost disappear because the city repaid the loan installments from previous years. The financial position of the city is stable, which is confirmed by solid liquidity indicators.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	Items	2012 outturn	2013 outturn	2014 outturn	2015 outturn	2016 plan	Average annual growth	% Structure (2016)
	TOTAL CURRENT REVENUE	5.309.762	7.724.270	7.152.877	6.098.244	5.736.885	1.02	89.2%
1	State Transfers	3.465.416	3.882.888	3.631.353	3.288.184	3.333.146	0.96	48.9%
	- Shared taxes	3.443.125	3.836.162	3.496.740	3.251.493	3.289.758	0.96	48.2%
	- Conditional operating transfers	59.291	46.546	35.614	36.791	43.388	0.91	0.6%
2	Own revenue	1.803.948	3.730.340	3.999.664	2.235.742	2.383.739	1.25	33.2%
	- Local taxes & levies	175.896	183.811	182.897	188.182	197.821	1.03	2.8%
	- Local fees	1.263.708	3.170.324	3.361.913	1.569.246	1.774.715	1.37	23.3%
	- Local asset revenues	364.384	396.105	454.853	478.069	411.203	1.1	7.1%
3	Other revenue	682.299	101.040	1.621.860	476.418	0	5.51	7.1%
	- Surplus Y-1	682.299	101.040	1.621.860	476.418	0	5.51	7.1%
	- Revenues from PUCs	0	0	0	0	0		0.0%
	TOTAL NON-CURRENT REVENUE	1.067.544	1.845.258	891.539	726.029	1.038.205	1.08	10.8%
1	State Transfers and grants	474.813	962.939	314.935	668.615	665.199	1.5	9.9%
2	Own revenue	92.554	111.375	45.270	27.978	383.003	0.75	5.4%
3	External revenue	464.177	921.973	571.329	31.433	689.402	0.86	0.0%
	TOTAL REVENUE	7.041.306	9.769.532	8.044.411	6.729.271	7.335.196	1.02	100.0%
1	State transfers	3.888.229	4.845.828	3.945.288	3.956.799	3.938.345	1.02	58.8%
2	Own revenues	2.578.901	3.952.903	3.999.793	2.749.139	2.737.442	1.07	40.7%
3	External revenues	464.177	921.973	571.329	31.433	689.402	0.86	0.5%

Main revenue sources: State transfers: 58 percent; dominance of shared (income) taxes: 48 percent; own-source revenue: 41 percent; external revenue sources: 1 percent.

Own-source revenue (local fees) consists of communal fees and contributions; they represented a significant source of funding. Communal fees and contributions are revenues earmarked mainly for local infrastructure maintenance. Local taxes were low during the observed period; shared income tax was stable, representing the dominant source of financing for the city.

	Items	2012	2013	2014	2015	p. 2016	% structure (average)
A	Current expenditure	4.697.803	5.484.797	4.399.425	4.664.796	4.872.214	75,8%
1	Payroll (including employee benefits & misc.)	1.650.811	1.705.762	1.731.399	1.764.004	1.868.683	28,8%
	- Administrative staff	549.900	563.627	594.368	564.198	596.342	9,1%
	- Budget users	1.112.802	1.138.125	1.137.431	1.219.807	1.266.712	19,7%
2	Operational costs	2.131.289	2.650.819	1.997.325	2.226.122	1.928.839	36,9%
	Compensation of employees	34.958	35.652	22.415	29.742	18.659	0,3%
	Expenditures for materials	15.544	16.282	16.082	14.419	14.771	0,2%
	- Electric energy	339.117	314.934	312.981	312.693	325.252	5,4%
	- Communication (telephone, post, transport etc.)	40.359	42.790	52.074	52.807	44.707	0,9%
	- Fuel and gas	29.445	30.256	26.482	32.141	32.440	0,5%
	- Other materials	9.305	10.805	14.727	4.696	8.880	0,1%
	- Other services	940.225	983.693	986.948	1.466.054	1.201.529	23,5%
	- Other operational cost	1.282.995	1.734.862	1.097.216	414.039	375.981	6,7%
3	Maintenance costs	849.752	1.122.136	887.388	674.678	866.320	14,1%
	current and capital maintenance	849.752	1.122.136	887.388	674.678	866.320	14,1%
B	Total capital investment costs	2.123.417	2.445.734	2.735.042	1.381.958	2.445.346	24,0%
	- Civil works	1.229.212	1.760.402	2.100.383	443.819	1.734.623	7,2%
	- Equipment purchase	43.995	104.507	46.234	108.520	53.563	1,6%
	- Others	850.209	580.825	587.445	758.418	655.162	12,3%
	Total (A+B)	6.821.220	7.930.531	7.132.467	6.186.754	7.858.563	100,0%

The total capital investment represented 19.35 percent of total revenues. The largest share of capital expenditures related to construction work—improving infrastructure for the entire metropolitan area. Most capital investments were funded by the city's own revenue sources and from funds from the European Union.

Capital expenditures, mostly related to civil works, constituted 21 percent of total expenditures over the observed period. The city's payroll costs were significant at 29 percent; and operation and maintenance costs were high, accounting for more than 50 percent of total expenditures.

RATIO ANALYSIS

Indicator	Benchmark	2012	2013	2014	2015	average
Gross Operating savings/ Current revenue	33%	28%	37%	37%	27%	32%
Debt outstanding /Budget total	>60%	14%	17%	32%	32%	24%
Borrowing /Current revenues	<15%	7%	10%	7%	0%	6%
Own (taxes + fees + unconditional grants) / Total Current revenue	>60%	37%	54%	35%	34%	40%
Capital investment expenditure / Total Current revenue	>40%	33%	28%	37%	19%	29%
Maintenance works expenditure / Operating expenditures	>15%	18%	20%	21%	15%	19%
Salaries & wages / Operating actual expense	<40%	35%	31%	37%	37%	36%
Actual revenue / Planned revenue	95<A/P<1.05	98%	99%	94%	100%	98%

All of the city's financial indicators were within the reference values, demonstrating that the city is stable and in a good financial position. Interestingly, current savings were above the reference value, indicating the city's significant financial resources for borrowing. Debt accounted for an average of 24 percent of the total budget, but these large obligations did not pose a significant financial burden.

The city's rate of financial autonomy was about 40 percent, a result of the higher share of the communal fees and contribution revenues. Expenditures for capital investments were below the reference value; on average, they made up only about 29 percent of current revenues. Maintenance costs were in desirable values. Interestingly, wage expenditures were high— 35 percent of total current expenditures. The city planned its budget well: the amounts realized did not significantly deviate from the planned amount of revenues.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

The cost of debt is low. City creditors are mostly private companies. The city regularly settles all of its obligations according to maturities. For the period 2016–18, most of the city's capital investment finance comes from own revenue sources or operating surpluses. After 2016, higher maintenance expenditures and debt repayments are anticipated, but this is not a problem because the city expects to grow its own revenue sources by 8 percent and receive 3 percent higher income from conditional grants. Gross operating savings are growing as net savings. The overall closing balance from 2016 to 2018 is zero. The city's debt involves two long-term loans used to finance capital utility infrastructure projects.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Most of the city's plans are long-term activities, but in the short term, the city is focusing its priorities on increasing fiscal autonomy by improving local tax collection and revising decision on city taxes (tax on trade name). The permanent, long-term activities are attracting private investors. The city has successfully established an entrepreneurial zone, and it continues to attract private investment through Improvements of Business Climate Further investments in infrastructure equipment GZ "Jaškevac" and "Trešnjevka". In the context of improving business and the development of a competitive local economy, the city is focused on speeding up administrative procedures, connecting entrepreneurs, offering staff training, and providing direct incentives to entrepreneurs. The city is more focused on the new potential source of (co) funding—project application to EU funds and state programs, project preparation for co-financing from European Union funds and the state budget.

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CITY OF LABIN

CITY PROFILE

Territorial organization: The city of Labin includes seven local committees. Its population is distributed in 17 settlements. The total area of the city is 72 square kilometers.

Demography: Total resident population, according to 2011 census: 11,642; annual growth: -0.002 percent; in-country ranking: 58; vital index: 81.4; density: 162 inhabitants per square kilometer.

Economy: Income per capita (2015): €12.536; activity rate (2011): 64.1; unemployment rate (percent active population): 6.79; national development index: 100–125 percent; exchange rate: €1 = HRK 7.583; inflation index: 3.4 (2012), 2.2 (2013), -0.2 (2014), -0.5 (2015), -1.1 (2016). Source: CSO and Ministry of Finance.

Utilities management: City utility (communal) companies: (1) 1 May Ltd.: garbage collection, park maintenance, cleaning of public areas and parking lots, maintenance of cemeteries and organization of burial and other funeral services, maintenance of unclassified roads, and civil engineering; (2) Vodovod Labin Ltd.: water supply, public drainage, medical testing of drinking water for their own use, performance connections to the municipal water structures, and calibration of water meters; (3) Labin Apartment Ltd.: management of apartment buildings; (4) Labin 2000 Ltd.: parking management in public areas.

Municipal staff: General administration: 34, technical service unit: 3. Number of employees at budget users (2014): 133.

Decentralized functions: Primary and secondary education, welfare, and fire protection.

Existing project investment plan: Main capital projects and three-year capital investment plan: Reconstruction and upgrading of the sports center with extra hall and supporting facilities (€4.4 million); underground city, phase 2: hot links, export tower, and pane in Podlabin (€1.5 million); reconstruction of the entrance to the tourist resort in Rabac (€0.7 million); new kindergarten in Vinež, phase 1 (€1.3 million); home for the elderly in Labin (€5.8 million).

Urban issues and challenges: Increase economic competitiveness; develop human resources; improve quality of life; strengthen infrastructure, environmental protection, sustainable management of space and resources, and Labin's identity and recognition.

FINANCIAL SITUATION

	Items	2012 outturn	2013 outturn	2014 outturn	2015 outturn	change	average
1	Total current revenue	7.931.784	8.413.321	8.769.229	8.934.192	1.8%	8.389.821
2	Operating expenditure	6.265.984	6.576.769	6.905.970	7.035.363	2.9%	6.695.786
3	Gross operating balance	1.666.669	1.836.552	1.863.260	1.468.819	-3.1%	1.693.825
4	Debt service and borrowing costs	320.538	233.853	264.065	204.612	-10.6%	240.767
5	NET CURRENT BALANCE	1.346.131	1.602.699	1.599.195	1.264.206	-1.6%	1.453.058
6	Capital revenues	632.130	184.923	439.878	195.178	-25.4%	363.877
7	- Own capital revenues	586.470	184.923	403.490	180.058	-25.5%	338.735
8	- Investment grants	45.660	0	35.585	16.119	-22.9%	24.341
9	Capital investment expenditures	1.674.126	1.471.716	1.537.461	975.672	-12.6%	1.414.744
10	BALANCE AFTER INVESTMENT	304.135	315.906	503.809	484.712	12.4%	401.390
11	Cash reserves from previous years	0	0	0	0		0
12	Loans proceeds	0	0	0	0		0
13	OVERALL CLOSING BALANCE	304.135	315.906	503.809	484.712	12.4%	401.390

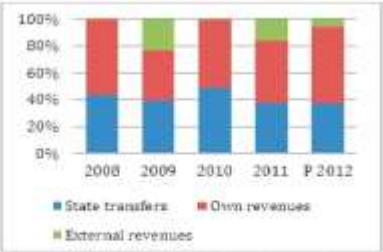
The city of Labin is in a solid and stable financial position. Total current revenues were higher than current expenditures during the observed period so the city recorded a current budget surplus over the entire observed period. After the current surplus was deducted from debt repayments, the primary surplus remained at an average of around €1.5 million.

Debt service was reduced an average of 10.6 percent annually. Capital revenues were low and recorded an average decrease of 25 percent. These were insufficient for financing capital expenditures, which gradually declined by an average of 12.6 percent per year.

The balance after the investment remains in the surplus. When we take into consideration that the city does not borrow, but only pays off its obligations from the previous year then it is clear that the city has a positive overall closing balance throughout the period. The city will probably use total budget surpluses to finance capital projects and maintain a high level of liquidity.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

		2012	2013	2014	2015	P 2016	Average annual growth	% in structure 2016
TOTAL CURRENT REVENUE		6.881.846	7.299.569	7.437.173	7.416.134	8.021.949	1.03	
1	State Transfers	3.879.260	3.849.360	3.630.999	3.491.899	3.484.818	0.99	42.2
	- Shared taxes	2.988.487	3.310.147	3.086.607	2.834.326	2.939.630	0.98	34.5
	- Conditional operating transfers	890.773	539.213	543.328	657.026	635.981	1.07	7.7
2	Own revenue	3.102.681	3.410.229	3.806.187	3.964.879	4.096.232	1.06	49.2
	- Local taxes & levies	587.184	626.666	601.127	582.034	594.791	1.01	7.1
	- Local fees	2.030.213	1.909.188	1.970.276	2.176.663	2.549.671	1.03	26.5
	- Local asset revenues	765.274	901.146	1.234.786	1.196.080	1.411.780	1.21	14.6
3	Other revenue	0	0	0	0	0		0.0
TOTAL NON-CURRENT REVENUE		1.321.589	1.349.789	1.387.864	788.899	3.669.960	0.90	9.8
1	State Transfers and grants	288.103	394.708	488.310	136.129	583.880	0.97	1.8
	- Unconditional transfers	0	0	0	0	0		
	- Conditional operating transfers	288.103	394.708	488.310	136.129	583.880	0.97	1.8
2	Own revenue	586.470	184.923	403.490	180.058	764.110	0.98	2.2
	- Asset sales	586.470	184.923	403.490	180.058	764.110	0.98	2.2
	- Long term loans	0	0	0	0	0		
3	External revenue	446.791	481.008	495.763	472.415	2.368.980	1.02	5.8
	- Loans proceeds	0	0	0	0	1.846.326		
	- Grants from local government for financing kindergartens, fire protection	371.855	394.368	428.525	438.525	497.526	1.06	5.4
	- Donation	75.036	86.700	68.838	33.890	24.398	0.85	0.4



Own-source revenues—local fees and asset sales—are the most dominant for the city's revenue.

The main sources of the city's revenues were own sources, accounting for 48.2 percent of total revenue. Own-source revenue are consistent from communal fees and contribution earmarked revenues used for financing and maintaining communal infrastructure. Another important source of revenue was government transfers, accounting for 42.2 percent. State transfers consisted mainly of shared tax revenues, accounting for 82 percent of total transfers. Direct transfers from the central government represented 18 percent of total transfers.

	Items	2012	2013	2014	2015	p 2016	% in structure (in.)
A	CURRENT EXPENSE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1	Payroll (including employees benefits & taxes)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Administrative staff	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Institutional department staff	0	0	0	0	0	[illegible]
	- Other staff (particular)	0	0	0	0	0	[illegible]
2	Operational costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Office supplies	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Electric energy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Communication (telephone, etc.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Fuel and gas	[illegible]	[illegible]	[illegible]	[illegible]	0	[illegible]
	- Utility services	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3	Maintenance costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4	Compensations to citizens and households based on insurance	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5	Other expenses - current and capital grants, etc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6	Financial expenses, subsidies and grants to abroad	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7	Other material expenses	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B	Total capital investment costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Civil Works	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Equipment purchase	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Others	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Total costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Capital investment decreased over the period 2012–15. The city's planned investments for 2016 require more than 30 percent of total expenditures.

Total operating expenditures represented 85.7 percent of total revenues. Wages increased by 3 percent, operating costs by 2 percent, and maintenance costs by 15 percent. The cost of wages includes salaries of city administration employees and budgetary users , directly financed out of the city's budget (kindergarten, fire brigade, city library, open university, and others).

RATIO ANALYSIS

Indicator:	Benchmark	2012	2013	2014	2015	average
Gross Operating savings/ Current revenue	30%	21%	22%	21%	17%	20%
Debt outstanding /Budget total	>60 %	27%	27%	23%	21%	24%
Borrowing /Current revenues	< 15 %	0%	0%	0%	0%	0%
Own (taxes + fees + unconditional grants) / Total Current revenue	> 60 %	55%	48%	54%	54%	53%
Capital investment expenditure / Total Current revenue	> 40 %	21%	17%	18%	11%	17%
Maintenance works expenditure / Operating expenditures	> 15 %	10%	8%	12%	12%	11%
Salaries & wages / Operating actual expense	< 40 %	36%	35%	36%	35%	36%
Actual revenue / Planned revenue	95<A/P<1.05	98%	89%	95%	95%	92%

The city is in an excellent financial position, with high liquidity. Gross operating savings made up an average of about 20 percent of current revenues over the observed period. Total liabilities represented 24 percent of the budget with a downward trend. The city did not borrow money during the considered period; it only paid off earlier obligations.

Own-source revenue sources represented more than 50 percent of current revenues, demonstrating the city's significant fiscal autonomy. Capital expenditures accounted for about 17 percent of current revenues; they were relatively low and decreasing.

Maintenance expenditures were below the maximum reference value, accounting for an average of 11 percent of current expenditures. Expenditures for employees were high during the observed period, with 36 percent close to the maximum reference value. The city failed to fully ensure execution revenue in accordance with the plan. Revenue outturn represented an average of approximately 92 percent of projections.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

Since 2016, the city of Labin has been significantly increasing the financing of capital projects to €2 million by 2018. Most funding sources for capital projects have been realized by surpluses from previous years' income and funds from the European Union. Thanks to its excellent financial position, the city does not need to borrow money. The main capital projects include the construction of the entrance to the tourist resort Rabac and reconstruction of existing intersections in circular and landscaping, new construction of Kindergarten Vinež (phase 1), and reconstruction of Liče Faraguna Labin Center (renewable energy includes). The city has invested a lot in the preparation of documentation for projects financed with European Union funds.

MUNICIPAL FINANCE IMPROVEMENT PLAN

The city's financial plan is primarily focused on making technical improvements of budget execution, transparency, and reliability, including improving the reliability of forecasting, increasing prudence in planning, and stopping the trend toward constant changes in tax regulations. Additional aspects include refining the cost analysis of the most significant expenditure, control in achieving program and projects defined objectives. The city will focus on improving local tax collection and revising the property tax rate for households. Sale of assets that generates costs. Significant effort has been invested into improving the business environment with infrastructure and tourism. The city has implemented a program to support to entrepreneurs and most of the capital project besides savings tend to finance by increase European Union funds utilization.

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CITY OF PREGRADA

CITY PROFILE

Territorial organization: The city of Pregrada is located in the westernmost part of the Croatian Zagorje. It is part of the Krapina-Zagorje County administrative zone. The total area of the city is 67.26 square kilometers.

Demography: Total resident population, according to the 2011 census: 6,594; annual growth: -0.015 percent; In-country ranking: 112; vital index: 50; density: 98 inhabitants per square kilometer.

Economy: Net income per capita (2012): €4,324; activity rate (2011): 59; unemployment rate (percent active population): 18.7; national development index: 75–100 percent; exchange rate: €1 = HRK 7.583; inflation index: 3.4 (2012), 2.2 (2013), -0.2 (2014), -0.5 (2015), -1.1 (2016). Source: CSO and Ministry of Finance.

Utilities management: City utility (communal) companies: (1) Niskogradnja Ltd.: housing and communal activities; (2) Vlop Ltd.: water supply and sanitation; (3) Humplin Ltd.: gas distribution system. Three budgetary users: [[meaning?]] Kindergarten ("Our Joy"), The City Library, Museum. The Music School.

Municipal staff: General administration: 8; representatives: 1. Employees at budgetary users (2015): 22

Decentralized functions: Primary education, welfare, and fire protection.

Existing project investment plan: Main capital projects and three-year capital investment plan: road paving, cultural center, children playgrounds, and business zone infrastructure.

Urban issues and challenges: Increase capacity to attract funds from the European Union, improve the competitiveness and growth of small and medium-size family farms, construct hard and soft infrastructure required for business growth and a comfortable lifestyle, and transform local government to force economic development and enhance attractiveness of the city's for investments.

FINANCIAL SITUATION

	Items	2013 outturn	2014 outturn	2015 outturn	Average annual growth	average
1	Total current revenue	1.488.239	1.502.372	1.329.661	-2,8%	1.400.087
2	Operating expenditure	1.134.867	1.160.812	1.036.747	-2,2%	1.110.142
3	Gross operating savings	353.371	341.560	292.914	-4,4%	346.115
4	Debt services	155.430	236.079	187.479	6,6%	193.004
5	Net current balance	197.941	105.481	105.435	-14,8%	153.111
6	Capital revenues	4.974	10.277	14.888	33,3%	10.048
7	Own capital revenues	4.974	10.277	14.888	33,3%	10.048
8	Investment grants	0	0	0		
9	Capital expenditure	428.138	412.671	286.588	-8,8%	388.722
10	BALANCE AFTER INVESTMENT	422.164	407.193	271.184	-9,4%	338.964
11	Cash reserves from previous years	0	0	0		
12	Loans proceeds	187.759	103.839	85.706	-23,1%	139.035
13	OVERALL CLOSING BALANCE	-7.945	111.174	185.555	98,8%	72.969

After settling liabilities, the city recorded current surpluses over the entire observed period, although the level decreased by an average of 4.6 percent per year. Capital revenues were insufficient to finance capital expenditures, which contracted by an average of 8.5 percent annually. Balance after investment was negative during the entire observed period. The city regularly borrowed on the financial market, and the overall closing balance was negative. There is no potential for the city to finance major capital projects through own-source revenues, but it does have liquidity to settle all of its obligations.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	Items	2013	2014	2015	P 2016	% in structure
	TOTAL CURRENT REVENUE	1.421.290	1.431.546	1.157.275	1.042.089	80%
1	State Transfers	1.088.872	1.177.062	1.028.578	1.087.780	84%
	- Shared taxes	1.042.919	1.063.563	980.476	994.652	82%
	- Conditional operating transfers	25.054	110.498	47.102	93.128	4%
2	Own revenue	297.908	261.993	253.168	556.966	20%
	- Local taxes & levies	45.253	41.768	39.927	46.026	3%
	- Local fees	122.441	92.082	92.247	207.906	8%
	- Local asset revenues	100.210	127.644	120.995	305.034	10%
3	Other revenue	54.409	-7.707	-111.472	-4.077	-1%
	- Surplus Y-1	54.409	-7.707	-111.472	-4.077	-1%
	TOTAL NON-CURRENT REVENUE	255.487	246.141	222.861	407.673	17%
1	State Transfers and grants	71.928	140.450	108.780	78.287	7%
	- Conditional operating transfers	71.928	140.600	108.780	78.287	7%
2	Own revenue	297.908	261.993	253.168	556.966	20%
3	External revenue	187.759	105.541	66.101	329.415	10%
	- Loans proceeds	187.759	104.839	65.706	326.758	10%
	- Donation	0	702	394	656	0%
	TOTAL REVENUE	1.676.778	1.677.689	1.410.136	2.050.042	100%
1	State transfers	1.160.800	1.317.062	1.190.058	1.166.067	71%
2	Own revenues	297.908	261.993	253.168	556.966	20%
3	External revenues	242.168	97.634	-46.971	326.308	9%

The city's main revenue sources were government transfers, representing 78.36 percent of total revenue. Own-source revenues accounted for 17.30 percent, and the share of external revenue was 4.34 percent.

Operating revenues were the city's primary source, representing 87.38 percent of total revenues and receipts. Own-source capital revenues accounted for 0.98 percent of the total city revenues, and capital expenditures represented 18.70 percent of the city's total budget revenues and receipts. Debt was related to long-term debt and short-term loans. Short-term loans were included in the debt because they were repaid over two budgetary years.

	Items	2012	2013	2014	2015	p 2016	% in structure (in.)
A	CURRENT EXPENSE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1	Payroll (including employees benefits & misc)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Administrative staff	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Indirect department staff	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Other staff (contractual)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2	Operational costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Office supplies	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Electric energy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Communication (telephone, etc.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Fuel and gas	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Utility services	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3	Maintenance costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4	Compensations to citizens and household based on insurance	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5	Other expenses - current and capital grants, etc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6	Financial expenses, subsidies and grants to abroad	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7	Other natural expenses	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B	Total capital investment costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Civil Works	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Equipment purchase	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	- Others	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	Total (A+B)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

From 2013 to 2015, the largest part of investment capital was for construction work. Regarding the financing method, most of the capital expenditure was financed through grants (i.e. applying to grants through various open calls of the central government) and from own-source revenues.

Total operating expenses represented 68.13 percent of total expenditures; salaries, 22.50 percent; operating costs, 38.43 percent; and maintenance costs, 7.2 percent. Cost of salaries included: city administration staff, accounting for 11.35 percent, and wages for workers employed in budgetary users, accounting for 11.15 percent of total expenditures.

RATIO ANALYSIS

Indicator	Benchmark	2012	2013	2014	2015	average
Gross Operating savings/ Current revenue	30%		24%	26%	22%	24%
Debt outstanding /Budget total	< 60 %		25%	18%	12%	18%
Borrowing /Current revenues	< 15 %		12%	7%	5%	8%
Own (taxes + fees + unconditional grants) / Total Current revenue	> 60 %		33%	24%	25%	27%
Capital investment expenditure / Total Current revenue	> 40 %		27%	26%	22%	25%
Maintenance works expenditure / Operating expenditures	> 15 %		11%	17%	11%	13%
Salaries & wages / Operating actual expense	< 40 %		28%	30%	33%	30%
Actual revenue / Planned revenue	95<A/P<1.05		90%	92%	90%	93%

On average, the current surplus accounted for about 24 percent of current revenues—a good indicator of liquidity. Debt comprised an average of 18 percent of the budget, with a decreasing trend over the observed period. Borrowing receipts accounted for only 8 percent of total revenues, which is low, and shows that the city was managing its finances reasonably well. The city had a low level of financial autonomy because its own-source revenues accounted for only 27 percent of total current revenues. Capital investment was about 25 percent of total current revenues. Maintenance costs were lower than the reference value, accounting for about 13 percent of current expenditures.

Salary expenditures accounted for about 30 percent of total expenditures and were high relative to the maximum reference value. Realized revenues totaled 93 percent of projected revenues. The city's revenue planning process is insufficient, but the deviations are not large and are close to the reference values. In short, the city is liquid and in a relatively solid financial position, but with limited funding opportunities for greater capital investments.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

In accordance with its capabilities, the city of Pregrada ensures proper maintenance of its infrastructure. Financing plans through 2018 mainly refer to expenditures envisaged under the capital investment program as they relate to paving roads, the city's cultural center, the computer program, e-roads, children's playgrounds, and business-zone infrastructure. The city intends to provide liquidity revenues to finance capital projects. It expects an increase in conditional grants from the central government and own-source revenues to finance capital expenditures.

MUNICIPAL FINANCE IMPROVEMENT PLAN

The budgeting capability of the city of Pregrada to finance larger capital projects is relatively modest. The city therefore focuses on activities related to technical enhancements of budget management, such as improving forecast reliability, budget execution (95 percent and more), the cost analysis for capital projects and long-term fiscal planning, city development strategy according to defined strategic economic priorities, and spending by controlling defined city objectives to ensure the implementation of its development vision.

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CITY OF ZAPREŠIĆ

CITY PROFILE

Territorial organization: The city of Zaprešić is located in the northwestern part of Zagreb County, 17 kilometers from Zagreb, the county's administrative center. Zapresic is situated in the valley of three rivers, the Sutla, the Sava, and the Krapina, between Slovenia to the west, the county of Krapina-Zagorje to the north, the city of Samobor to the south, and Zagreb to the east. The area of the city is 52.6 square kilometers.

Demography: Total population, according to the 2011 census: 25,223; annual growth: -0.9; in-countryranking: 23; vital index: 96.4; density: 479.5 inhabitants per square kilometer.

Economy: Gross income per capita (2015): €10,364; activity rate (2015): 63.2; unemployment rate (percent active population): 5.9; national development index: 100–125 percent; exchange rate: €1 = HRK 7,583; inflation index: 3.4 (2012), 2.2 (2013), -0.2 (2014), -0.5 (2015), -1.1 (2016). Source: CSO and Ministry of Finance.

Utilities management: City utility (communal) companies: (1) Zapresic Ltd.: waste disposal; park maintenance; cleaning of public areas, parking lots, and main squares; management of the market, cemetery maintenance and organization of burial and other funeral services; (2) Water Supply and Drainage Ltd.: collection and distribution of drinking water and drinking water supply, wastewater treatment, construction engineering, installation infrastructure for water, drainage and purification; (3) Information Center Zapresic Ltd.: FM radio broadcasting.

Decentralized functions: Primary and secondary education, welfare, and fire protection.

Municipal staff: General administration: 52; technical service unit: 8; representatives: 2; part-time officers: 2. Number of employees in budgetary users: 225.

Existing project investment plan: The primary capital projects and three-year capital investment plan includes upgrading the building and sports facility of the Kupljе primary school for €276,000; road Zaprešić–Jablanovec for €76,000; city square for €147,000; and remediation of landfills for €128,000.

Urban issues and challenges: Promote tourism, raise the quality of life, foster a knowledge society, and develop urban infrastructure.

FINANCIAL SITUATION

In EURO.

	Items	2012 actual	2013 actual	2014 actual	2015 actual	Average annual growth	Average
1	Total current revenue	13.808.375	14.570.824	15.218.712	16.872.667	8.1%	15.618.145
2	Operating expenditure	12.227.118	13.807.545	13.852.701	15.338.049	5.5%	14.311.371
3	Gross operating balance	578.246	763.279	1.365.931	1.512.618	44.3%	1.306.773
4	Debt service and borrowing costs	1.031.711	891.904	1.308.927	943.430	-2.2%	980.976
5	NET CURRENT BALANCE	-452.464	-128.625	56.104	569.188		325.797
6	Capital revenue	75.762	83.985	150.268	197.637	27.1%	126.946
7	- Own capital revenues	75.762	83.985	150.268	197.637	27.1%	126.946
8	- Investment grants	0	0	0	0	0.0%	0
9	Capital expenditure	2.084.129	2.700.703	2.507.960	3.315.187	5.4%	2.821.395
10	BALANCE AFTER INVESTMENT	-2.460.831	-2.745.343	-2.301.588	-2.548.362	4.6%	-2.498.900
11	Cash reserves from previous years	0	0	0	0	0.0%	0
12	Loan proceeds	0	0	0	0	0.0%	0
13	OVERALL CLOSING BALANCE	-2.326.367	-2.616.369	-2.313.702	-2.616.831	26.1%	-2.493.792

Over the observed period, the city regularly settled its financial obligations and was a low credit risk with a high level of budget liquidity. Current revenues were higher than current expenditures so the city realized current surpluses on average. Over the last two years, current surpluses remained even after the city met its debt obligations.

The city achieved a primary surplus, which indicates that there is no problem with its repaying its obligations. On average, debt repayments were reduced over the observed period. Capital expenditures grew by 4.6 percent annually; they were the main reason behind the city's total budget deficit and negative closing balance.

The overall closing balance was negative but was reduced by about 26 percent over the observed period. The total final closing balance trend was on the decrease.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	Items	2012	2013	2014	2015	p 2016	structure (en) %
TOTAL CURRENT REVENUE		15.271.446	16.017.356	16.144.965	15.968.154	17.121.277	89.6%
1	State Transfers	10.612.456	10.010.002	11.070.722	10.504.918	10.991.670	63.2%
	- Shared taxes	9.658.547	9.863.469	10.261.301	9.374.921	9.814.447	56.4%
	- Conditional operating transfers	1.002.189	946.533	809.421	1.130.354	1.177.223	5.6%
2	Own revenues	3.069.683	3.714.626	3.634.261	4.082.346	4.638.672	26.2%
	- Local taxes & levies	148.087	184.245	170.375	187.918	190.130	0.9%
	- Local fees	2.512.139	3.509.369	3.408.336	3.851.172	4.248.818	19.1%
	- Local asset revenues	9.485	20.011	55.557	45.154	50.348	0.2%
3	Other revenues	1.589.309	1.490.729	1.330.976	1.400.898	1.591.936	8.1%
	- Other revenue of budgetary users	1.589.309	1.490.729	1.330.976	1.400.898	1.591.936	8.1%
TOTAL NON-CURRENT REVENUE		1.938.318	1.819.268	2.098.284	2.671.382	2.088.612	11.4%
1	State Transfers and grants	672.195	783.476	866.316	1.117.848	891.213	5.2%
	- Conditional operating transfers	672.195	783.476	866.316	1.117.848	891.213	5.2%
2	Own revenues	666.618	638.737	1.066.220	1.294.988	1.034.945	5.7%
	- Asset sales	75.672	83.685	150.236	107.058	690.685	0.7%
	- Long term leases	621.486	528.418	436.177	886.969	597.445	3.7%
	Reimbursement of overhead costs	0	0	61.569	92.311	75.128	0.2%
	Other own revenues	291.819	298.638	436.236	508.944	467.722	2.1%
3	External revenue	78.158	53.076	143.756	75.476	2.762.658	0.5%
	- Loans proceeds					2.637.409	
	Donations	78.158	53.076	143.756	75.476	125.250	0.5%
TOTAL REVENUE		17.210.764	17.002.646	18.243.249	18.446.136	20.208.889	100.0%
1	State transfers	11.284.651	11.003.478	12.003.038	11.622.766	11.882.883	65.4%
2	Own revenues	3.668.088	4.353.363	4.720.487	5.347.008	6.373.311	26.0%
3	External revenues	1.667.667	1.643.806	1.480.724	1.476.376	4.462.149	8.6%

The main revenue sources were government transfers, primarily personal income tax, representing a 63 percent share of total revenues; followed by own-source revenues at 29 percent; and external revenues, primarily own-source revenues of budgetary users at 8 percent.

State transfers consisted of shared revenues, which accounted for 80 percent of total transfers, and transfers from the state and the county budget, which account for the remaining 20 percent. Current revenue dominated in the revenue structure.

Total current revenue represented around 89 percent and noncurrent revenue, 11 percent of total revenue. The city did not borrowed money during the observed period. Own-source revenue of budgetary users represented 8.1 percent of the city's revenues. The fiscal autonomy of Zaprešić was limited by the fact that the dominant budget revenue source is shared income taxes.

	Items	2013	2014	2015	p 2016	pr 2017	pr 2018
A	TOTAL OPERATING EXPENDITURE	14.773.419	14.247.831	17.563.527	15.418.140	15.619.900	15.194.498
	Payroll (including employees benefits & misc.)[F]	5.174.512	5.303.331	5.244.192	5.304.844	5.321.347	5.315.957
	- Administrative staff	5.061.465	5.193.967	5.136.709	5.204.704	5.221.208	5.215.919
	- Technical department staff	0	0	0	0	0	0
	- Other staff (contractual workers)	113.058	149.363	137.401	100.140	100.140	100.038
	Operating costs	7.013.922	6.927.677	9.800.214	7.430.856	7.540.792	7.369.406
	- Office supplies	154.171	169.476	155.550	161.494	160.538	160.575
	- Electricity	451.602	420.305	474.297	484.855	494.855	494.354
	- Communication (telephone, etc.)	179.057	156.568	163.253	197.110	197.110	196.910
	- Fuel & gas	200.658	169.156	192.212	202.124	202.124	201.919
	- Other costs	6.028.040	5.709.731	8.814.962	6.375.202	6.486.165	6.015.847
	- Maintenance costs	2.369.984	2.316.823	2.519.303	2.682.441	2.757.702	2.719.135
B	CAPITAL EXPENDITURE	1.931.597	2.215.560	2.110.144	5.929.116	5.663.743	5.369.546
	TOTAL (A+B)	16.705.016	16.463.391	19.673.771	21.347.256	21.283.674	20.574.044

Capital investments constituted 18 percent of total revenues in 2015, representing growth over 2014. The city planned to significantly increase capital expenditures in 2016, mostly financed by loans.

Current expenditures represented an average of 75 percent of total expenditures, with dominance of operating (material) costs, followed by very high level of payroll. High level of payroll are confirmed by the data from ratio analysis (salaries and wages/operating actual expense). (see: table with ratio analysis)

RATIO ANALYSIS

Indicator	Benchmark	2012	2013	2014	2015	average
Gross Operating savings/ Current revenue	30%	4%	5%	9%	10%	8%
Debt outstanding /Budget total	< 60 %	18%	16%	11%	8%	13%
Borrowing /Current revenues	< 15 %	0%	0%	0%	0%	0%
Own (taxes + fees + unconditional grants) / Total Current revenue	> 60 %	22%	26%	24%	22%	23%
Capital investment expenditure / Total Current revenue	< 40 %	19%	13%	17%	18%	18%
Maintenance works expenditure / Operating expenditures	> 15 %	17%	19%	17%	16%	17%
Salaries & wages / Operating actual expense	< 40 %	36%	37%	38%	32%	36%
Actual revenue / Planned revenue	95<A/P<1.05	93%	97%	96%	96%	95%

The financial indicators of the city are solid. Debt comprised only 13 percent of the budget over the observed period—much less than the reference value. Indebtedness indicators were positive. The city did not borrow money on the financial market During the observed period. Own-source revenues made up an average of about 23 percent of total current revenues.

Zaprešić depended on income tax revenues that are shared with the central government. Communal fees and contributions offered greater financial autonomy. Capital investment expenditures were about 18 percent of current revenues on average. The city incurred great costs for maintenance, representing 17 percent of operating expenditures—above the reference value. Close to the reference value were relatively high wage expenditures, which make up an average of 36 percent of total current expenditures. Planned and realized revenues did not deviate significantly and were within the reference values.

FINANCIAL PROJECTIONS / INVESTMENT PROGRAMMING

The overall closing balance during the entire observed period period was negative. The city finances the lion share of its capital expenditures with its own-source revenue. Borrowing proceedings in all period are zero. More loan receipts are expected because the city in their financial projection stated borrowing around €350,000 in 2016 and €1.9 million in 2017. As a result, the overall closing balance in 2017 is expected to be positive at around €676,000. From 2016 to 2018. The city plans to invest in capital projects, such as upgrading schools and sports facilities, as well as in roads and the city square. However, the closing balance is expected to be zero in 2018 according to the city's.

MUNICIPAL FINANCE IMPROVEMENT PLAN

The city of Zaprešić has been focused on technical improvements of its financial management, such as improving the cost analysis of the dominant expenditures and forecasts. It is also focused on better collection of local revenue and has great expectations regarding the introduction of a property tax, although this directly depends on the decision of the central government. Local government initiatives are primarily focused on supporting entrepreneurship and improving infrastructure with the aim of creating a business-friendly environment for potential investors. Most capital investments in 2017 will be financed through loans. And most of the proposed actions are intended for the long-term and do not include a start date for their implementation.

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MUNICIPALITY OF SHTIME

CITY PROFILE

Territorial organization: Municipality of Shtime is organized according to the Law, No.03 / L-040, 2008 for Local Self-Government and the Law, No.03 / L-041- on Administrative Borders of Kosovo Municipalities. Shtime is located in southern Kosovo, (district of Ferizaj) covering an area of 134 km2, (52 Sq. mile); with one urban center Shtime and 22 villages

Demography: 27,324 inhabitants of which: 26,447 Albanians; 49 Serbs; 750 Ashkali and 59 of other nationalities. Density: 204/Km2% of population of Kosovo: 1.51% (1,810,000)

Economy: Shtime' economy is mainly based on agriculture although the municipality is well known for its vast reserves of high quality limestone. There are about 860 registered private businesses operating in the Municipality, employing about 1902 employees. The public sector employs about 939 employees. A new industrial park is expected to be operational within 2018, and some 300 new jobs are expected to be created.

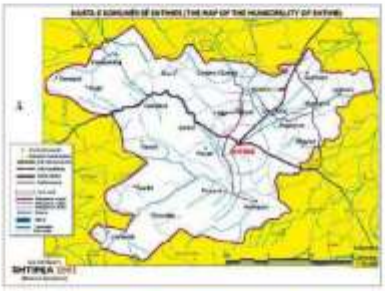
Decentralized Functions at the City level: Child care (kindergartens), primary education, secondary education); Primary health care; Infrastructure - urban area, local roads, public lighting, maintenance and regulations of parks etc.; Management of forest exploitation; Fire brigade; Business registration; Buildings registration for property tax purposes; Cadaster and geodesy; Economic Development; Culture, Youth and Sport. radio broadcasting.

Utilities management: Public Company - Division on Public Company Managed by Ministry of Economy Development

Municipal staff: 658 employees of which 94 civil servants of the Municipal Administration; 462 in education functions, 102 in primary health care and 94 in other functions

Urban issues & challenges: Improve quality of life and promote economic growth and job-creation through capital investments. Key areas: communal infrastructure, urban planning and environment, road infrastructure, construction of primary schools, kindergartens, sports and cultural facilities.

Existing Project Investment Plan: 3 years rolling plan financed by the Municipal budget + Grants from the state budget, Line Ministries and Donations.



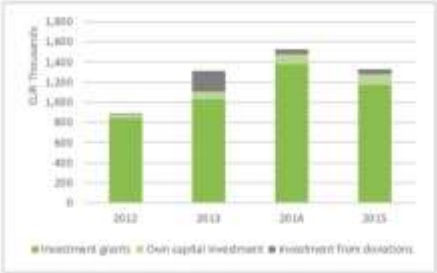
FINANCIAL SITUATION

Items	2012	2013	2014	2015	Growth index
Current revenue	3,765,555	3,908,736	4,219,643	4,589,777	6.80%
Operating expenditure	3,539,592	3,670,485	4,067,949	4,400,892	7.50%
Gross operating marg	225,963	238,251	151,694	188,885	-5.80%
Debt repayment	0	0	0	0	n.a.
Net margin	225,963	238,251	151,694	188,885	-5.80%
Capital expenditure	1,081,708	1,454,827	1,553,938	1,397,292	8.90%
Capital Revenues	893,014	1,312,798	1,529,074	1,325,804	14.10%
- Own capital investm	42,238	73,338	95,701	101,632	34.00%
- Investment grants	845,023	1,033,992	1,380,818	1,175,251	11.60%
Donations investme	5,753	205,468	52,555	48,921	104.20%
Investment balance	37,271	94,420	127,070	117,888	-46.70%
Cash reserves from p	46,093	44,811	42,558	49,657	2.50%
Loans	0	0	0	0	n.a.
Overall closing balanc	83,364	139,231	170,008	167,346	26.20%

Current revenues of the municipality of Shtime have been constantly improving over the 4-year period 2012-2015with an annual rate of 6.8%. However, operating expenditures have been increasing faster pace, on average 7.8% annually. As a result, the gross margin is shrinking by 5.8% annually. Operating revenues are constantly higher than operating costs, although at a minor margin which is then dedicated for capital expenditures.

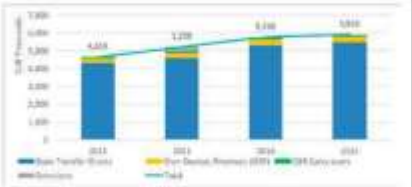
Capital revenues show robust increase 14% annually. The own capital revenues grew even faster (34% per year), but investments are largely (90%) financed through grants from the state and line ministries.
The city has not incurred debt, and the low 6% gross margin does not generate funds for debt service.

The budget is managed with good discipline and shows stable positive overall closing balance that grew by 26% annually.



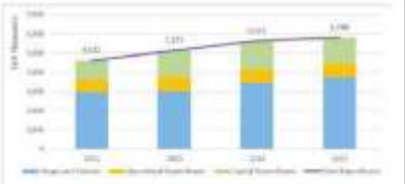
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

REVENUES	2012	2013	2014	2015	Growth index
State Transfers/Grants	4,333,589	4,596,567	5,302,517	5,477,274	8.1%
Own Sources Revenues	268,969	297,106	350,707	334,729	7.6%
OSR Carry-overs	46,093	44,811	42,938	49,657	2.5%
Donations	9,918	281,048	52,555	53,981	75.9%
Total	**4,658,569**	**5,219,532**	**5,748,717**	**5,915,641**	**8.3%**



Revenues: The total revenues grew dynamically by 8.3% per year, high above inflation. Revenues from central government's grants constitute 93% of Shtime's revenues, Own Source Revenues constitute only 6% and the share of OSR is slightly shrinking because the state transfers grew faster (8.1% vs. 7.6%).The donations grew very fast, but still represent a minor share of total revenues.

EXPENDITURES	2012	2013	2014	2015	Growth
Wage and salaries	2,994,601	3,037,800	3,447,800	3,754,847	7.8%
Operational expenditures	622,159	727,268	689,857	705,292	4.3%
Capital expenditures	1,004,538	1,360,044	1,483,990	1,337,812	10.0%
Total expenditures	**4,621,298**	**5,125,112**	**5,621,647**	**5,797,952**	**7.9%**



Expenditures: Wage and salaries constitute 65% of total expenditures and about 83 % of operating expenditures. In 2015 they've increased by 8.9% when compared to 2014. Most of the costs for wages and salaries relate to the staff in education functions and are offset by an earmarked grant. Capital investment expenditures accounted for around 23 % of total expenditures, focusing mainly on civil works (road maintenance and water supply and sewage, schools maintenance and construction). Unfortunately spending for investment has decreased by 9.9% when compared to 2014. Operating expenditures constitute 12% of total expenditures and have registered a minor increase of 2.2%.

RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	City Index 2012	2013	2014	2015
Credit worthiness					
Operating Savings before interests / Current actual revenue	>30%	6%	6%	4%	4%
Net Operating Surplus (after debt service including capital repayment) / Current actual revenue	>20%	6%	6%	4%	4%
Fiscal autonomy					
Own tax receipts + unconditional grants / Current revenue	>80%	45.23	46.74	51.18	47.66
Tax pressure (Tax receipts/Tax potential)	<70%	83.88	79.48	89.93	75.98
Capital investment effort					
Capital investment expenditure / Current actual revenue	>40%	27.01	29.90	33.34	29.38
Capital investment expenditure delegated by State / Total investment expenditure	>50%	78.12	71.08	88.87	84.11
Others					
Total number of municipal employees / population (employees for 1000 inhabitants)	>25	24.08	24.08	24.08	24.08
Salaries & wages / Operating actual expense	>40%	85.42	85.26	88.42	87.86

Creditworthiness: Shtime has very low creditworthiness, since the gross saving ratios were low and declining from 6% to 4%.

Fiscal autonomy: is very low, just above half of the benchmark, because the city not only relies on state transfers, but half of them are earmarked development grants.

Capital investment efforts are reasonably good, yet below benchmark; however, state grants finance the bulk of investments.

Labor efficiency: The municipality employs adequate number of staff just at benchmark, but salaries and wages still absorb over 80% of current budget with alarming growing trend.

MUNICIPAL FINANCE IMPROVEMENT PLAN

1. Actions to increase creditworthiness: (i) Increasing local property tax collection, (ii) Increasing financial accountability
2. Actions to increase service sustainability: Re-adoption the urban plans of the municipality with the new General urban plan
3. Actions to improve budget reality: Improve forecast reliability
4. Actions to generate savings from operating expenditures which can be used for increasing capital expenditures.

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MUNICIPALITY OF GAZI BABA (OGB)

CITY PROFILE

Territorial organization: Gazi Baba is one of the 10 municipalities of the city of Skopje. It is local government unit but shares a tax system with Skopje.

Demography: Population: 76,458, 9 percent of Skopje's population of 668,000; annual growth rate: 0.1 percent; density: 8.3 inhabitants per hectare (low because of the large city area)

Economy: First industrial center of Macedonia, including Makstil Steel Plant; Skopsko Brewery; Skopski Saem, a business park along the Belgrade-Thessaloniki highway and the airport. Agricultural land: 65 percent; labor force: 29.127; unemployment rate: 9.501; average inflation (2011–15): 1.9 percent; MKD 1 = €0.0163 (August 2017).

Decentralized functions at the city and municipal level: Kindergartens and primary education are responsibility of the municipality of Gazi Baba. Secondary education is a responsibility of the city of Skopje, local roads is shared responsibility between the city of Skopje and the municipality of Gazi Baba. Rural solid waste collection is responsibility of Gazi Baba and the land field is a city of Skopje responsibility. Water supply and waste water is responsibility of the city of Skopje.

Utilities management: Water supply and waste water: PE Water Supply and Sewage (shareholder: city of Skopje); electricity: EVN (private company by agreement with the government); urban heating: Skopje Sever and Energy Sector ESM for the industrial zone.

Municipal staff: Total: 913; primary education: 604; kindergarten and senior citizen homes: 178; and communal services: 131.

Urban issues & challenges: Improve the quality of life through capital investments. Key areas include roads, water supply, sewage, and school facilities (new construction and rehabilitation). Main issues include GIS and land management implementation.

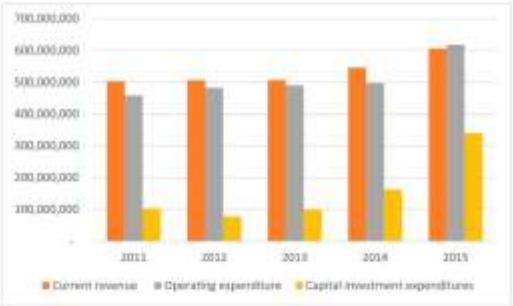
Existing Project Investment Plan: Three-year rolling plan financed by the city budget and state grants includes MKD 110 million for a waste water system (100 percent city budget) and MKD 18 million for a new kindergarten— Jurumleri (88 percent state grant and 12 percent city budget).

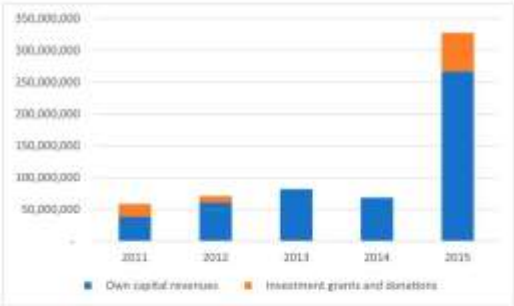
FINANCIAL SITUATION (IN CURRENT TERMS)

FINANCIAL POSITION — Gazi Baba

Items	2011	2012	2013	2014	2015	Growth index
Current revenue	502,499,198	506,379,800	506,832,420	546,138,641	605,488,000	4.8%
Operating expenditure	457,961,500	482,285,375	489,854,276	497,191,227	618,088,000	7.8%
Gross Operating balance	44,537,698	23,994,425	16,978,144	48,947,414	(12,600,000)	3.2%
Debt service and borrowing costs	-	-	-	47,417	500,000	n.a.
NET CURRENT BALANCE	44,537,698	23,994,425	16,978,144	48,899,997	(13,100,000)	3.2%
Capital Revenues	**58,610,242**	**70,999,228**	**81,988,787**	**68,344,546**	**327,780,000**	53.8%
Own capital revenues	38,661,663	61,088,020	81,988,787	68,344,546	267,280,000	62.2%
Investment grants and donations	19,948,579	9,911,208	-	-	60,500,000	32.0%
Capital investment expenditures	103,097,006	77,434,350	99,622,998	161,983,092	339,680,000	34.7%
BALANCE AFTER INVESTMENTS	50,934	17,559,303	(656,067)	(44,738,549)	(25,000,000)	n.a.
Cash reserves from previous years	5,078,997	4,441,905	2,138,526	4,967,601	-	-0.7%
Loan proceeds	-	-	7,244,496	50,065,908	25,000,000	85.8%
OVERALL CLOSING BALANCE	5,129,931	22,001,208	8,726,955	10,294,960	-	n.a.

The growth indexes for the observed period were driven by somewhat optimistic projections for 2015. Loan generation in 2014 boosted debt service and borrowing costs in 2015. Own-source capital revenues projected for 2015 drove planned capital expenditures. Revenues from land sales were projected to double in 2015 over 2014 and land development fees were expected to be 30 percent higher.



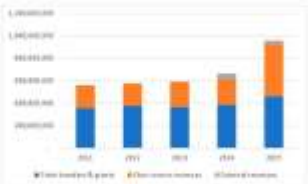


The operating balance was positive over the considered period. The plan for 2015 was too ambitious, including the expansion of expenditures, which demonstrate the potential space for better budget planning in Gazi Baba. There is indication that Gazi Baba management was planning too ambitious revenues collection first that explains the expansion of expenditures. Specifically, in 2015, capital revenue was expected to be almost four times higher than in 2014; additional revenue from donations was also expected. According to treasury data from the ministry of finance, in 2015, Gazi Baba had around MKD 650 million in revenues compared with the plan for MKD 950 million—a discrepancy of 32 percent. The largest discrepancies involved Communal taxes, land sales, and capital transfers from the central government.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

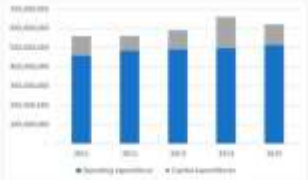
Main revenues in MKD

		2011	2012	2013	2014	2015	Growth
1	State transfers & grants	358,675,232	378,313,273	367,580,718	387,214,716	462,880,000	6.6%
2	Own-source revenues	202,297,372	197,401,888	220,602,085	226,486,265	464,800,000	23.1%
3	External revenues	136,836	1,865,867	7,682,900	50,848,114	30,588,000	286.7%



Revenues: Revenues from the central government plus grants almost equaled own-source revenues in Gazi Baba, reflecting decrease in its fiscal dependency from the central government transfers over the observed period (2015 is a plan). The personal income tax was shared with the state (3 percent) and the municipality of Skopje (20 percent of the 3 percent). Own-source revenues were shared with the municipality of Skopje: 50 percent for the property tax and 40 percent for the land development fee. Annual growth rates were high, with an average of up to +14 percent increase] for the observed period; own-source revenue collections grew faster than state transfers.

	2011	2012	2013	2014	2015	2015 in Euros	Structure
Operating expenditure	458,244,258	482,459,327	488,041,743	493,191,227	533,095,256	8,343,012	83
Wages and salaries	295,676,223	390,018,741	314,283,218	322,048,842	288,324,585	4,688,209	46
Capital expenditures	100,734,224	77,434,350	99,622,398	161,383,892	107,575,544	1,748,196	17
							100



Expenditures: Payroll accounted for 46 percent of total expenditures and around 56 percent of operating expenditures. Most of this was generated by school staff and was offset by an earmarked grant. Capital investment expenditures accounted for around 17 percent of total expenditures, primarily civil works such as road maintenance, water supply and sewage, and school construction and maintenance.

RATIO ANALYSIS

MAIN FINANCIAL RATIOS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 0.3	8.9%	4.7%	3.3%	9.0%	-2.1%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	0.0	0.0	0.4	1.2	-6.5
Debt service / Total current revenue	< 10 %	0.0	0.0	0.0	0.0	0.0
Debt outstanding /Budget total	< 60%	0.0%	0.0%	1.2%	8.6%	8.5%
Borrowing /Current revenues	< 15%	0.0%	0.0%	1.4%	9.2%	4.1%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	36.5%	31.4%	33.0%	34.3%	38.6%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %	20.5%	15.3%	19.7%	29.7%	56.1%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	19.3%	12.8%	0.0%	0.0%	17.8%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	28.7%	22.3%	34.5%	41.7%	44.2%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %					
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	64.5%	62.2%	64.1%	64.8%	56.2%
Number of municipal employees/1000 citizens	< 25	1.5				
Actual revenue / Planned revenue	95<A/P<1.05					

FINANCIAL MANAGEMENT

The administration and the finance sector prepares the budget; it is adopted by the municipal council. The state audit office conducts the audit.

MUNICIPAL FINANCE IMPROVEMENT PLAN

To increase creditworthiness, increase local tax collection and revenues through alternative and innovative sources; to increase service sustainability, readopt the municipality's urban plans of with the new general urban plan; and to improve budget planning, enhance forecasting and lower current expenditures.

http://www.gazibaba.gov.mk/lok-potencijal.html

MUNICIPALITY OF KISELA VODA

CITY PROFILE

Territorial organization: Kisela Voda is one of the 10 municipalities of the city of Skopje. It is local self-government unit but shares a tax system with Skopje.

Demography: Population: 58,216, 9 percent of Skopje's population of 668,000; annual growth rate: 0.1 percent; density: 12 inhabitants per hectare

Economy: Kisela Voda is among the largest industrial zones in Skopje. Economic entities: 6,810; Labor force: 38,772; Unemployed: 7,674; average inflation (2011–15): 1.9 percent; MKD 1 = €0.0163 (August 2017).

Decentralized functions at the city and municipal level: Kindergartens and primary education are responsibility of the municipality of Gazi Baba. Secondary education is a responsibility of the city of Skopje, local roads is shared responsibility between the city of Skopje and the municipality of Gazi Baba. Rural solid waste collection is responsibility of Gazi Baba and the land field is a city of Skopje responsibility. Water supply and waste water is responsibility of the city of Skopje.

Utilities management: Water supply and wastewater: PE Water Supply and Sewage (shareholder: city of Skopje); electricity: EVN (private company through agreement with government; urban heating: Skopje heating company "Sever" and Energy Sector ESM for the industrial zone.

Municipal staff: Total: 929; primary education: 479, kindergarten and senior citizen homes: 221; communal services: 99; general administration: 130.

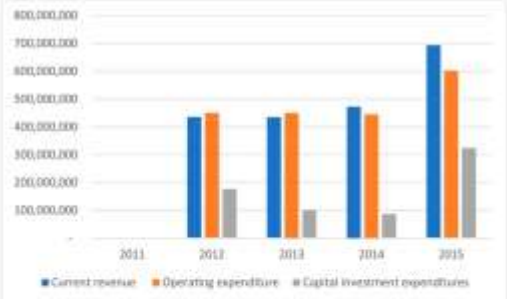
Urban issues & challenges: Improve quality of life through capital investments. Key areas are the promotion of communal infrastructure; urban planning and the environment; road infrastructure; and the construction of primary schools, kindergartens, and sports and cultural facilities.

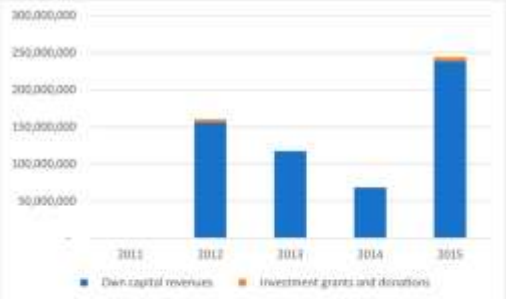
Existing Project Investment Plan: The three-year rolling plan, financed by the city budget and state grants includes MKD 32 million for a cultural center in Drachevo (50 percent city budget and 50 percent central government funds); MKD 25 million for sports hall in the primary school Rajko Zinzifov (47 percent grant from China, 23 percent city budget, and 30 percent central government funds); MKD 9.8 million for street reconstruction (finance source: 75 percent World Bank grant and 25 percent city budget); and MKD 110 million for storm water drains in Przhino (World Bank on-lending borrowing storm water drains in Przhino (World Bank on-lending borrowing

FINANCIAL SITUATION (IN CURRENT TERMS)

FINANCIAL POSITION				Kisela Voda		
Items	**2011**	**2012**	**2013**	**2014**	**2015**	**Growth Index**
Current revenue		435,608,070	435,044,422	472,740,962	489,967,804	4.0%
Operating expenditure		450,366,842	449,989,532	445,567,570	480,405,042	2.2%
Gross Operating balance	-	(14,668,772)	(14,945,110)	27,173,392	9,562,762	-186.7%
Debt service and borrowing costs		7,351,778	11,090,567	10,466,434	12,819,433	20.4%
NET CURRENT BALANCE	-	(22,020,550)	(26,035,677)	16,706,958	(3,256,671)	-47.1%
Capital Revenues	-	**160,909,097**	**117,291,601**	**68,492,872**	**170,119,936**	2.0%
Own capital revenues		155,950,990	117,291,601	68,492,872	170,119,936	2.9%
Investment grants and donations		4,352,107	-	-		n.a.
Capital investment expenditures		177,223,450	102,322,225	87,355,072	140,784,670	-7.4%
BALANCE AFTER INVESTMENTS	-	(38,940,403)	(11,066,301)	(2,155,242)	26,077,995	-187.5%
Cash reserves from previous years		-	2,852,400	16,858,390	18,160,382	n.a.
Loan proceeds		38,940,403	11,066,301	2,155,242	26,077,995	-12.5%
OVERALL CLOSING BALANCE	-	-	2,852,400	16,858,390	70,316,372	n.a.

The growth indexes for the observed period were driven by somewhat optimistic projections for 2015. Own-source capital revenues projected for 2015 drove the capital expenditure planning for 2015. Revenues from land sales were projected to double in 2015 compared with 2014 and land development fees were expected to be much higher in 2015 than in 2014.

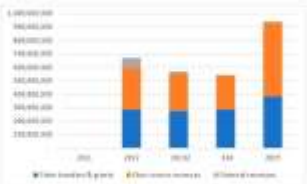




During the last two years of the observed period, Kisela Voda improved its financial position. It faced challenges in terms of being in arrears to creditors but has recently improved its situation. Kisela Voda had a positive operating balance in 2014 and had an ambitious budget planned for 2015 totaling around MKD 950 million, but the actual budget was 30 less. There were major discrepancies between projections for personal income taxes, property taxes, communal taxes, land sales, and donations of capital and actual figures.

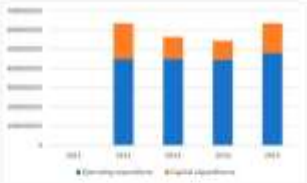
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	Main revenues	2011	2012	2013	2014	2015	Growth
1	State transfers & grants		286,589,526	276,292,835	286,884,975	301,827,345	1.3%
2	Own-source revenues		309,411,641	276,043,188	254,348,859	358,259,795	3.7%
3	External revenues		73,060,870	16,212,092	2,253,573	-	-100.0%



Revenues: Revenues from the central government in addition to grants were almost even with Kisela Voda's own-source revenues, resulting in a lowering of the city's fiscal dependency over the observed period. In 2015, Kisela Voda made ambitious forecasts regarding its own-source revenues. The personal income tax was shared with the state (3 percent) and the municipality of Skopje (20 percent of the 3 percent). Own-source revenues were shared with the municipality of Skopje—50 percent of property taxes and 40 percent of land development fees.

	2011	2012	2013	2014	2015	2015 in Euros	Structure
Operating expenditure		451,618,620	450,484,040	445,899,065	480,646,715	7,815,394	76
Wages and salaries		247,235,240	254,746,080	261,888,573	275,665,884	4,482,372	43
Capital expenditures		183,323,450	112,918,284	97,490,011	153,362,430	2,493,698	24
TOTAL EXPENDITURES		634,942,070	563,402,324	543,389,076	634,009,145	10,309,092	100



Expenditures: Payroll accounted for 43 percent of total expenditures and around 57 percent of operating expenditures. It was mostly generated by school staff and was offset by an earmarked grant. Capital investment expenditures accounted for around 24 percent of total expenditures, mainly civil works such as road maintenance, water supply and sewage, and school construction and maintenance.

RATIO ANALYSIS

MAIN FINANCIAL RATIOS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 0.3		-3.4%	-3.4%	5.7%	2.0%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years		-2.2	-2.1	0.9	3.8
Debt service / Total current revenue	< 10 %		0.0	0.0	0.0	0.0
Debt outstanding /Budget total	< 60%		4.7%	5.6%	4.3%	5.5%
Borrowing /Current revenues	< 15%		8.9%	2.5%	0.5%	5.3%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %		39.6%	40.7%	40.6%	52.5%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %		40.7%	23.5%	18.5%	28.7%
Capital investments from earmarked grants / Total investment expenditure	< 50 %		2.5%	0.0%	0.0%	0.0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %		41.1%	25.6%	21.5%	46.6%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %					
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %		58.9%	60.7%	63.0%	52.4%
Number of municipal employees/1000 citizens	< 25		2.2			
Actual revenue / Planned revenue	95<A/P<1.05					

FINANCIAL MANAGEMENT

The administration and the finance sector prepare the budget; it is adopted by the municipal council. The state audit office conducts the audit.

MUNICIPAL FINANCE IMPROVEMENT PLAN

To increase creditworthiness, expand local tax collection and improve financial accountability; to increase service sustainability, readopt the municipality's urban plans with the new general urban plan; and to improve budget planning, enhance the reliability of forecasting.

Contact: Marina Trajcovska; marina.trajcovska@kiselavoda.gov.mk | http://www.kiselavoda.gov.mk/

MUNICIPALITY OF KOČANI

CITY PROFILE

Territorial organization: The municipality of Kočani is situated in the heart of eastern Macedonia, 120 kilometers from Skopje, in the middle of the river Bregalnica, between the Plackovica Mountains to the south and the slopes of Osogovo to the north. The total area of the municipality is 382 square kilometers.

Demography: Population of municipality, according the 2002 census: 38,092 inhabitants, among the largest in the eastern planning region.

Economy: Trade and textile manufacturing are the most important sectors in Kočani . Two foreign investments were made over the last few years: a greenfield investment with the Dutch company Antura, which has 150 employees; and a brownfield investment with the American consortium Amphenol, which has 200 employees. Average inflation 2011–15): 1.9 percent; MKD 1 = €0.0163 (August 2017).

Decentralized functions: Kindergarden and preschool, primary and secondary education, local roads, solid waste collection and transportation, water supply, and waste water.

Utilities management: Water supply and wastewater: Vodovod Kočani (public utility company); electricity: EVN (private company); urban heating: RE: Gaoterma (public utility company).

Municipal staff: Total: 919; primary education: 331, secondary education: 174; kindergarten and senior citizen homes: 74; communal services: 230; contractual workers 19; general administration and firefighters: 92.

Urban issues & challenges: Improve quality of life through capital investments. Key areas include roads, water supply, sewerage, and school facilities (new construction and rehabilitation). The main issue is geographic information systems (GIS) and land management implementation.

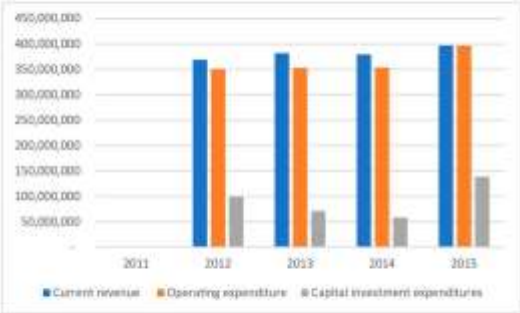
Existing Project Investment Plan: The three-year rolling plan, financed by the city budget and state grants includes €605,318 for the construction of local infrastructure in several villages; €258,679 for the construction of a local road—Goce Delcev—in v.Orizari
- eur 17,400,000: Construction of wastewater treatmant plant in v Mojanci

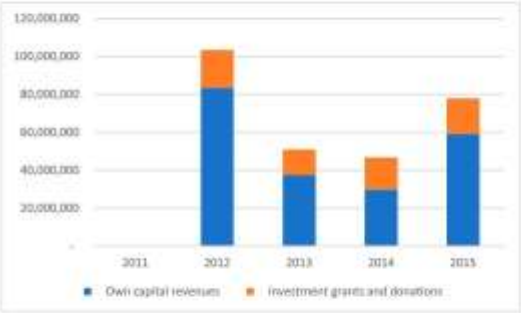
FINANCIAL SITUATION (IN CURRENT TERMS)

FINANCIAL POSITION — Kocani

Items	2011	2012	2013	2014	2015	Growth Index
Current revenue		368,851,818	381,740,402	379,156,700	396,708,000	2.5%
Operating expenditure		350,562,347	352,649,860	353,301,112	396,170,200	4.2%
Gross Operating balance	-	18,089,472	29,090,542	25,853,678	537,800	-69.0%
Debt service and borrowing costs		-	-	4,166,745	4,330,000	n.a.
NET CURRENT BALANCE	-	18,089,472	29,090,542	21,688,933	(3,792,200)	-150.4%
Capital Revenues	-	**103,564,462**	**50,934,771**	**46,794,182**	**77,815,130**	0.0%
Own capital revenues		83,297,745	37,464,757	29,681,250	59,066,000	-10.8%
Investment grants and donations		20,066,717	13,470,014	17,112,932	18,749,130	-2.2%
Capital investment expenditures		99,443,368	71,499,583	58,396,745	118,812,930	11.8%
BALANCE AFTER INVESTMENTS	-	22,010,566	8,525,730	10,084,572	(64,790,000)	-243.3%
Cash reserves from previous years		3,792,067	15,561,217	7,324,941	-	-100.0%
Loan proceeds			-	-	61,480,000	n.a.
OVERALL CLOSING BALANCE	-	25,802,633	24,086,947	17,409,513	(3,310,000)	-150.4%

The growth indexes for the observed period illustrate that current expenditures grew faster than current revenues and that decreasing the gross operating balance marginally contributed to the negative balance after investments in 2015.



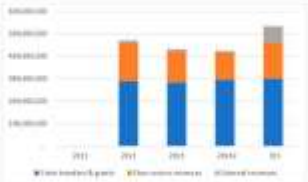


Kočani's gross operating balance was positive during the considered period. Following the stylized fact of weak budget planning Kočani's budget planning for 2015 was ambitious. Actual total revenues were 10 percent less than projected, but were much better than the plan of municipalities. Projected revenues from land sales were overly ambitious.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

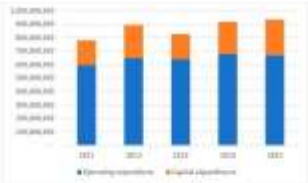
Main revenues in MKD

		2011	2012	2013	2014	2015	Growth
1	State transfers & grants		289,527,951	283,507,464	295,816,539	300,747,000	1.0%
2	Own-source revenues		170,172,529	136,490,499	122,141,225	160,827,000	-1.4%
3	External revenues		11,103,609	11,591,002	6,439,949	72,229,130	59.7%



Revenues: Revenues from the central government in addition to grants were almost double Kočani's own-source revenues, resulting in a somewhat high level of fiscal dependency during the observed period. The annual growth rate for total revenues was relatively low, averaging up to +3 (2011–15); own-source revenue collection was in decline compared with state transfers and grants.

	2011	2012	2013	2014	2015	2015 in Euros	Structure
Operating expenditure	-	356,635,814	353,630,679	353,117,357	369,500,338	6,008,135.4	77
Wages and salaries	-	244,332,236	255,152,307	251,634,393	248,674,860	4,043,493.7	52
Capital expenditures	-	106,926,689	71,499,680	64,865,124	107,704,216	1,751,288.1	23
TOTAL EXPENDITURES	-	457,562,503	425,130,359	417,982,481	477,204,546	7,759,423.5	100



Expenditures: Payroll accounted for 43 percent of total expenditures and around 57 percent of operating expenditures. It was mostly generated by school staff and was offset by an earmarked grant. Capital investment expenditures accounted for around 24 percent of total expenditures, mainly civil works such as road maintenance, water supply and sewage, and school construction and maintenance.

RATIO ANALYSIS

MAIN FINANCIAL RATIOS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 0.3		4.9%	7.6%	6.8%	0.1%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years		0.0	0.0	0.0	106.3
Debt service / Total current revenue	< 10 %		0.0	0.0	0.0	0.0
Debt outstanding /Budget total	< 60%		0.0%	0.0%	0.0%	10.7%
Borrowing /Current revenues	< 15%		0.0%	0.0%	0.0%	15.5%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %		29.8%	29.9%	31.7%	34.5%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %		27.0%	18.7%	15.4%	35.0%
Capital investments from earmarked grants / Total investment expenditure	< 50 %		20.2%	18.8%	29.3%	13.5%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %		48.3%	32.4%	38.3%	25.5%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %					
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %		69.7%	72.2%	71.3%	67.3%
Number of municipal employees/1000 citizens	< 25		3.3			
Actual revenue / Planned revenue	95<A/P<1.05					

FINANCIAL MANAGEMENT

The administration and the finance sector prepare the budget; it is adopted by the municipal council. The state audit office conducts the audit.

MUNICIPAL FINANCE IMPROVEMENT PLAN

To increase creditworthiness, expand fiscal space and the collection of local taxes; to increase service sustainability, foster energy efficiency; and to improve budget reality, and enhance the reliability of forecasting.

Contacts: Elena Dimitrovska, and Zoran Hristov, | www.kocani.gov.mk

MUNICIPALITY OF KRIVA PALANKA

CITY PROFILE

Territorial organization: With 33 settlements, the municipality of Kriva Palanka is located in the northeastern region of the former Yugoslav Republic of Macedonia. In accordance with the DUP the city is fragmented into urban parts.

Demography: Population, according to the most recent census of 2002: 20,257; urban population: 14,558; annual growth rate: -0.3 percent; total area: 480.81 square kilometers; density: 43.30 inhabitants per square kilometer.

Economy: The low cost of doing business in Kriva Palanka attracts investors from Italy, Turkey, and Bulgaria. There are conditions for agricultural production and meat production. The mining industry is also developed. Unemployment rate: 28 percent. Average inflation (2011–15): 1.9 percent; MKD 1 = €0.0163 (August 2017).

Decentralized functions: Preschool, childcare, primary and secondary education, local roads, solid waste management, water supply, and drainage of urban waters.

Utilities management: Water supply and wastewater: Vodovod Kočani (public utility company); electricity: EVN (private company); urban heating: RE: Geoterma (public utility company).

Municipal staff: Total: 387; education: 272; kindergarten: 35; firefighting: 13; administration: 61.

Urban issues and challenges: Improve quality of life through capital investments. Key areas are roads, wastewater treatment plants, and water supply. The main challenge is the Kjmanovo-Gjueshevo road, a cross-border connection.

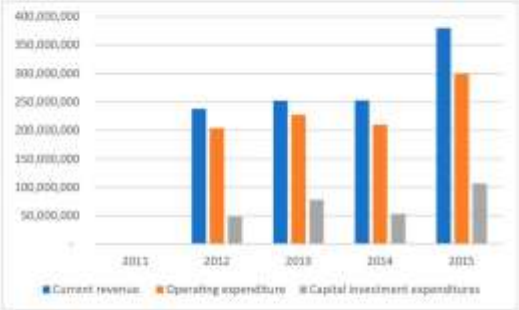
Existing project investment plan: The three-year financial plan includes MKD 6.8 million for drainage of Bojanov Doi (ministry of transportation); MKD 23 million for water supply (ministry of transportation); and MKD 7 million for water supply from Stanechka River with a filter station.

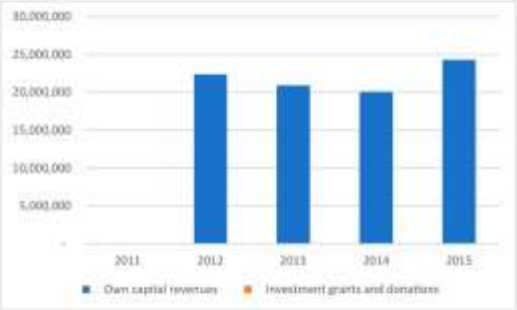
FINANCIAL SITUATION (IN CURRENT TERMS)

FINANCIAL POSITION — Kriva Palanka

Items	2011	2012	2013	2014	2015	Growth Index
Current revenue	-	237,763,579	252,928,139	252,483,139	379,812,260	16.9%
Operating expenditure		203,991,585	227,209,044	210,024,114	299,604,050	13.7%
Gross Operating balance	-	33,771,994	25,119,095	42,459,025	80,208,210	33.4%
Debt service and borrowing costs		2,500,000	2,500,000	2,500,000	2,500,000	0.0%
NET CURRENT BALANCE	-	31,271,994	22,619,095	39,959,025	77,708,210	35.4%
Capital Revenues	-	**22,381,209**	**20,912,021**	**20,065,486**	**24,900,000**	2.8%
Own capital revenues		22,381,209	20,912,021	20,065,486	24,900,000	2.8%
Investment grants and donations		-	-	-	-	n.a.
Capital investment expenditures		48,576,125	77,905,187	53,652,733	106,569,910	29.9%
BALANCE AFTER INVESTMENTS	-	5,077,072	(34,374,071)	6,371,778	(4,961,700)	-196.5%
Cash reserves from previous years		8,117,753	7,577,082	5,065,040	23,483,206	42.5%
Loan proceeds		-	-	-	-	n.a.
OVERALL CLOSING BALANCE	-	13,194,825	(26,796,989)	11,436,818	18,521,506	n.a.

The growth indexes for the observed period were driven by somewhat optimistic projections of current revenues for 2015, which did increase in 2015 through property taxes and communal fees, providing fiscal space for an increase of capital expenditures in 2015 compared with 2014.



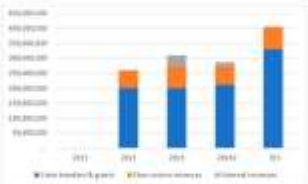


Kriva Palanka's gross operating balance was positive during the considered period. Following the weak budget planning in Macedonia, Kriva Palanka budget planning for 2015 was ambitious. Actual total revenues in 2015 were about 35 percent less than projections. Projected revenues from land sales were also too ambitious. Poor planning was in the property tax, communal tax and mostly failed expectations for transfers from the central government.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

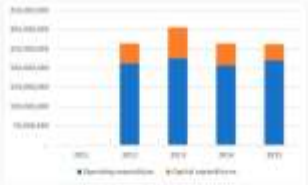
Main revenues

		2011	2012	2013	2014	2015	Growth
1	State transfers & grants		200,126,181	200,181,131	212,286,990	330,877,471	13.4%
2	Own-source revenues		60,018,601	73,059,029	60,261,635	73,234,789	5.1%
3	External revenues		-	36,939,111	14,611,428	2,061,700	#DIV/0!



Revenues: Revenues from the central government in addition to grants were almost five times more than Kriva Palanka's own-source revenues, resulting in a high level of fiscal dependency over the observed period. The annual growth of total revenues was relatively high, an averaging up to +12 percent (2011–15); own-source revenue collection grew more slowly than state transfers and grants.

	2011	2012	2013	2014	2015	2015 in Euros	Structure
Operating expenditure	-	212,560,205	225,395,549	207,514,114	228,034,387	3,577,795.1	84
Wages and salaries	-	146,756,245	135,670,115	135,045,279	114,789,351	1,866,493.5	44
Capital expenditures	-	51,164,125	80,485,187	56,152,733	43,811,312	679,858.7	16
TOTAL EXPENDITURES	-	263,724,330	305,780,736	263,676,847	261,845,789	4,257,653.8	100



Expenditures: Payroll accounted for 44 percent of total expenditures and around 52 percent of operating expenditures, mostly generated by school staff and offset by an earmarked grant. In 2015, capital investment expenditures accounted for around 16 percent of total expenditures, mainly civil works such as road maintenance, water supply and sewage, and school construction and maintenance.

RATIO ANALYSIS

MAIN FINANCIAL RATIOS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 0.3		14.2%	10.0%	16.8%	21.1%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years		0.0	0.0	0.0	0.0
Debt service / Total current revenue	< 10 %		0.0	0.0	0.0	0.0
Debt outstanding /Budget total	< 60%		0.0%	0.0%	0.0%	0.0%
Borrowing /Current revenues	< 15%		0.0%	0.0%	0.0%	0.0%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %		35.0%	38.5%	38.2%	58.0%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %		20.4%	30.9%	21.3%	28.1%
Capital investments from earmarked grants / Total investment expenditure	< 50 %		0.0%	0.0%	0.0%	0.0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %		29.1%	44.3%	37.8%	46.6%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %					
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %		69.0%	60.2%	65.1%	52.2%
Number of municipal employees/1000 citizens	< 25		6.2			
Actual revenue / Planned revenue	95<A/P<1.05					

FINANCIAL MANAGEMENT

The administration and the finance sector prepare the budget; it is adopted by the municipal council. The state audit office conducts the audit.

MUNICIPAL FINANCE IMPROVEMENT PLAN

To increase creditworthiness, expand local taxes collection; to enhance service sustainability, improve local economic development (LED); and to improve budget reality, enhance the reliability of forecasting.

Contacts: Valentina Angelkovska, and Dragica Mitrovska, | http://www.krivapalanka.gov.mk/

MUNICIPALITY OF STRUMICA

CITY PROFILE

Territorial organization: The municipality of Strumica is located in the southeastern part of the former Yugoslav Republic of Macedonia. It comprises the city proper and 24 settlements. The city's master plan is divided into nine urban districts, of which the residential zone is composed of eight communes or residential communities.

Demography: Population, according to the most recent census of 2002: 54,676, including 35,311 living in the center of municipality; annual growth rate: 0.1 percent; total area: 32,189 hectares; density: 1.7 inhabitants per hectare.

Economy: The city has a robust business infrastructure as well as a Moody's bond credit rating of B1. The low cost of doing business is attracting many new residents and investments from Croatia, Greece, Turkey, and Germany. Strumica is part of an extensive agricultural area, offering opportunities to invest in the food production industry and in the export of quality agricultural products. Labor force: 29,127; unemployed: 9,501; average inflation for the observed period of 2011–15 was 1.9 percent; MKD 1 = €0.0163 (August 2017).

Decentralized functions: Childcare (kindergarten), primary and secondary education, local roads, solid waste collection, transportation, water supply, and wastewater.

Utilities management: Water supply and wastewater: PE Komunalec; electricity: EVN (private company); urban heating: PE Strumica GAS.

Municipal staff: Total: 1,426; primary education: 523; secondary education: 235; kindergarten and senior citizen homes: 156; communal services: 337; civil works: 19; and general administration: 156.

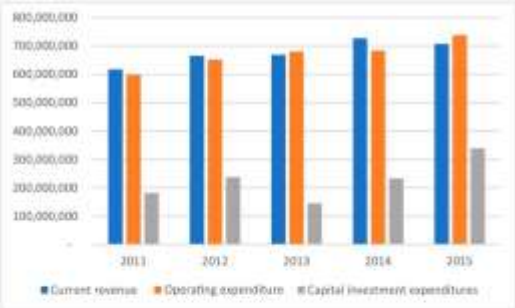
Urban issues and challenges: Improve the quality of life through capital investments. Key areas are roads, water supply, sewage, school facilities (new construction and rehabilitation). The main issue is geographic information systems (GIS) and land management implementation.

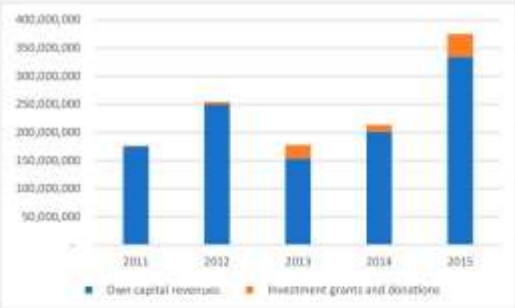
Existing project investment plan: The three-year rolling plan, financed by the city budget and state grants, includes MKD 220 million for a gas network (basic budget and municipal bonds); MKD 37 million for the local road—Popcevo (World Bank grant); and MKD 590.4 million for s water treatment plant (IPA-Fund grant)

FINANCIAL SITUATION (IN CURRENT TERMS)

FINANCIAL POSITION					Strumica		
Items	**2011**	**2012**	**2013**	**2014**	**2015**		**Growth index**
Current revenue	617,791,590	665,452,998	668,790,083	726,641,976	706,678,424		3.4%
Operating expenditure	598,479,525	651,865,560	680,212,071	683,348,466	738,429,334		5.4%
Gross Operating balance	19,312,065	13,587,438	(11,421,988)	43,293,510	(31,750,910)		n.a.
Debt service and borrowing costs	-	-	-	-	-		
NET CURRENT BALANCE	19,312,065	13,587,438	(11,421,988)	43,293,510	(31,750,910)		n.a.
Capital Revenues	**176,404,309**	**254,130,776**	**177,711,928**	**213,225,274**	**374,643,576**		20.7%
Own capital revenues	174,974,703	249,570,251	152,910,835	201,005,108	333,750,000		17.5%
Investment grants and donations	1,429,606	4,560,525	24,801,093	12,220,166	40,893,576		131.3%
Capital investment expenditures	181,968,729	237,909,645	145,962,566	233,326,652	339,392,666		16.9%
BALANCE AFTER INVESTMENTS	13,747,645	29,808,569	20,327,374	23,192,132	3,500,000		-29.0%
Cash reserves from previous years	9,739,675	9,982,924	15,652,973	9,887,428	-		-100.0%
Loan proceeds	-	-	-	-	-		
OVERALL CLOSING BALANCE	23,487,320	39,791,493	35,980,347	33,079,560	3,500,000		n.a.

The growth indexes for the period were driven by investment grants and donations in 2015 and higher revenues from land sales land development fees in 2015 compared with 2014.



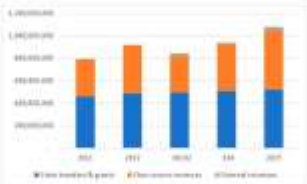


Strumica's 2015 budget plan was 14 percent higher than actual numbers. Land sales were expected to rise by around 170 percent in 2015 compared with 2014, but they only rose around 40 percent. Overall capital revenues were lower than the expected in 2015 than 2014.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

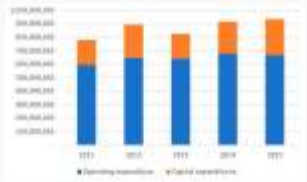
Main revenues in MKD

		2011	2012	2013	2014	2015	Growth
1	State transfers & grants	460,547,638	488,390,745	494,243,793	508,891,727	521,584,683	3.2%
2	Own-source revenues	332,218,655	426,632,504	327,457,125	418,755,357	525,843,741	12.2%
3	External revenues	1,429,606	4,560,525	24,801,093	12,220,166	33,893,576	120.7%



Revenues: Revenues from the central government in addition to grants almost equal Strumica's own-source revenues. As a result, fiscal dependency lessened somewhat during the observed period. The annual growth rate was high, averaging up to +8 percent [[meaning?]] (2011–15); own-source revenue collection grew at a faster pace than state transfers.

	2011	2012	2013	2014	2015	2015 in Euros	Structure
Operating expenditure	597,403,396	648,272,437	640,708,706	678,545,593	669,064,477	10,879,097	72
Wages and salaries	403,361,211	410,369,048	383,672,261	415,890,848	414,055,776	6,732,614	44
Capital expenditures	183,068,337	246,006,173	185,464,931	238,129,525	266,140,255	4,327,484	28
TOTAL expenditures	780,471,733	894,278,609	826,174,637	916,675,118	935,204,732	15,206,581	100



Expenditures: Payroll accounted for 44 percent of total expenditures and around 68 percent of operating expenditures. It was mostly generated by school staff and was offset by an earmarked grant. In 2015, capital investment expenditures accounted for around 28 percent of total expenditures, primarily civil works such as road maintenance, water supply and sewage, and school construction and maintenance.

RATIO ANALYSIS

MAIN FINANCIAL RATIOS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 0.3	3.1%	2.0%	-1.7%	6.0%	-4.5%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	0.0	0.0	0.0	0.0	0.0
Debt service / Total current revenue	< 10 %	0.0	0.0	0.0	0.0	0.0
Debt outstanding /Budget total	< 60%	0.0%	0.0%	0.0%	0.0%	0.0%
Borrowing /Current revenues	< 15%	0.0%	0.0%	0.0%	0.0%	0.0%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	28.8%	30.3%	29.7%	35.0%	33.7%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %	29.5%	35.8%	21.8%	32.1%	48.0%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	0.8%	1.9%	17.0%	5.2%	12.0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	9.4%	9.9%	9.1%	10.1%	11.7%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 90 %					
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	67.5%	63.3%	59.9%	61.3%	61.9%
Number of municipal employees/1000 citizens	< 25	3.8				
Actual revenue / Planned revenue	95<A/P<1.05					

FINANCIAL MANAGEMENT

The administration and the finance sector prepare the budget; it is adopted by the municipal council. The state audit office conducts the audit.

MUNICIPAL FINANCE IMPROVEMENT PLAN

To increase creditworthiness, develop more flexible borrowing procedures and improve the assessment of property taxes; to increase service sustainability, readopt the municipality's detailed urban plans; and to improve budget reality, improve the reliability of forecasting.

Contact: Evgenija Gramatikova, | www.strumica.gov.mk

MUNICIPALITY OF BIJELO POLJE

CITY PROFILE

Territorial organization: The municipality of Bijelo Polje is located in the northeast region of Montenegro and comprises 137 settlements and 39 local communities. Its total area is 924 square kilometers, which is 6.7 percent of the total territory of the country—the fourth largest by area. located in the northern part of Montenegro on the bank of Lim River, surrounded by high mountains with forests - Bjelasica, Lisa, and Pesterska.

Demography: Total population, according to 2011 census: 46,051, representing 7.43 percent of the country's total population. Growth rate in period 2003-2011 is negative -6.6 percent; country ranking (in population): 3 out of 23; vital index: 125; population density: 49.8 inhabitants per square kilometer; average age: 36.1; rate of natural increase (2011): 4.2.

Economy: Total income per capita (2013): €436-1,854; active population (2011): 14,733; activity rate (2011): 32 percent; unemployment rate (2013): 27 percent; national development index (2010–12): 38.06 percent (19th out of 21 municipalities in 2012 relative to local development); inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013, -0.3 percent in 2014, and 1.4 percent in 2015.

Decentralized functions: Montenegro is highly centralized, and the municipalities have limited functional competencies. The Law on Local Self Government stipulates that the municipality's responsibilities include local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for providing education and health services.

Utilities management: Waste disposal and maintenance of public spaces and parks, city market, cemeteries, of local roads, and city's steam heating system: city utility company d.o.o Komunalno "Lim" Water supply, drainage, and wastewater treatment: d.o.o. Vodovod Bistrica; parking services: d.o.o Parking servis (parking services).

Municipal staff: Local administration: 307; public institutions: 92; public enterprises: 228.

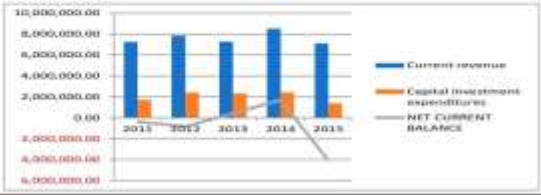
Urban issues and challenges: Improve waste management system and wastewater treatment; lower the high unemployment rate; attract private investors, develop small businesses, tourism, and agriculture; concession was granted to build small hydropower facility

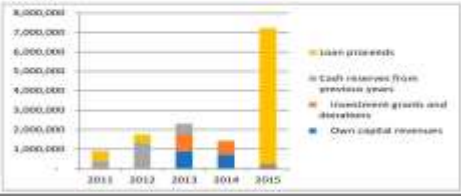
Existing project investment plan: Ongoing capital projects and a major five-year large-value capital investment plan (2011–17) co-financed through the state budget and through public-private partnerships include the construction of wastewater treatment plant and sewage network (27 kilometers long for €10 million); reconstruction of a sports facility for €400,000; construction of swimming pools for €3 million; construction of sports terrain for €300,000; solidarity housing construction for €3.4 million; construction of a city parking lot with garages for €700,000; reconstruction of the city square for €6 million; reconstruction and modernization of the city market for €1.7 million; construction of livestock markets in Tomaševo, Pavin Polje, Lozno, Kanji, and Bistrica for €500,000; construction and reconstruction of the road network (86 projects) for €15 million; construction and reconstruction of the water supply network (44 projects) for €6.6 million.

FINANCIAL SITUATION (IN CURRENT TERMS)

Items	2011	2012	2013	2014	2015	Growth Index
Current revenue	7,228,457.89	7,826,210.34	7,257,090.34	8,932,445.70	7,090,379.00	-0.5%
Operating expenditure	6,273,587.45	6,379,921.09	3,679,830.40	3,448,944.47	6,245,700.00	4.3%
Gross Operating balance	1,954,870	1,446,289	3,577,260	5,053,501	844,679	-18.9%
Debt service and borrowing costs	2,314,890	2,865,415.62	3,084,604.90	3,281,576.12	4,924,790.94	20.8%
NET CURRENT BALANCE	(360,120)	(819,127)	492,755	1,771,925	(4,080,112)	63.5%
Capital Revenues	1,473,603	484,267	2,127,835	1,134,636	289,950	-33.4%
Own capital revenues	1,473,603	484,267	1,237,453	425,777	179,950	-40.9%
Investment grants and donations	-	-	890,382	708,859	110,000	
Capital investment expenditures	1,710,727	2,393,845	2,308,249	2,420,373	1,999,000	-4.9%
BALANCE AFTER INVESTMENTS	(597,244)	(2,728,705)	302,341	486,188	(5,189,162)	n.a.
Cash reserves from previous years	382,801	1,328,036	703,884	24,800	46,821	-41.2%
Loan proceeds	632,599	417,000	0	0	6,945,000	90.9%
OVERALL CLOSING BALANCE	318,256	(983,675)	835,925	510,788	1,802,659	54.3%

The positive operating margin during the observed period and high operating surplus beyond operating expenditures in 2014 indicate financial strength and sustainability of the municipality's operations. In 2015 due to high operating expenditures there was a significant reduction of the gross operating balance, signaling financial issues and jeopardizing creditworthiness. The operating expenditures grew an average of 4.3 percent while current revenues decreased slightly with an average index of 0.5 percent. Due to high debt service and borrowing costs (growth index of 20.8%), and high operating expenditures the net current balance was negative in 2012, 2013 and alarmingly so in 2015, worsening the municipality's financial situation. The operating margin decreased an average of 18.9 percent but remained positive. However, this was accompanied by a positive overall balance (except in 2012) Investments showed strong negative balances in 2011, 2012, and especially 2015 where capital investments had to be financed mainly from debt (in 2015) and debt and cash reserves (2011 and 2012). The City shows reduction of cash reserves shrunk by 41.2 percent, and although there were no loan proceeds from 2013 to 2014 the high level of borrowing in 2015 (debt reprograming arrangement) brought the growth index of 90.9 percent. Capital investments revealed a declining trend at -4.9 percent. The highest debt repayment of €3.8 million excluding interest is indicated in 2015. Twenty-two percent went to repaying a bank debt (7 percent of total expenditures in 2015) and 78 percent for repayment of arrears (23 percent).



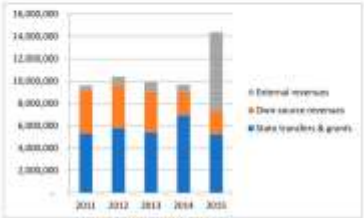


Current revenues amounted to 71 percent of total revenues over the 2011–15 period. Own-source capital revenues, including the sale of property, declined by an average of 40.9 percent. The city finances capital expenditures with investment grants from the state budget and with donations (31 percent of total capital revenues). The city maintains capital expenditures at a high level even though revenues are insufficient, and considering the high levels of borrowing in 2015, the city should revise its investment plans going forward.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

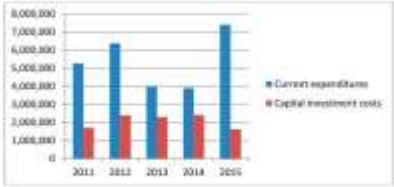
	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	5,307,836	5,797,560	5,400,432	6,916,035	5,218,968	-0.4%
Own-source revenues	3,787,406	3,840,947	3,627,696	2,048,517	2,117,150	-13.5%
External revenues	522,599	758,411	890,382	708,859	7,034,500	91.5%

Own-source revenues constituted 29 percent of total budget revenues, including property sales, which accounted for 14 percent of total own-source revenues and 4 percent of total revenues (2011–15) and which revealed an average declining trend of 13.5 percent. State transfers (shared revenues) and grants (equalization) accounted for 53 percent of total revenues for the 2011–15 period and showed a slight declining trend of 0.4 percent.



The city demonstrated a strong reliance on state transfers and grants, 18 percent of which are shared revenues and 82 percent equalization (unconditional) grants. Own-source revenues declined more quickly than state transfers and grants, suggesting that the city should make more of an effort in this regard. External revenues, with a growth index of 91.5 percent, accounted for 18 percent of total revenues in 2011–15, peaking in 2015 due to reprogramming debts and entering into loan agreements with government approval to deal with city's accumulated debt and arrears.

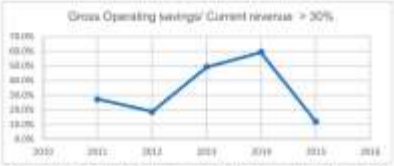
Capital investments declined by an average of 1 percent during the observed period, with the highest level in 2014, then declining by 33 percent in 2015; they represent an average of 21 percent of total expenditures for 2011–15. The largest share of capital investments (85 percent) during the observed period was in expenditures for local infrastructure, including city construction land improvements, with a 3 percent growth index. Current expenditures trended upward with an average annual growth of 9 percent, constituting 54 percent of total expenditures for 2011–15, reaching the highest level in 2015, mainly due to an increase in payroll-related costs, interest, fees, and transfers. Current expenditures represented 57 percent of total expenditures in 2015.



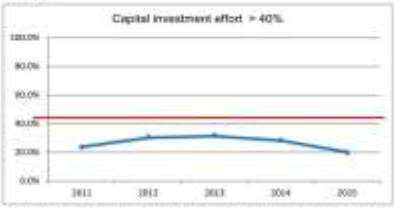
RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 30%	27.0%	18.5%	49.3%	59.4%	11.9%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	3.5	6.1	2.3	1.5	17.1
Debt service / Total current revenue	< 10 %	32%	20%	38%	37%	53%
Debt outstanding /Budget total	< 60%	70.2%	87.8%	81.5%	78.7%	102.7%
Borrowing /Current revenues	< 15%	7.2%	5.3%	0.0%	0.0%	97.9%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 30 %	89.4%	87.0%	85.1%	86.5%	82.4%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 30 %	23.7%	30.6%	31.9%	28.5%	19.1%
Capital investments from earmarked grants / Total investment expenditure	< 30 %			36.8%	29.3%	7.9%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 10 %	8.9%	11.7%	16.0%	15.3%	15.1%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes billed	> 90 %	26.8%	33.3%	37.2%	39.8%	46.9%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	24.4%	25.7%	36.4%	35.5%	44.1%
Number of municipal employees/1000 citizens	< 25	9.7	9.7	10.2	9.3	9.6
Actual revenue / Planned revenue	95<A/P<1.05	82.91%	94.28%	94.01%	91.05%	95.52%

Debt repayment capacity was strong for 2011–14, but the high level of indebtedness in 2015 indicates that the city could not repay all of its outstanding debt from the five-year operating surplus (against 10-year benchmark). Debt service increased, reaching 69 percent of current revenues in 2015 and failing to meet the benchmark over the entire observed period, constraining the city's borrowing capacity. Indebtedness ratio (debt outstanding/budget total) consistently exceeds the 60 percent benchmark, demonstrating zero room for further debt financing and a need to further stabilize its indebtedness. The city was within the benchmark for maintenance expenditures. It spent more revenue on labor than the benchmark (40 percent) in 2015, possibly due to the repayment of outstanding payroll-related obligations rather than from additional hiring. The city performs well on the ratio for municipal employees relative to inhabitants. It should measure revenue performance in fees to better focus on service sustainability.



The city achieved positive operating savings over the observed time period—a sign of creditworthiness. The ratio was met in 2013 and 2014, but dropped below the 30 percent benchmark in 2015, which suggests that the city's creditworthiness is weak and it can no longer borrow.



Capital investments below the 40 percent benchmark signal the need to revise investment policies. The city shows negligible reliance on earmarked investment grants whereby investments have mainly been financed from loans. The city does not generate revenues sufficient to fund the benchmark. Budget planning—planned and actual figures—were within range, pointing to fairly realistic budget planning. The city shows strong fiscal autonomy and spending sovereignty, with an ability to increase its own-source revenue.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial condition of local government by enhancing the regulatory framework (new revenue sources through adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed). Establish a new ministry for public administration (completed). Increase creditworthiness (enhance capacity for preparation and implementation of European Union projects and developing project documentation (by 2019). Improve exchange of data between the state and local governments for an improved database on shared revenues and more reliable forecasting (by end of 2018). Enhance service sustainability and improved operations of local administration. Improve the information technology system for the assessment and collection of real estate tax (by 2018). Implement new tax accounting software to ensure an improved database on all local taxes (by 2018). Introduce inter-municipal cooperation—the pooling of municipalities to propose joint projects, to be allocated from European Structural Investment Funds (by 2018). Advance budget reliability and enhanced budget planning by improving reporting for equalization (by 2018). Fully implement functional classification (by 2018). Improve municipal treasury operations by implementing budget expenditure controls and measures (end of 2017).

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MUNICIPALITY OF BUDVA

CITY PROFILE

Territorial organization: The municipality of Budva comprises 61 settlements and 13 local community units; its total area is 122 square kilometers. The city of Budva is located in the Adriatic region, and is the center of the municipality of Budva. It is 2,500 years old—one of the oldest settlements on the Adriatic coast.

Demography: Total population, according to 2011 census: 19,218 (3.1 percent of the total population of Montenegro); annual population growth: -0,8 percent; country ranking (population): 11 out of 23.; vital index: 191; population density: 157 inhabitants per square kilometer. Population growth, according to the 2011 census relative to 2003 census is 24.1 percent, the highest population growth rate in the country. Average age of population: 36.5; rate of natural increase (2011): 5.8.

Economy: Total income per capita (2013): 3,538; activity rate (2011): 56,1 percent; unemployment rate (percent active population): 13.2; employment rate: 49 percent (the country's highest); national development index (2010–12): above 125 percent (331.7 percent), ranking first in the country; inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013, -0.3 percent in 2014, and 1.4 percent in 2015.

Decentralized functions: Montenegro is highly centralized, and the municipalities have limited functional competencies. The Law on Local Self Government stipulates that the municipality's responsibilities include local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for providing education or health services.

Utilities management: Water supply, drainage, and wastewater treatment: Vodovod i kanalizacija d.o.o Budva 2 (water and sewage company); waste collection and disposal; management of landfills, city market, and city parks; maintenance of public spaces, green, and recreational areas. Public lighting: d.o.o Komunalno Budva (utility company). Sports: JP Mediteranski sportski centar and JP Sportsko rekreativni centar (public companies). Cemeteries: JP Pogrebne usluge Budva (public company). Parking: Parking servis d.o.o (public company).

Municipal staff (2015): Local administration: 315; public institutions: 210; public enterprises: 479.

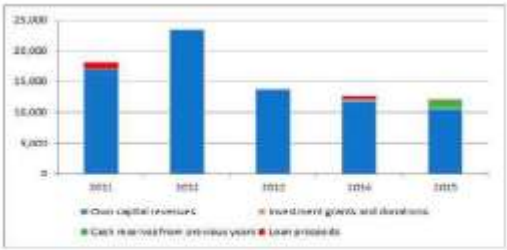
Urban issues and challenges: Overbuilt urban spaces, wastewater treatment, solid waste management, and illegal construction.

Existing project investment plan: The primary capital projects for 2011–17 were the construction of the roundabout on the Boulevard Becici stream and control stream for €250,000; utility equipping and construction and reconstruction of water and sewage networks for an approximate total of €2 million; wastewater treatment plant for €4.6 million; day care center for €408,000; building of garages for €1.1 million; a school sports playground in Sveti Stefan for €70,000; spatial planning for 2016 for €6.1 million.

FINANCIAL SITUATION

Items in 000 EURO	2011	2012	2013	2014	2015	Growth index
Current revenue	12,478	16,722	17,863	21,086	23,477	17.1%
Operating expenditure	7,324	7,903	8,879	9,961	10,938	8.8%
Gross Operating balance	5,155	8,819	8,984	11,124	12,539	25.9%
Debt service and borrowing costs	21,028	22,659	16,725	16,888	16,430	-2.0%
NET CURRENT BALANCE	(15,873)	(13,840)	(8,641)	(5,765)	(6,491)	-20.0%
Capital Revenues	17,041	22,465	13,739	11,908	10,662	-11.1%
Own capital revenues	17,041	22,465	13,739	11,908	10,662	-11.1%
Investment grants and donations						
Capital investment expenditures	2,201	8,041	5,307	5,532	5,102	-12.5%
BALANCE AFTER INVESTMENTS	(1,095)	19	91	608	(931)	-4.0%
Cash reserves from previous years	19	20	38	128	1,318	206.2%
Loan proceeds	1,100			584	200	-31.0%
OVERALL CLOSING BALANCE	20	110	307	1,420	1,586	175.7%

The positive operating margin during the observed period reflects the municipality's substantial operating margin reflects the financial strength and sustainability of its operations and demonstrates strong creditworthiness, accompanied by a positive overall closing balance (high growth index of 176 percent). However, debt service made up a substantial portion of the expenses, resulting in negative net current balances for each year, placing a huge burden on the municipal budget. The investment balance was negative in 2011 and 2015, mainly due to the repayment of arrears on capital investments. The municipality has a growing index for cash reserves (with a high of 206 percent) due to a 2015 increase, which were negligible from 2011 to 2014. The current revenue growth index (2011–15) was 17.1 percent, indicating a recovery for the local economy and finance. Current city revenues were much higher than operating expenditures. As a result, positive operating balances show financial strength in terms of the city financing its regular operations. Operating expenditures trended upward, meaning that the municipality was not committed to saving; the growth index shows it growing more slowly than current revenues (9.5 percent).

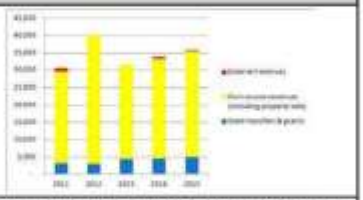


Current revenues amounted to 71 percent of total revenues over the 2011–15 period. Own-source capital revenues, including the sale of property, declined by an average of 40.9 percent. The city finances capital expenditures with investment grants from the state budget and with donations (31 percent of total capital revenues). The city maintains capital expenditures at a high level even though revenues are insufficient, and considering the high levels of borrowing in 2015, the city should revise its investment plans going forward.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues in 000 EURO	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	3,125	3,060	4,458	4,590	4,997	12.5%
Own-source revenues (including property sale)	26,409	37,146	26,981	28,535	30,458	3.6%
External revenues	1,180	-	-	584	250	-31.0%

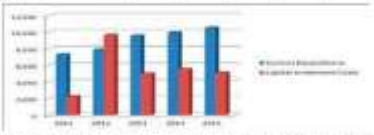
The municipality strongly relied on own-source revenues. In 2015, own-source revenues accounted for 85 percent of total budget revenues, including property sales of less than 2 percent; shared taxes accounted for 14 percent. External revenues (loan proceeds) made up 1 percent of the 2015 budget.



Own-source revenues had a growth index of 4 percent, mainly by increasing the collection of local property taxes. Total own-source revenues, however, have grown slower than state transfers (12.5 percent growth index). External revenues (Budva received no donations or state transfers during the period of 2011–15) showed a declining trend since 2011, with no loan proceeds in 2012 and 2013. Overall, shared taxes accounted for 12 percent of the municipality's total revenues over the observed period, while own-source revenues accounted for a high of 87 percent.

OWN-OPERATING EXPENDITURES in 000 EURO	2011	2012	2013	2014	2015	Average annual growth
CURRENT EXPENDITURES (total)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Payroll (including employee benefits & misc.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Operating costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Materials	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Travel expenses	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Representation costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Energy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Telephone and fees	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Postal services	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Banking services	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Transportation services	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Contract services	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Current repairs and maintenance	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Rents	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Interest costs and fees	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Current subsidies						
Grants and transfers	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Social security and welfare	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other expenditures	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CAPITAL INVESTMENT FINANCING in 000 EURO	2011	2012	2013	2014	2015	Average annual growth
Total capital investment costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Expenditures for local infrastructure	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Expenditures for construction	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Expenditures for improvement of city constructed land				[illegible]		
- Expenditures for equipment	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
- Expenditures for capital maintenance			[illegible]	[illegible]	[illegible]	
- Other capital expenditures						

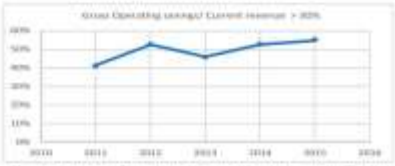


Current expenditures showed an upward trend, with an average annual growth rate of 10 percent. Capital investments were at their highest level in 2012; they declined by half in 2013, and remained at the same level in 2014 and 2015, with an average annual growth rate of 22.5 percent over the observed period. The largest share of capital investments was for local infrastructure, with growth index of 17 percent.

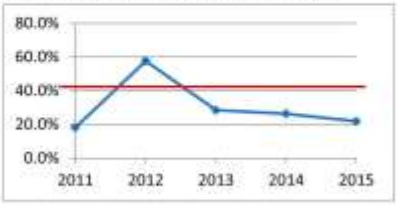
RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 30%	41%	33%	46%	53%	55%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	2.3	1.1	0.7	0.4	0.2
Debt service / Total current revenue	< 10 %	158%	130%	80%	80%	83%
Debt outstanding /Budget total	< 100%	42.5%	24.0%	229.1%	219.8%	194.8%
Borrowing /Current revenues	< 15%	6.8%	0.0%	3.0%	2.9%	1.1%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 60 %	192.7%	209.6%	149.4%	128.9%	122.3%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %	16.1%	37.7%	28.3%	28.2%	21.7%
Capital investments from earmarked grants / Total investment expenditure	> 80 %	0.0%	0.0%	0.0%	0.0%	0.0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	0.8%	0.4%	1.0%	4.0%	3.2%
Fees collected/ Fees billed	> 80 %					
Taxes collected/Taxes levied	> 90 %	77.1%	73.8%	72.6%	88.8%	91.3%
6-Other ratios						
Salaries & wages / Operating actual expense	< 40 %	49.8%	39.8%	31.5%	43.0%	50.9%
Number of municipal employees/1000 citizens	< 20	23.4	22.8	22.8	21.8	23.6
Actual revenue / Planned revenue	95%<P<105	93.2%	100.2%	88.5%	88.8%	102.8%

Capital investment efforts were below the benchmark except in 2012, indicating that the city should reconsider its investment policies. The city's investment performance experienced a downturn and had no earmarked investment grants. The downward trend in capital investments may have been caused by the city budget having being burdened with the repayment of accumulated capital investment arrears due to its over-investing in previous years and undertaking high-value capital projects that could not be completed due to the economic downturn and declining revenues from the sale of assets, the lack of investment grants, and possibly the high cost of borrowing. The city could consider entering into public-private partnerships instead. Planned and actual budget figures were not within the range, pointing to the need for more realistic budget planning. Fiscal autonomy was high, exceeding the benchmark, demonstrating the city's spending sovereignty and ability to increase its revenue. The city was below its benchmark in terms of maintenance expenditures, indicating the need for the prioritization of noncurrent asset maintenance. The city spent more on labor costs than the benchmark but performed well with regard to the ratio of municipal employees relative to inhabitants. It should measure its revenue performance in fees to improve its focus on service sustainability.



The creditworthiness ratio—the operating margin over current revenues—was high and met the benchmark of >30 percent, showing an upward trend and suggesting the municipality's strong creditworthiness during the observed period as well as its capacity to borrow and invest.



As of 2013, the indebtedness ratio (debt outstanding/ budget total) was below the set benchmark, indicating serious emerging financial issues with expiring grace periods for loans. Debt repayment capacity met the benchmark—the city was able to repay all outstanding debt from five years of operating surplus against a 10-year benchmark. However, debt service was well below the benchmark, causing serious concern, including accumulated bank debt as well as arrears—ballooning debt payments—and absorbing up to 60 percent of overall budget expenditures during the observed period.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial condition of the local government by enhancing the regulatory framework (new revenue sources through the adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed); establish the new ministry for public administration to monitor and control local government operations and protect their interests (completed); increase creditworthiness by improving the exchange of data between the state and local government for a better database on shared revenues and forecast reliability by the end of 2018; promote service sustainability and improved operations of local administration by improving the information technology system for the assessment and collection of real estate taxes by 2018; implement a new tax accounting software to ensure improved database on all local taxes by 2018; implement savings measures for current expenditures, such as updates to the Act on Organization and Systematization of Jobs, by end 2017; enhance budget reliability and planning by implementing an accrual accounting base by 2019; improve municipal treasury operations by implementing budget expenditure controls and measures by the end of 2017; implement a "hands-on" application for planning of revenues and expenditures for credit analysis by 2020; and implement a debt management system and improve investment programming by 2020.

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MUNICIPALITY OF MOJKOVAC

CITY PROFILE

Territorial organization: The municipality of Mojkovac is located in the northern region of Montenegro and comprises 14 settlements. The total area of the municipality is 367 square kilometers, which represents 2.6 percent of the country's total territory; it is among the smaller municipalities of Montenegro. Mojkovac is located on the west bank of the Tara River between the mountains of Bjelasica and Sinjajevina. It sits at the intersection of the main road connecting Montenegro's coast and capital city of Podgorica with northern Montenegro and Serbia.

Demography: Total resident population (2011 census): 8623 comprising 1.4% of the total population in Montenegro. Annual population growth is negative: -13.4%. Rank in the country (in population): 16 out of 23. Human development index is below the Montenegro average and amounts 0.78. Population density: 23 inhabitants / km². Average age of population is 38.4. Rate of natural increase in 2011 is negative: -3.1.

Economy: Total income per capita (2013): €436–1,855 (within the range of the northern region, the lowest of the three regions); activity rate (2011): 33 percent (below the 45 percent benchmark; unemployment rate (2011): 16.3 percent; employment rate (2011): 21.4 percent; national development index (2010–12): 63.4 percent; inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013, -0.3 percent in 2014, and 1.4 percent in 2015.

Decentralized functions: Montenegro is highly centralized, and the municipalities have limited functional competencies. The Law on Local Self Government stipulates that municipal tasks include local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for delivering education and health services.

Utilities management: Water supply, drainage and wastewater treatment, waste disposal, public lighting, city market, maintenance of public spaces, and cemeteries: Javno komunalno preduzece Gradac (city utility company).

Municipal staff (2015): Local administration: 78; public institutions: 15, public enterprises: 55.

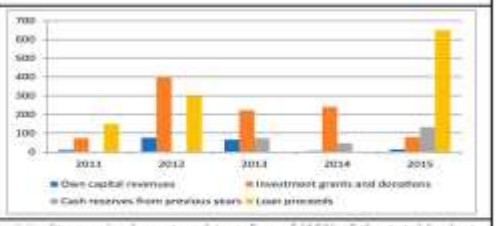
Urban issues: Waste management system; landfill dumps from lead and zinc mines; depopulation and high unemployment rate; wastewater treatment; use of renewable energy sources.

Investment Projects: Main capital projects (2011–17): Crossroad reconstruction ul. Janka Vukotića for €240,000; landslide stabilization in Stevanovac for €150,000; construction of cycling and running trail on Jalovište for €540,000; construction of the sludge treatment pool construction for €180,000; construction of Njegoševa street and local road—Mojkovac-Ravni—for €400,000; protection and regulation of the wellhead for the city water supply in Gojaković for €100,000; construction of water supply system in Gostilovina and Šlatina for €150,000; construction of the municipal administration building for €500,000; and construction of the building for socially vulnerable persons for €300,000.

FINANCIAL SITUATION

Items in 000 EURO	2011	2012	2013	2014	2015	Growth index
Current revenue	1,780	1,884	1,960	1,736	1,863	1.0%
Operating expenditure	1,445	1,584	1,266	1,205	1,408	-0.6%
Gross Operating balance	345	280	294	531	455	7.1%
Debt service and borrowing costs	215	218	302	520	836	40.4%
NET CURRENT BALANCE	130	62	(8)	11	(381)	
Capital Revenues	83	474	289	246	93	2.9%
Own capital revenues	70	78	66	5	14	8.8%
Investment grants and donations	73	398	223	241	79	2.0%
Capital investment expenditures	362	699	308	176	269	-7.1%
BALANCE AFTER INVESTMENTS	(149)	(163)	(25)	81	(557)	39.0%
Cash reserves from previous years	2	2	74	47	133	185.6%
Loan proceeds	190	300	0	0	850	44.3%
OVERALL CLOSING BALANCE	2,867	(3,812)	(2,741)	(2,337)	(4,452)	n.a.

The positive operating margin indicates sustainability of the operations of the Municipality with operating expenditures showing slight downward trend (0.6%). Operating margin grew by 7.2 percent. However, debt service made up substantial part of expenses resulting in negative net current balances in 2013 and 2015, with a worrisome growth index of 40 percent, creating a concerning burden for the municipal budget and constraining its investment and borrowing capacity. Debt service reached the highest level in 2015 (33 percent of the total budget expenditures) out of which 55 percent went on repayment of bank debt (18 percent of the total expenditures in 2015) and 45 percent for repayment of arrears (15 percent of the total 2015 expenditures). Investment balance was only positive in 2014, which indicates investments were financed partly from debts. The overall closing balance also shows a growing negative trend; which is a problem for the municipality, showing the budget is not balanced with debt financing. The municipality is running well in terms of financing operations, but it has overinvested in the past and with no cash reserves and low own capital revenues the capital expenditures were mostly financed through borrowing or from grants. Cash reserves have been negligible throughout the period but recovered to some extent in 2015 showing growth index of 186 percent. The current revenue growth index from 2011 to 2015 was 1 percent. Negative net current balance in 2013 and 2015 is caused by high debt service costs exceeding current revenue potential.

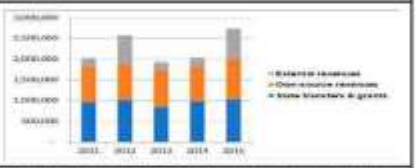


Capital investment financing shows declining trend (-7.2%) since 2012 when municipality received grant and transfers of (15% of the total budget revenues in 2012) and used loan proceeds to finance large capital investment (28% of the total budget). Own capital revenues (only 7% of the total capital revenues or 2% of the total revenues 2011-2015) are insufficient to finance capital investments, which are mainly financed from grants and borrowing. Over the observed period 44% of capital revenues came from grants and donations.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	963,896	1,000,482	845,274	985,562	1,028,230	1.6%
Own-source revenues	836,957	876,268	875,178	827,489	978,200	4.0%
External revenues	223,430	697,437	200,734	216,443	723,698	34.2%

Municipality receives steady shared revenues and unconditional (equalization) grants. During the observed five year period state transfers and grants accounted for 43% of the total revenues, while own revenues (including property sale) accounted for 49% of the total 2011-2015 revenues.



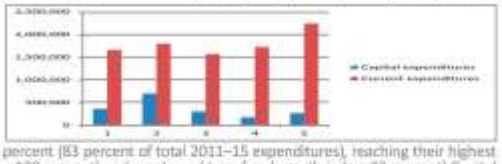
Own revenues show growth index of 4%, mainly by icrease in collection of local property tax (growth index of 4.2%). Total own source revenues have grown faster than state transfers (1.6% growth index) which indicates municipal efforts to improve collection rates. External revenues (53% loan proceeds, and 47% donations during 2011-2015) show strong growing trend with average growth index of 34%, under which loan proceeds indicate growth index of 44% while donations have grown by 0.09%.

OWN OPERATING EXPENDITURES

	2011	2012	2013	2014	2015	Average annual growth
CURRENT EXPENDITURES (total)	1,840,437	1,797,366	1,960,141	1,725,488	2,243,999	7.80%
Payroll (including employee benefits & misc.)	800,096	891,274	853,002	866,319	885,779	4.00%
Operating costs	179,476	151,017	139,436	104,202	130,000	-4.63%
- Material	26,112	20,888	11,062	10,189	7,137	-33.28%
- Travel expenses	2,151	16,100	1,210	5,404	9,000	-0.36%
- Representation costs	13,202	13,648	11,077	1,201	5,888	-15.63%
- Postage	87,916	73,023	84,803	80,812	87,156	4.79%
- Telephone services	5,511	4,002	1,044	4,100	3,300	-11.88%
- Postal services	798	611	0	0	0	
- Banking services	3,084	3,197	3,380	3,009	3,384	0.83%
- Transportation services	0	0	0	0	0	
- Contract services	13,084	11,006	36,033	20,700	41,400	33.42%
Current repairs and maintenance	38,931	87,414	45,937	32,910	42,386	4.79%
Rents	0	1,000	540	1,000	5,000	
Interest costs and fees	19,488	32,604	108,025	86,142	401,000	120.88%
Current transfers	0	17,170	14,507	15,972	15,921	
Grants and transfers	179,501	318,176	315,271	204,595	406,025	23.66%
Social security and welfare	1,798	26,354	1,310	1,000	3,000	16.36%
Other expenditures	332,784	271,277	301,526	204,304	464,750	8.77%

CAPITAL INVESTMENT FINANCING

Item	2011	2012	2013	2014	2015	Average annual growth
Total capital investment costs	38	68	36	19	28	0.07
- Expenditure for local infrastructure	8	19	12	8	4	-10.25%
- Expenditure for constructions	8	23	17	9	15	7.85%
- Expenditure for improvement of city construction land						
- Expenditure for equipment	12	7	2	2		-100.00%
- Expenditure for capital maintenance						
- Other capital expenditure	18	34	7	8	14	0.0%

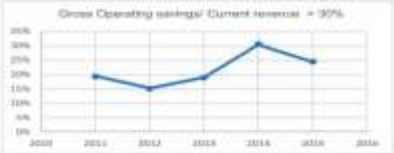


Current expenditures trended upward, with an average annual growth rate of 7.8 percent (83 percent of total 2011–15 expenditures), reaching their highest level in 2015, mainly due to an increase in interest and fees (average growth index: 120 percent) and grants and transfers (growth index: 23 percent) Capital investments were at their highest level in 2012, declining by half in 2013, with further reductions in capital spending in 2014, reflecting an average annual decrease over the observed period of 0.07 percent. The largest share of capital investments during the considered period was for land development (44 percent), which decreased by an average of 9 percent. Capital investment costs constitute 17 percent of the total expenditures for 2011–17.

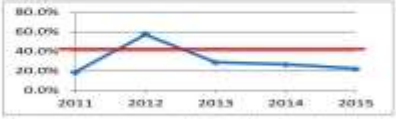
RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 30%	29%	25%	19%	31%	24%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	0.8	1.0	1.0	0.9	1.4
Debt service / Total current revenue	< 10 %	12.0%	11.7%	19.4%	30.0%	44.9%
Debt outstanding /Budget total	< 60%	8.7%	16.9%	24.8%	14.0%	23.6%
Borrowing /Current revenues	< 15%	8.4%	16.1%	0.0%	0.0%	34.9%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	78.5%	89.0%	81.8%	81.8%	85.0%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %	28.2%	37.5%	19.9%	10.1%	14.4%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	28.2%	98.8%	72.9%	136.9%	29.4%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	2.5%	3.3%	3.0%	2.0%	2.4%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes billed	> 90 %	58.1%	48.3%	49.7%	52.7%	58.1%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	54.4%	61.0%	44.8%	41.1%	39.0%
Number of municipal employees/1000 citizens	< 25	11.28	11.53	9.88	11.33	11.3
Actual revenue / Planned revenue	(0<A/P<1.05	73.9%	81.5%	73.3%	83.3%	119.0%

The indebtedness ratio (debt outstanding/budget total) met the benchmark. Debt repayment capacity also met the benchmark: the city could repay all outstanding debt with a five-year operating surplus against a 10-year benchmark. However, debt service relative to current revenue is well below the benchmark (<10 percent), causing serious concern, including accumulated bank debt as well as arrears ballooning debt payments—reaching their highest ratio in 2015 (45 percent of current revenues). Annual borrowing far exceeded the current revenues benchmark of 15 percent in 2015 at 35 percent, indicating that municipality must be cautious regarding future debt. The city demonstrated strong spending sovereignty— over 80 percent, except for 2011. It was below the benchmark for maintenance expenditures, indicating a need for the prioritization of noncurrent asset maintenance. Indicators suggest there is room for improvement in local tax collection. The city exceeded the benchmark for payroll costs relative to operating expenses, but managed to meet the benchmark with a staff rationalization plan in 2015, reflecting improved city spending on labor. The city performed well on the ratio for municipal employees relative to inhabitants. It should measure revenue performance in fees to better focus on service sustainability.



The city achieved positive operating savings over the observed time period—a positive sign for creditworthiness. However, the creditworthiness ratio—operating margin over current revenues—only met the benchmark (>30 percent) only in 2014. The ratios below the 30 percent benchmark reflect the municipality's lack of capacity to further borrow and invest.



The capital investment effort below the benchmark suggests that the city should reconsider its investment policies. The city investment performance took a downturn and relied on earmarked investment grants and loans. This trend may have been caused by the city budget being burdened with the repayment of accumulated capital investment arrears due to the city overinvesting in previous years (2012) and possibly the high cost of borrowing. Capital investment efforts were well above the benchmark, reflecting low development expenses and a high level of dependence on external financing. Planned and actual budget figures were not within the range, pointing to the need for more realistic budget planning.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve LG financial condition through enhancing regulatory framework (new revenue sources through adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed); Establishment of the new Ministry for Public Administration for monitoring and control of operations of the LGs, and protection of their interests (completed). Increase creditworthiness (enhance capacity for preparation and implementation of EU projects and developing project documentation -by 2019, improve exchange of data: State vs. LGs for better data base on shared revenues and forecast reliability end 2018); Service sustainability and improved operations of local administration (improve the IT system for assessment and collection of real estate tax by 2018; implement new tax accounting software to ensure improved database on all local taxes – by 2018; implement saving measures for current expenditures -updates to the Act on Organization and Systematization of Jobs, by end 2017; introduce inter municipal cooperation: Pooling of Municipalities to propose joint projects - considering the size and the amount to be allocated from the European Structural Investment Funds by 2018); Budget reliability and enhanced budget planning (improve reporting for the purposes of equalization by 2018. Full implementation of functional classification as a standardized framework for regional comparability by 2018,implement actrual accounting base by 2019; improve municipal treasury operations – implement budget expenditure controls and measures—end 2017, improve investment programming – by 2020)

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MUNICIPALITY OF PLJEVLJA

CITY PROFILE

Territorial organization: The municipality of Pljevlja is located in the northern region of Montenegro, comprising 153 settlements and 27 local communities. The total area of the municipality is 1,346 square kilometers—10 percent of the Montenegro's total territory and the third largest municipality in the country. The highest point in Pljevlja is on the Ljubišnja mountain at an altitude of 2,238 meters; the lowest point is in the canyon of the Tara river at an altitude of 529 meters above sea level.

Demography: Total population, according to 2011 census: 30,786, representing 5 percent of the country's total population; population growth rate from 2003 to 2011: -12 percent; country ranking in terms of population: 7 out of 23; vital index (2009): 73.5; population density (2010): 20.1 inhabitants per square kilometers; average age of population: 41.8; rate of natural increase (2011): -7.6. According to the 2011 census, Pljevlja has the highest negative natural increase in Montenegro at - 234.

Economy: Total income per capita (2013): €436–1,854; active population (2011): 11,569; activity rate (2011): 48.7 percent; unemployment rate (2011): 15.5 percent; national development index (2010–12): 70.74 percent, making Pljevlja the 13 of 21 municipalities in relation to local development in 2012; inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013, -0.3 percent in 2014, and 1.4 percent in 2015.

Decentralized functions: Montenegro is highly centralized; municipalities have limited functional competencies. The Law on Local Self Government stipulates that municipalities are responsible for local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for delivering education and health services.

Utilitiy management: Waste disposal, maintenance of public spaces: d.o.o Čistoca (city utility company); treated water supply and sewage: d.o.o. Gradski vodovod; drainage, wastewater treatment, and cemeteries: Komunalne usluge (public company); central heating: Grijanje (public company); maintenance and protection of local roads (public company); center for sports and recreation.

Municipal staff (2015): Local administration: 280; public institutions: 44; public enterprises: 457.

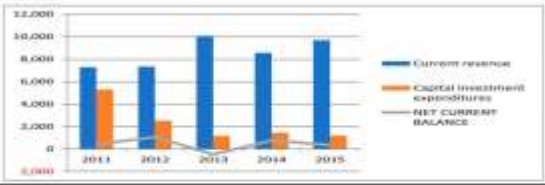
Urban issues: High levels of air, water, and soil pollution; improvements needed to waste management system; inadequate management of solid municipal waste; illegal landfills in rural and urban areas; lack of wastewater management systems (industrial and nonindustrial); improvements needed to water supply network; lack of railroad traffic; undeveloped network of regional and local roads; high unemployment rate; and depopulation.

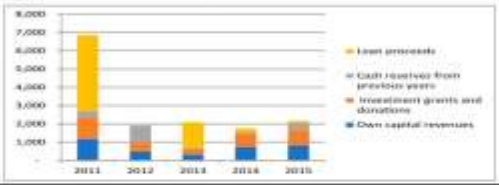
Investment Projects: Ongoing and planned capital projects (2011–18) include construction of a wastewater treatment plant for €5.6 million; construction of a main collector for the sewage network for €2.5 million; regulation of river beds in Čehotina for €3.5 million; modernization of city parking infrastructure for €800,000; reconstruction and adaptation of the cultural center for €1.6 million; construction of the home for elderly persons for €2.1 million; improvements to the city market space (strategic plan) for €4 million; and construction of the city swimming pool (strategic plan) for €3.5 million.

FINANCIAL SITUATION

Items (in 000 EURO)	2011	2012	2013	2014	2015	Growth index
Current revenue	7,289	7,394	10,067	9,579	9,891	7.4%
Operating expenditure	5,956	5,493	4,555	4,008	5,845	-1.3%
Gross Operating balance	1,333	1,881	5,512	4,566	4,046	32.9%
Debt service and borrowing costs	884	710	6,051	3,745	3,658	42.6%
NET CURRENT BALANCE	449	1,171	(539)	821	388	-3.6%
Capital Revenues	1,242	490	339	749	863	-8.1%
Own capital revenues	73	-	24	18	37	-15.8%
Investment grants and donations	1,169	490	315	730	826	-6.3%
Capital investment expenditures	3,294	2,537	1,182	1,472	1,214	-30.8%
BALANCE AFTER INVESTMENTS	(2,603)	(876)	(1,382)	97	37	
Cash reserves from previous years	348	915	62	78	391	3.0%
Loan proceeds	4,170	23	1,396	218	125	-58.4%
OVERALL CLOSING BALANCE	915	62	(1,320)	173	553	-15.8%

Pljevlja had a positive operating margin during the observed period (2011–15) and a large operating surplus above operating expenditures, pointing to the municipality's financial strength, the sustainability of its operations, and its strong creditworthiness. Operating expenditures decreased an average of 1.3 percent, while current revenues grew by 7.4 percent, reflecting a level of recovery for the local economy and finances. Due to the high level of debt service and cost of borrowing (growth index of 42.6 percent), the net current balance turned negative in 2013, negatively affecting the municipality's financial condition. However, the city got back on track in 2014 and reduced the cost of its debt service by 40 percent in 2015 compared with 2013. The operating margin increased by an average of 32 percent, accompanied by a positive overall balance, except in 2013 due to extremely high debt service and borrowing costs. Investment balances were negative in 2011 to 2013 when capital investments had to be primarily financed with debt and partly with investment grants. The city demonstrated volatility with regard to cash reserves, with a growth index of 3 percent; city borrowing decreased by 58 percent over the observed period. Capital investments declined by 31 percent. The highest debt repayment was in 2013 (51 percent of total budget expenditures), 21 percent of which went to the repayment of bank debt (11 percent of total 2013 expenditures) and 79 percent for repayment of arrears (40 percent of total 2013 expenditures).



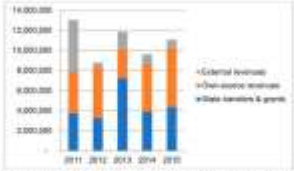


Current revenues were 79 percent of total revenues for 2011–15. Own-source capital revenues were negligible and declined an average of 15.6 percent. The city financed its capital expenditures primarily with external revenues—donations, which constitute 29 percent of total capital revenues, and loans. Capital revenues represented 21 percent of the total revenues over the observed period. Capital investments were 27 percent of total expenditures due to the long-time effects of the extremely large investments in 2011, suggesting that the city should revise its investment plans and consider entering into public-private partnership arrangements to secure additional money for capital projects.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	3,737,113	3,262,713	7,219,273	3,899,166	4,355,361	3.9%
Own-source revenues	4,121,015	5,012,372	2,938,070	4,757,789	5,836,857	9.1%
External revenues	5,191,046	512,941	1,711,528	960,084	873,338	-36.0%

Own-source revenues, including property sales (negligible), constituted 42 percent of the total 2011–15 budget revenues, demonstrating a growing trend of 9.1 percent. State transfers (shared revenues) and grants (equalization) accounted for 41 percent of total revenues and had a growth index of 3.9 percent. External revenues represented 17 percent of total revenues over the observed period and declined by 36 percent.



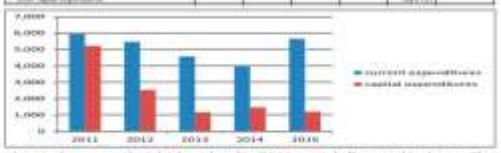
The city is reliant on own-source revenues, indicating that it prioritizes own-source tax collection efforts. Unconditional grants (equalization) by the state represented 41 percent of total state transfers and grants; shared revenues were 59 percent. Own-source revenues grew faster than state transfers and grants—a significant accomplishment considering the economic downturn and declining local economy. External revenues reached a high in 2011 due to high €4 million loan and a €1 million donation, but rates of borrowing declined after that, demonstrating the city's commitment to controlling local debt.

AVAILABLE OPERATING EXPENDITURES

Items in 000 EURO	2011	2012	2013	2014	2015	Average annual growth
CURRENT EXPENDITURES (total)	[illegible]	5,498	4,574	4,909	5,646	-1.33%
Payroll (including employees benefits & other)	1,755	1,813	1,930	1,751	2,357	13.25%
Operating costs	1,845	1,058	727	519	489	-17.21%
- Material	87	84	84	33	37	-16.68%
- Third expenses	67	48	47	30	35	-16.20%
- Representation costs	80	16	8	8	10	-38.11%
- Energy	296	276	210	207	206	-9.37%
- Telephone services	20	47	41	42	30	-14.06%
- Postal services	20	13	7	7	3	-41.14%
- Banking services	20	12	10	8	11	-16.58%
- Transportation services						
- Contract services	48	368	200	164	152	-26.05%
Current repairs and maintenance	196	196	87	29	146	-3.58%
Rents	87	70	30	42	34	-8.44%
Interest costs and fees	371	440	331	464	350	6.20%
Current subsidies	660	281	139	130	310	-17.56%
Grants and transfers	910	827	850	850	868	-5.38%
Social security and welfare	219	19	29	0	0	-91.93%
Other expenditures	450	225	149	191	174	-22.24%

CAPITAL INVESTMENT FINANCING

Items	2011	2012	2013	2014	2015	Average annual growth
Total capital investment costs	3,027,803	2,176,440	1,180,447	1,472,166	1,213,419	-30.19%
- Expenditures for local infrastructure	2,383,749	798,889	674,281	1,238,831	938,204	-20.98%
- Expenditures for constructions	2,043,324	1,240,573	288,660	203,353	194,841	-52.42%
- Expenditures for improvement of city construction land	559,583	362,791	122,739	27,194	55,989	-45.14%
- Expenditures for equipment	232,146	134,399	96,379	32,387	21,440	-46.75%
- Expenditures for capital maintenance				591		
- Other capital expenditures					9629,131	

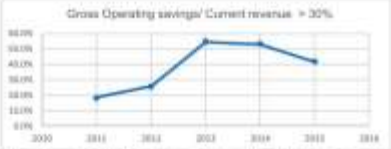


Capital investments, which declined by an average of 30 percent during the observed period, were at their highest level in 2011, mainly financed by loans. The largest share of capital investments (52 percent) during the observed period was expenditures for local infrastructure, which declined by 21 percent. Current expenditures showed a downward trend of 1.3 percent, 49 percent of total expenditures for 2011–15, rising again in 2015 primarily due to an increase in payroll-related costs, grants, and transfers. In 2015, current expenditures constituted 54 percent of total expenditures

RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 30%	16.3%	26.6%	54.6%	53.2%	47.8%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	4.3	4.1	1.6	1.6	1.4
Debt service / Total current revenue	< 10 %	52%	10%	60%	44%	38%
Debt outstanding /Budget total	< 60%	66.6%	86.7%	74.6%	79.1%	53.4%
Borrowing /Current revenues	< 15%	57.2%	0.3%	13.9%	2.5%	1.3%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	< 65 %	76.7%	74.2%	80.0%	74.7%	68.9%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	< 40 %	72.6%	34.5%	11.7%	17.2%	12.5%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	22.1%	19.3%	26.6%	49.6%	68.0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	< 15 %	6.7%	17.2%	1.5%	0.7%	6.0%
Fees collected/ Fees billed	> 95 %					
Taxes collected/Taxes billed	< 90 %	61.7%	59.5%	59.9%	61.3%	73.4%
6-Other ratios						
Salaries & wages / Operating actual expense	< 40 %	30.1%	34.3%	42.4%	42.4%	52.4%
Number of municipal employees/1000 citizens	< 20	22.1	22.8	24.8	26.8	26.7
Actual revenue / Planned revenue	85<AP<1.05	81.42%	85.26%	70.82%	53.81%	57.63%

The indebtedness ratio exceeded the benchmark of 60 percent but improved in 2015 (not including the tax debt reprogram arrangement, or arrears). Debt repayment capacity met the benchmark: the city could repay all outstanding bank debt from the five-year operating surplus (against the 10-year benchmark. However, debt service relative to current revenue was well below the benchmark of <10 percent since 2013, causing serious concerns, including accumulated bank debt as well as arrears, which are ballooning debt payments, reaching the highest ratio in 2013 (60 percent of current revenues). This constrains the city's borrowing capacity. Annual borrowing far exceeded the 15 percent benchmark in 2011 (57 percent), but the city has since demonstrated good policy decisions around borrowing. Since 2013, the city was significantly below the benchmark in terms of maintenance expenditures, indicating the need for the prioritization of noncurrent asset maintenance. The city spent more of revenues on labor costs than the benchmark (40 percent) in 2015, which may have involved the repayment of outstanding payroll-related obligations rather than from additional hiring. The city did not perform well on the ratio for municipal employees relative to inhabitants over the last two years.



The city achieved positive operating savings over the observed time period—a good sign of creditworthiness. The ratio was met in 2013–15, which demonstrates an improving debt financing scenario.

Capital investments were below the benchmark of 40 percent since 2011, when the city overinvested and was over-indebted, which triggered the need to revise its investment policies. The city was strongly reliant on earmarked investment grants in 2015 (68 percent), indicating that the city did not generate sufficient revenues to fund the benchmark (40 percent) level of capital investments. The budget planning, i.e., planned and actual figures show discrepancies from the set indicator points to the serious need for more realistic budget planning. The city did not demonstrate strong fiscal autonomy or spending sovereignty. There is room to increase its own revenue. The city should measure the revenue performance in fees in order to have better focus on service sustainability.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial condition of the local government by enhancing the regulatory framework (new revenue sources through adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed); establish the new ministry for public administration (completed); increase creditworthiness by enhancing the capacity for preparation and implementation of European Union projects and developing project documentation by 2019; improve the exchange of data between the state and local governments for an improved database on shared revenues and forecast reliability (end of 2018); enhance service sustainability and improved operations of local administration by bettering the information technology system for the assessment and collection of real estate taxes by 2018; implement new tax accounting software to ensure improved database on all local taxes, by 2018; implement saving–updated Act on Organization and Systematization of Jobs, by end 2017; introduce inter-municipal cooperation—the pooling of municipalities to propose joint projects, to be allocated from the European Structural Investment Funds, by 2018; and promote budget reliability and enhanced budget planning (improve reporting for the purposes of equalization) by 2018.

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CITY OF PODGORICA

CITY PROFILE

Territorial organization: Podgorica is the capital and administrative center of Montenegro as well as its largest city. The capital city includes two sub-municipalities: Tuzi and Zeta; it comprises 139 settlements and 66 local community units. The total area of the city is 1,500 square kilometers or 10.7 percent of the territory of Montenegro. Podgorica is favorably located at the confluence of the Ribnica and Morača rivers and is the meeting point of the fertile Zeta Plain and the Bjelopavići Valley.

Demography: Total resident population, according to the 2011 census: 185,937, representing 30 percent of the total population of Montenegro. Country population ranking: 1 out of 23; vital index (2009): 205.8. Population density: 129 inhabitants per square kilometer; population growth, according to the 2011 census relative to 2003 census: 10.6 percent; average age: 35.7; rate of natural increase (2011): 6.2.

Economy: Total income per capita (2013): €1,315–2,570 (central region); activity rate (2011): 50.9 percent; unemployment rate (2013): 11.3 percent; employment rate (2011): 48.6 percent; average national development index (2010–12): above 125 percent (141 percent); inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013; -0.3 percent in 2014; and 1.4 percent in 2015.

Decentralized functions: Montenegro is highly centralized, and municipalities have limited functional competencies. The Law on Local Self Government stipulates that the municipality is responsible to local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for delivering education and health services.

Utility management: Water supply, drainage, and wastewater treatment: Vodovod i kanalizacija d.o.o Podgorica (water and sewage company); collection and disposal of waste, maintenance, and cleaning of public areas: Cistoca d.o.o. Podgorica; public lighting and traffic lights: Komunalne usluge, d.o.o. Podgorica; landfill management, recycling, and trade of raw materials: Deponija, d.o.o. Podgorica; city parks and green areas: Zelenilo d.o.o Podgorica; funeral services and arranging and maintaining cemeteries: Pogrebne usluge d.o.o. Podgorica; management of public parking: Parking servis d.o.o. Podgorica; management of green markets: Tržnice i pijace, d.o.o. Podgorica; sports: Sportski objekti d.o.o. Podgorica; local roads: Putevi d.o.o. Podgorica.

Municipal staff (2015): Local administration: 643; public institutions: 203; public enterprises: 2,035.

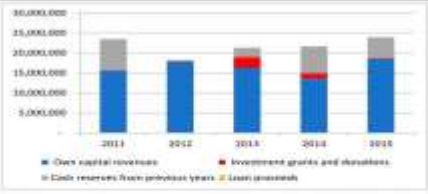
Urban issues: Managing medical and industrial waste and chemicals; construction of the new wastewater treatment plant; construction of sewage networks; industrial pollution; land usurpation and illegal construction; illegal waste dumps; depopulation of rural areas. Strategic plan goal: reduce CO_2 emissions by more than 20 percent, and increase the share of renewable energy production by 20 percent by 2020.

Investment Projects: Completed: construction of the bypass around Golubovci phase I and IV for a total of €5.9 million; construction of the city parliament building for €4.1 million; construction of a social housing building for €5.7 million; construction of hydrotechnical installations for €8.4 million. Ongoing capital projects: Golubovci bypass next phase (plan: €3.5 million; executed to date: €1.7 million); construction of the city theater (plan: €3.9 million; executed to date: €1.2 million); covering a city water pool (plan: €1.9 million; executed to date: €1.3 million).

FINANCIAL SITUATION

Items	2011	2012	2013	2014	2015	Growth index
Current revenue	29,987,651	26,798,704	30,867,070	31,296,173	31,864,321	2.1%
Operating expenditure	25,830,448	26,059,793	24,544,521	24,623,707	25,026,995	0.1%
Gross Operating balance	3,557,203	738,911	6,357,550	6,672,466	6,087,326	16.1%
Debt service and borrowing costs	2,455,812	1,619,384	2,961,380	2,807,943	3,780,084	11.4%
NET CURRENT BALANCE	1,101,391	(880,473)	3,396,170	3,864,523	2,257,242	19.6%
Capital Revenues	15,626,357	17,935,145	18,948,306	14,920,253	18,726,791	4.6%
Own capital revenues	15,524,650	17,761,889	16,230,270	13,578,279	18,507,468	4.5%
Investment grants and donations	101,707	173,256	2,718,036	1,341,974	221,322	21.5%
Capital investment expenditures	22,935,548	13,557,104	16,768,321	19,432,608	15,237,242	-9.7%
BALANCE AFTER INVESTMENTS	(6,208,800)	3,497,568	5,568,356	(647,833)	5,748,790	
Cash reserves from previous years	7,855,101	287,592	2,370,873	6,732,149	5,209,303	-9.8%
Loan proceeds	-	-	-	-	-	
OVERALL CLOSING BALANCE	287,592	2,370,873	6,732,149	5,209,303	9,971,681	142.7%

The positive operating margin reflects the city's financial strength and the sustainability of its city with the exception of 2012 when net current balance was negative due to the high cost of serving debt, lower current revenues, and extremely low cash reserves. The city was able to generate an operating surplus above operating expenditures. The operating margin grew by an average of 14 percent and was accompanied by a positive overall balance. The investment balance was negative in 2011 when capital investments had to be partly financed with cash reserves. The city had strong cash reserves over the observed period (except in 2012), and there were no loan proceeds during that time. Capital investments declined by -9.7 percentage points. Debt service increased over the observed period, with a growth index of 11.4 percent. High levels of debt repayment (€3.8 million) was notes in 2015, 56 percent of which went to repay bank debt (5 percent of total expenditures for 2015), and 44 percent to repay arrears (4 percent of total 2015 expenditures).

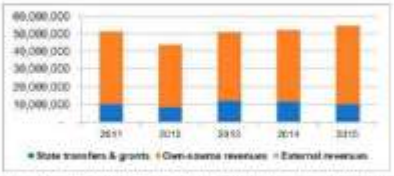


The current revenue growth index from 2011 to 2015 was 2.1, representing 66 percent of the total revenues over the observed period. Operating expenditures were stable and had a negligible increasing trend; they grew more slowly than current revenues, at 0.1 percent. Own-source capital revenues, including property sales, grew by 4.6 percent. The city received some investment grants from the state budget with a growth index of 21.5 percent. It reduced capital expenditures from 2012 onward and had no direct borrowing during the observed period, while operating expenditures were kept at the same level. The overall closing balance showed a positive trend, with a high growth rate of 142.7 percent, a tremendous improvement since 2011, showing robust surpluses due to the increased revenues and the very conservative capital investment plans. This suggests that the city can revise its investment plans and use cash reserves directly or borrow against cash reserves and substantially increase capital investments.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

	2011	2012	2013	2014	2015	Growth index
State transfers & grants	9,984,567	8,384,113	12,136,772	11,750,443	10,288,531	0.8%
Own-source revenues	41,525,834	35,223,042	38,869,597	40,323,118	44,627,471	1.8%
External revenues						

Own-source revenues constituted 79 percent of the total budget revenues, including property sales, which accounted for 8 percent of total own-source revenues and 6 percent of total revenues during the observed period. Shared taxes and state transfers accounted for 21 percent of total revenues for 2011–15.



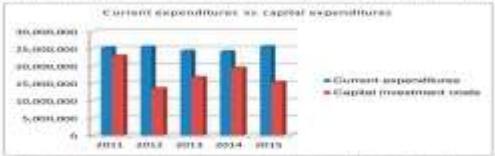
The city strongly relied on own-source revenues, which had a growth index of 1.8 percent, mainly due to an increase in the collection of local property taxes (growth index: 7 percent) and land development fees (growth index: 13 percent). Own-source revenues grew faster than shared taxes, indicating a dependency on own-source collection and tax efforts. There was no borrowing during the observed period. The city received state investment grants: 9 percent of total state shared revenues, or 2 percent of total revenues for 2011–15.

OWN OPERATING EXPENDITURES

Items (Line items by category)	2011	2012	2013	2014	2015	Average annual growth
CURRENT EXPENDITURES (total)						
Payroll including employee benefits (Labor)						
Operating costs						
Utilities						
Energy						
Travel expenses						
Representation costs						
Telephone services						
Postal services						
Banking services						
Current repairs and maintenance						
Rents						
Interest rate and fees						
Current subsidies						
Grants and transfers						
Social security and welfare						
Other expenditures						

CAPITAL INVESTMENT FINANCING

Items	2011	2012	2013	2014	2015	Average annual growth
Total capital investment costs						
- Expenditures for loan/shareholders						
- Expenditures for constructions						
- Expenditures for improvement of city construction land						
- Expenditures for equipment						
- Expenditures for capital maintenance						



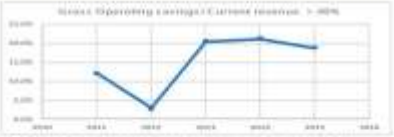
The city achieved positive operating savings over the observed time period—a good sign of creditworthiness. The ratio was met in 2013–15, which demonstrates an improving debt financing scenario.

Current expenditures trended upward, with an average annual growth rate of 0.41 percent, constituting 55 percent of total expenditures for 2011—15, reaching their highest level in 2015, mainly due to significant transfers and payroll-related costs. In 2015, capital investment costs constituted 34 percent of total expenditures. Due to a stagnating economy and lack of investment, there was a significant drop in investment activities in 2012, with an average annual decrease of 9.7 percent over the observed period.

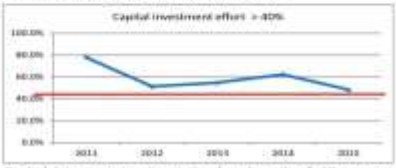
RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 40%	12.1%	2.4%	20.6%	21.3%	18.9%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	1.2	1.3	1.1	1.2	1.1
Debt service / Total current revenue	< 15 %	8.50%	8.80%	9.50%	8.90%	11.80%
Debt outstanding /Budget total	< 60%	69.7%	82.5%	66.3%	69.7%	61.8%
Borrowing /Current revenues	< 15%	0.0%	0.0%	0.0%	0.0%	0.0%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total Current revenue	> 80 %	96.5%	102.6%	98.5%	108.2%	117.2%
4 Capital investment effort						
Capital investment expenditures / Total Current revenue	> 40 %	78.0%	50.6%	54.3%	62.1%	47.7%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	0.4%	1.3%	18.2%	8.9%	1.5%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	1.3%	1.5%	1.3%	1.8%	1.8%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes levied	> 95 %					
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	38.1%	37.0%	37.0%	36.8%	36.1%
Number of municipal employees/1000 citizens	< 25	4.6	4.8	4.3	4.6	4.4
Actual revenue / Planned revenue	95<x<110	99.2%	101.0%	107.0%	113.0%	107.5%

Debt repayment capacity is strong; the city could repay all outstanding debt with five years of operating surpluses against a 10-year benchmark. Debt service increased, reaching 7 percent of current revenues, failing to meet the benchmark in 2015, thereby constraining the city's borrowing capacity. The indebtedness ratio (debt outstanding/budget total) constantly exceeded the 60 percent benchmark, likely due to issued loan guarantees for the local public companies. Planned and actual budget figures were not within the range over the last three years, pointing to the need for more realistic budget planning. The city demonstrated strong fiscal autonomy and spending sovereignty, with the ability to increase its own-source revenue. It was below the benchmark for maintenance expenditures, indicating the need for the prioritization of noncurrent asset maintenance. The city spent less revenue on labor than the benchmark (40 percent) and performed well on the ratio for municipal employees relative to inhabitants, indicating that the city could spend proportionately more on services and development. The city should measure the revenue performance in fees to better focus on service sustainability.



The city achieved positive operating savings over the observed period—a sign of creditworthiness. The trend toward creditworthiness was affected by a drop in revenues in 2012, which resulted in a small operating margin. Ratios were below the 30-percent benchmark, suggesting that the city is on a good track but has weak creditworthiness that needs improvement to help it borrow in the private debt market.



Capital investments above the benchmark of 40 percent signal the city's financial health and smart investment policies. The city demonstrated a strong investment performance, significantly over 40 percent in some years, as well as a negligible reliance on earmarked investment grants. The city favored development expenses and generated revenues sufficient to fund the 40 percent benchmark for capital investments. The city should, however, consider entering into public-private partnerships to reduce the burden on local budget evident in 2015.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial condition of the local government by enhancing the regulatory framework (new revenue sources through adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed); establish the new ministry for public administration to monitor and control local governments and protect their interests (completed); increase creditworthiness by enhancing the database on shared revenues and improving the reliability of forecasting by the end 2018; enhance service sustainability and improved operations of local administration by upgrading information the technology system for real estate tax assessment by 2018; implement new tax accounting software to improve the database on all local taxes by 2018; foster budget reliability and enhanced budget planning by implementing an accrual accounting system by 2019; implement a "hands-on" application for the planning of revenues and expenditures for credit analysis by 2020; and implement a debt management system and improve investment programming by 2020.

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MUNICIPALITY OF TIVAT

CITY PROFILE

Territorial organization: The municipality comprises 42 settlements and 6 local community units. Total area is 46 square kilometers, with 5 square miles facing the open sea. Tivat is a coastal town in southwest Montenegro, located in the central part of the Bay of Kotor, on the southwestern slopes of Vrmac Hill (765 meters). Tivat Bay is the largest of the four bays in Boka Kotorska.

Demography: Total resident population, according to 2011 census: 14,031, constituting 2 percent of the total population of Montenegro; country ranking population): 14 out of 23 municipalities; vital index (2011): 1.1; population density: 296.3 inhabitants per square kilometer; population growth, according to the 2011 census compared with the 2003 census: 4.5 percent; average age: 38; natural increase (2011): 14; rate of natural increase: 3.7 in 2009 and 1.1 in 2011.

Economy: Total income per capita, in 2013 was within the range of the southern region: EUR 1,053–3,538, the most developed region of Montenegro; activity rate: 49 percent in 2011 and 53.7 percent in 2015; unemployment rate: 13.2 percent in 2011 and 17.6 in 2015; national development index (2010–12): above 125 percent (173 percent), ranked second in Montenegro. Inflation rate: 3.7 percent in 2011, 5.1 percent in 2012, 0.3 percent in 2013, -0.3 percent in 2014; and 1.4 percent in 2015.

Decentralized functions: Montenegro is highly centralized; municipalities have limited functional competencies. The Law on Local Self Government stipulates that municipalities are responsible for local road maintenance, water services, garbage collection and treatment, street lighting, greening, culture, and sports. Municipalities are not responsible for delivering education and health services.

Utilitiy management: Water and sewage: Vodovod i kanalizacija d.o.o (city utility); water supply, drainage, and wastewater treatment: Tivat; d.o.o Komunalno; collection and disposal of waste, managing landfills, city market, city park, maintenance of public areas, green and recreational areas, cemeteries, marina services, public lighting Tivat (utility company); sports: JU Sportska dvorana Tivat.

Municipal staff (2015): Local administration: 93; public institutions: 22; public enterprises: 139.

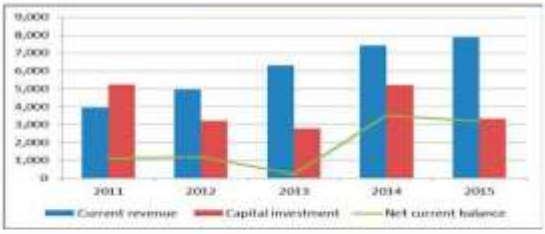
Urban issues: Insufficient parking spaces; incomplete sewage system; wastewater treatment; solid waste management and disposal; implementation of risk management system for forest fires and floods; advanced use of renewable energy sources and improvement of energy efficiency; illegal construction.

Investment Projects: Main capital projects for 2011–17 include road construction—MR1, Phase I for €3 million; construction of walking path in Belani for €1.1 million; day care facility for children with disabilities for €800,000); Solila water supply pipeline for €700,000; public hall in Gosici for €150,000; sewage system in Donja Lastva for €350,000; and construction of civil protection facilities for €400,000.

FINANCIAL SITUATION

Items in 000 EURO	2011	2012	2013	2014	2015	Growth Index
Current revenue	3,964	4,965	6,302	7,421	7,900	18.9%
Operating expenditure	2,383	3,140	3,314	3,345	3,261	8.1%
Gross Operating balance	1,561	1,815	2,988	4,076	4,637	31.3%
Debt service and borrowing costs	453	642	2,763	558	1,468	34.2%
NET CURRENT BALANCE	1,108	1,173	225	3,518	3,169	30.0%
Capital Revenues	3,114	2,500	2,799	3,759	6,077	18.2%
Own capital revenues	3,104	2,500	2,734	3,694	3,003	-0.8%
Investment grants and donations	10	0	65	65	3,074	318.7%
Capital investment expenditures	5,234	3,213	2,784	5,200	3,320	-10.8%
BALANCE AFTER INVESTMENTS	(1,012)	460	260	2,077	5,926	n.a.
Cash reserves from previous years	3,888	3,506	2,886	3,663	3,719	-1.1%
Loan proceeds	0	0	0	0	0	
OVERALL CLOSING BALANCE	2,876	3,966	3,146	5,740	9,645	35.3%

The substantial operating margin indicates the financial strength and sustainability of the municipality's operations, except for 2013, with a low net current balance due to the high cost of serving debt. The strong operating margin demonstrates strong creditworthiness, accompanied by a positive overall balance. The investment balance was negative only in 2011 when capital investments had to be partly financed with cash reserves from previous years. The municipality had strong cash reserves and there were no loan proceeds during the observed period. Capital investments in 2015 amounted to €3.3 million—a 36 percent decreased compared with 2011. Capital expenditures decreased an average of 11 percent. Debt service increased 34 percent.



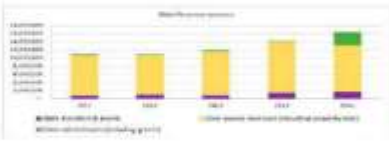
Total revenues in 2015 were €16.3 million (current revenues: €7.9 million; capital revenues: €6 million, and high cash reserves: €3.7 million). Current revenue growth from 2011 to 2015 was 18.9 percent, pointing to a recovery of the local economy and finances. The city's current revenues were much higher than its operating expenditures. This positive operating balance demonstrates financial strength in terms of the city financing its regular operations. Operating expenditures trended upward, which means that the municipality was not committed to savings; the growth index demonstrates that they grew more slowly than current revenues (8.1 percent).

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Main revenues

	2011	2012	2013	2014	2015	Growth Index
State transfers & grants	906,448	1,102,920	1,044,637	1,560,423	1,781,111	18.4%
Own-source revenues (including property sale)	9,954,015	9,658,571	10,673,584	12,654,899	11,484,128	3.6%
External revenues (including grants)	12,407	1,647	70,655	76,140	3,888,250	297.2%

Own-source revenues account for 85 percent of total budget revenues, including property sales, which account for less than 2 percent, and shared taxes, which account for 10 percent. External revenues (grants/donations and no loan proceeds account for 5 percent of the overall budget for 2011–15.



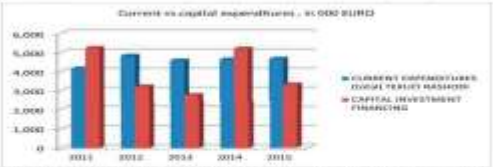
The municipality strongly relied on own-source revenues. Own-source revenues grew 4 percent, mainly by increasing the collection of local property taxes. Total own-source revenues (excluding property sales) grew more slowly than state transfers. External revenues (there was no borrowing in the observed period, only donations and grants) increased significantly to 270 percent due to the large value of donations in 2015 (€3 million).

MAIN OPERATING EXPENDITURES

	Items (Line items by category)	2011	2012	2013	2014	2015	Average annual growth
	CURRENT EXPENDITURES (total)	4,763,779	4,902,998	4,975,892	4,493,477	4,649,120	2.06%
1	Payroll (including employee benefits & misc.)	1,371,242	1,694,773	1,797,397	1,798,887	1,783,128	7.08%
2	Operating costs	888,145	884,520	825,628	773,888	785,758	0.02%
	- Material	49,436	57,337	50,948	54,067	50,037	0.83%
	- Travel expenses	9,204	9,005	7,818	7,885	14,944	9.82%
	- Representation costs	28,740	20,459	20,638	14,787	12,114	-19.42%
	- Energy	238,020	230,901	247,307	248,711	247,965	0.94%
	- Telephone services	19,644	21,773	20,987	20,005	20,011	0.22%
	- Postal services	13,034	15,151	14,724	12,340	13,032	1.88%
	- Banking services	19,000	20,547	19,573	24,000	22,114	4.34%
	- Transportation services	30,000	30,200	32,000	28,000	30,000	1.74%
	- Contract services	188,998	457,498	307,300	200,271	348,859	15.19%
3	Current repairs and maintenance	72,032	53,028	50,760	50,857	56,194	-4.32%
4	Rents	34,034	34,279	39,798	37,826	49,035	12.96%
5	Interest costs and fees	492,987	441,895	71,000	47,371	40,599	-48.29%
6	Current subsidies						
7	Grants and transfers	1,333,000	1,090,490	1,280,000	1,314,000	1,430,239	1.90%
8	Social security and welfare	39,000	35,408	31,000	30,324	28,400	-3.16%
9	Other expenditures	388,410	501,403	507,300	475,000	501,344	0.54%

CAPITAL INVESTMENT FINANCING (in 000 EURO)

Items	2011	2012	2013	2014	2015	Average annual growth
Total capital investment costs	5,254	3,113	2,764	3,200	3,339	-10.76%
- Expenditures for civil infrastructure	432	121	604	2,017	898	20.07%
- Expenditures for constructions	458	279	517	1,014	402	0.22%
- Expenditures for improvement of city construction land	525	1,535	1,257	1,284	1,489	29.66%
- Expenditures for equipment	15	28	23	38	56	40.63%
- Expenditures for capital maintenance	595	488	65	65	23	-50.81%
- Other capital expenditures	3,404	1,264	400	101	360	-42.12%



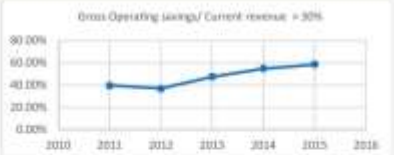
Capital investments were at their highest level in 2011 and were volatile during the observed period, with the largest capital investments made in improvements to the city construction land, which grew 30 percent. Current expenditures trended upward with an average annual growth rate of 3 percent.

In 2015, capital investment costs constituted 35 percent of total expenditures. A significant drop in investment activities was noted in 2013, but returned to a path of growth over the following years; it still showed a negative average annual index within the observed period of -10.8 percent. Current expenditures (34 percent of total expenditures in 2015) reached their highest level in 2012, mainly due to significant transfers and increased interest. The remaining expenditure items that burdened the municipal budget in 2015 included repayment of debt (8 percent) and repayment of arrears (7 percent).

RATIO ANALYSIS

Indicator (definition)	Comparative index (benchmark)	2011	2012	2013	2014	2015
1 Credit worthiness		2011	2012	2013	2014	2015
Gross Operating savings/ Current revenue	> 20%	39.48%	36.93%	47.03%	54.99%	58.78%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	5.6	2.9	1.6	2.0	6.7
Debt service / Total current revenue	< 15%	13.88%	23.96%	8.84%	7.92%	16.58%
Debt outstanding /Budget total	< 60%	77.2%	67.0%	58.8%	49.3%	39.5%
Borrowing /Current revenue)	< 15%	0.0%	0.0%	0.0%	0.0%	0.0%
3 Fiscal autonomy						
Own Taxes + fees + unconditional grants) / Total Current revenue	> 60 %	76.4%	76.7%	80.2%	71.4%	90.3%
4 Capital investment effort						
Capital investment expenditure / Total Current revenue	> 40 %	111.4%	64.8%	43.4%	70.1%	42.0%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	0.0%	0.0%	0.0%	0.0%	0.0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	0.0%	0.4%	1.8%	1.7%	1.7%
Fees collected/ Fees billed	> 90 %					
Taxes collected/Taxes billed	> 90 %	91.0%	90.6%	86.7%	79.6%	72.7%
6 Other values						
Salaries & wages / Operating actual expense	< 40 %	54.8%	53.0%	54.6%	52.6%	54.8%
Number of municipal employees/1000 citizens	< 25	15.7	18.3	17.4	18.0	17.0
Actual revenue / Planned revenue	90%/110%	107.0%	77.8%	87.8%	103.5%	110.4%

The low levels of capital investment could indicate that the city managed its financing operations but failed to generate revenues sufficient to fund the 40 percent benchmark level. Planned and actual budget figures were within the range, which points to the need for more realistic budget planning. Fiscal autonomy was moderate, indicating issues with the city's spending sovereignty. Capital investment efforts met the benchmark, demonstrating the city's financial health and smart investment policies. The city had a strong investment performance, significantly over 40 percent in some years, and negligibly relied on earmarked investment grants. The city was below the benchmark for maintenance expenditures, indicating a need for the prioritization of noncurrent asset maintenance. The city should measure revenue performance in fees to have better focus on service sustainability. It spent more of its revenues on labor than the benchmark but performed well on the ratio for municipal employees relative to inhabitants.



The creditworthiness ratio—operating margin over current revenues—was high and met the benchmark of >0.3, showing an upward trend. This suggests strong creditworthiness within the observed period and the municipality's capacity to borrow and invest.

The city demonstrated strong debt repayment capacity (except in 2013). It could repay all outstanding debt with a five-year operating surplus against a 10-year benchmark, but debt service relative to current revenues was volatile, often well outside the benchmark. The indebtedness ratio (debt outstanding/budget total) exceeded the 60 percent budget benchmark in 2011–12, but got back on track in 2013–15.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the financial condition of the local government by enhancing the regulatory framework such as new revenue sources through adoption of the Law on Utility Operations and the Law on Legalization of Informal Constructions (completed); establish the new ministry for public administration to monitor and control local government operations and protect their interests (completed); increase creditworthiness by improving the exchange of data such as that of the state and local governments, allowing for a better database on shared revenues and forecast reliability by the end of 2018; enhance service sustainability and improve operations of local administration by improving the information technology system for the assessment and collection of real estate taxes by 2018; implement a new tax accounting software to ensure an improved database for all local taxes by 2018; encourage budget reliability and enhanced budget planning by implementing an accrual accounting base by 2019; implement "hands-on" application for the planning of revenues and expenditures for credit analysis by 2020; and implement a debt management system and improve investment programming by 2020.

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CITY OF BELGRADE

CITY PROFILE

Territorial organization: Belgrade, the capital city of Serbia, sits at the center of the district of Belgrade, which has 17 sub-municipalities. Regulated by a special law (2007) with vertical and horizontal coordination mechanisms of 10 urban and 7 suburban municipalities. Total area of the city: 360 square kilometers; total area of the district: 3,227 square kilometers.

Demography: Population of district, according to the 2011 census: 1,659,440; annual growth: +5 percent; density of city: 35 per hectare; density of district: 5.5 per hectare.

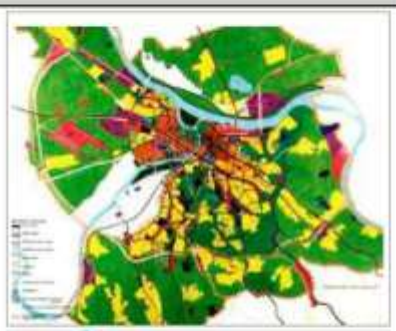
Economy: Gross domestic product per capita (2015 estimate): €8,380. Business entities (not including individual entrepreneurs): 59,017; labor force: 778,534—46 percent of the population; unemployment rate (2015): 13.9 percent. Located on the Danube and Corridors 7 and 10, it has the highest concentration of scientific, intellectual, cultural, and service capacities in Serbia, with a well-developed infrastructure and potential with information and communication technology. The city boasts of its highly cumulative and creative industries, services, and public services.

Utilities management: The city provides services through its 22 majority-owned public enterprises and public utility companies, covering water supply and sewerage, heating, funeral services, marketplaces, landscaping, sanitation, parking, public lighting, public transportation, road maintenance, public housing, and the collection of utility fees, and other services. Autonomous public utility companies operate in the seven suburban municipalities. The city has entrusted some operations to enterprises and institutions that it did not itself found.

Municipal staff: Total (2015): 12,422; city administration: 3,915; preschool education: 8,507.

Urban issues and challenges: The main goal of Belgrade's development efforts through 2021 is to improve the quality of life for citizens and the city's economic performance with continuous capital investments, enhancement of identity; and affirmation of the city's public spaces, river banks, and coastal zones. The city's chosen activities promote identity enhancement, rational resource management, efficient public property management, planned controlled development, and regulation of public space. (Source: Development Strategy 2021).

Existing Project Investment Plan: Since 2013, the city has adopted a three-year rolling capital investment plan based on its development strategy, regional spatial plan and master plan. It envisages numerous and extensive projects primarily focused on urban and transportation infrastructure, including the construction of new bridges and tunnels, the extension of the sewage system, and reconstruction of the water supply network. Planned investments: RSD 24.5 billion (2016); RSD 18.5 billion (2017), and RSD 14.5 billion (2018).



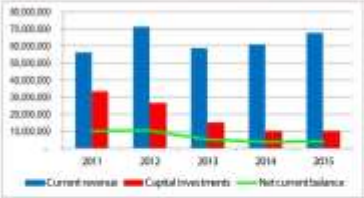
FINANCIAL SITUATION

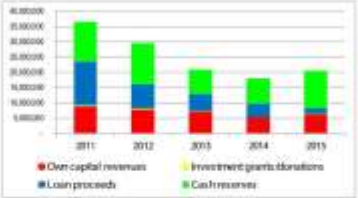
Items in 000 RSD	2011	2012	2013	2014	2015	Growth	2015 (000 EUR)
Current revenue	56,269,730	71,198,587	58,887,312	60,959,535	67,625,600	4.7%	556,012
Operating expenditure	42,240,517	55,120,176	46,811,459	51,575,413	58,817,106	7.7%	467,146
Gross operating balance	14,029,213	16,078,411	12,075,853	9,384,122	10,808,491	-6.3%	88,867
Debt service and borrowing costs	3,809,651	5,574,947	6,891,577	5,491,625	6,583,907	14.7%	54,132
NET CURRENT BALANCE	**10,219,562**	**10,503,464**	**5,184,276**	**3,892,497**	**4,224,584**	**-19.8%**	**34,734**
Capital revenues	9,289,351	8,260,786	7,395,202	5,320,568	6,312,516	-9.2%	51,901
Own capital revenues	8,900,812	7,883,086	7,192,940	5,150,525	6,201,149	-8.6%	50,985
Investment grants and donations	388,539	377,700	202,262	170,063	111,367	-26.8%	916
Capital investment expenditures	33,394,762	26,884,581	15,164,423	10,243,046	10,282,442	-25.5%	84,377
BALANCE AFTER INVESTMENTS	(13,885,849)	(7,920,331)	(2,584,945)	(1,029,961)	274,658		2,258
Cash reserves from previous years	2,877,716	2,785,455	2,632,002	4,384,201	8,146,808	29.7%	66,982
Loan proceeds	14,217,282	7,955,829	5,586,653	4,478,140	1,852,802	-39.9%	15,234
OVERALL CLOSING BALANCE	**3,209,149**	**2,820,953**	**5,633,710**	**7,842,380**	**10,274,268**	**33.8%**	**84,474**

Exchange rate 1 EUR = 121.6261 RSD (end of 2015)

Inflation, end of period:

2011: 7.0 %
2012: 12.2 %
2013: 2.2 %
2014: 1.7 %
2015: 1.5 %

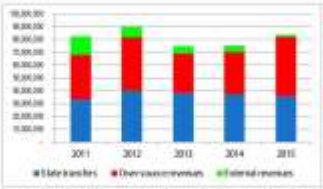




Sound operating margins combined with regular cash reserves and reduced capital investment resulted in sufficient self-financing capacity, which allowed the city to post consecutive overall closing balances of 8–14 percent of total revenues between 2013 and 2015. The improvement in Belgrade's cash reserves largely reflect controls on operating expenditures and reductions in capital spending, which have reduced its borrowing requirement. The city did not hold uncommitted credit lines for the past few years, reflecting the accumulation of positive cash balances. Its solid financial performance has led to a comfortable liquidity position, which tripled over the past few years. The city's available cash represents an extremely solid financial cushion against potential budgetary pressures and supports capital investment funding over the medium term.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
State transfers	33,368,210	40,216,450	38,240,051	37,061,184	35,567,173	1.6%	43%
Own-source revenues	34,849,081	42,017,533	30,674,465	33,454,828	46,452,013	7.4%	55%
External revenues	14,436,788	7,966,674	5,586,653	4,616,452	1,918,540	-39.6%	2%
Total revenue	**82,654,079**	**90,200,657**	**74,501,169**	**75,152,464**	**83,937,726**	**0.4%**	**100%**



Revenues: Belgrade had relatively limited control over its revenue base, which consisted of shared state taxes (43 percent) and own-source revenue (57 percent). The city's fiscal dependence on state resources exposed its finances to the central government budget performance and evolving intergovernmental relations. Changes to the government's fiscal policy for 2012–15 resulted in the city loosing significant revenues through the elimination of state transfers, reduction of shared wage tax, and elimination of and limitations to the levels of certain local fees and levies.

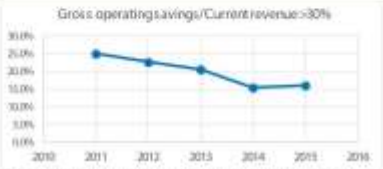
Expenditure (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
General administration	8,615,289	11,131,843	12,321,686	10,368,636	12,130,334	8.9%	17%
Urban services	20,383,979	26,454,419	22,306,370	22,061,916	29,036,712	9.2%	41%
Social services	23,019,406	23,016,873	20,770,953	21,196,834	22,082,708	-1.0%	31%
Commercial services	24,717,246	16,345,551	13,447,989	9,690,406	7,789,541	-25.1%	11%
Total expenditures	**76,737,931**	**76,950,699**	**68,849,012**	**63,321,807**	**71,041,311**	**-1.9%**	**100%**

Expenditures: In 2015, the structure was dominated by urban services (41 percent) and social services (31 percent). The city allocated substantial resources to urban services, primarily road infrastructure, public transportation, water supply, sewage network, and solid waste management. The rest of the city's budgeted resources were allocated to general administrative services (17 percent) and commercial services (11 percent).

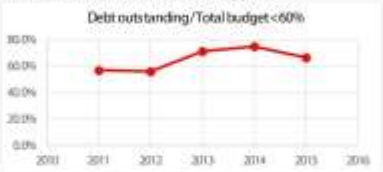
RATIO ANALYSIS

Indicator	Benchmark	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross operating savings/ Current revenue	> 30%	24.9%	22.6%	20.5%	15.4%	16.0%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	3.0	3.2	4.8	7.0	5.6
Debt service / Total current revenue	< 10 %	6.8%	7.8%	11.7%	9.0%	9.7%
Debt outstanding /Budget total	< 60%	56.9%	56.0%	71.3%	75.0%	66.5%
Borrowing /Current revenues	< 15%	25.3%	11.2%	9.5%	7.3%	2.7%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total current revenue	> 80 %	100%	100%	100%	100%	100%
4 Capital investment effort						
Capital investment expenditure / Total current revenue	> 40 %	59.3%	37.5%	25.8%	16.8%	15.2%
Capital investments from earmarked grants / Total investment exp.	< 50 %	0.5%	1.4%	1.3%	0.3%	0.4%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	8.0%	5.3%	6.1%	5.9%	5.7%
Fees collected/ Fees billed	> 90 %	120.3%	113.4%	103.8%	107.1%	93.2%
Taxes collected/Taxes levied	> 90 %	96.0%	101.8%	101.8%	90.8%	93.7%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	18.2%	16.2%	19.6%	22.7%	19.2%
Number of municipal employees/1000 citizens	< 25			7	7	7
Actual revenue / Planned revenue	95<A/P<1.05	108.7%	110.7%	125.0%	99.9%	95.8%

Belgrade's fiscal performance has been sound, with double-digit operating surpluses over the last five years. Despite rising debt until 2014, debt service costs were only around 10 percent of actual current revenue and thus regarded as manageable. The city has complete autonomy in deciding how to finance its competencies. The collection of revenues is at a satisfactory level, both for local taxes and fees. Employee expenses are not a great burden on the budget or the citizens of Belgrade. Service levels could be improved by increasing spending on maintenance projects.



The deterioration of the operating performance was driven by the exposure of the operating margins to a low-revenue-growth environment along with the drop of the national economy in that period.



Belgrade's direct debt declined to 66.5% of budget in 2015 from historical high 75% at the end of 2014.

The capital investment remained a major leeway for Belgrade, although it was curbed by high infrastructure needs, common to all local governments in Serbia.

FINANCIAL PROJECTIONS

Medium-term financial projections for city's budget reflect the need to substantially increase sources of financing for infrastructure. It is expected that this will be achieved by continuing the effective collection of own-source revenues, through the implementation public-private partnership projects, and by creating new revenues based on improving the city's management of assets.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Improve the budget planning process by improving budgetary principles by 2017, introducing planning software for indirect budget users by 2019, and initiating gender-responsive budgeting by 2018). Establish a uniform reporting methodology for the city administration by 2017 and develop an application reporting solution by 2018. Establish an asset management system (2014–18)

Contact: Ranka Penic | Website: www.beograd.rs

CITY OF NIŠ

CITY PROFILE

Territorial organization: Niš is the third largest city in Serbia and the administrative center of the Nišava District of southern Serbia. Its location is strategically important, situated at the intersection of European highway and railway networks connecting Europe with Asia. The city consists of five submunicipalities with a total area of 596 square kilometers.

Demography: Population, according to 2011 census: 260,237; according to 2015 estimate: 257,883; annual growth: -0.2 percent; density: 433 inhabitants per square kilometer.

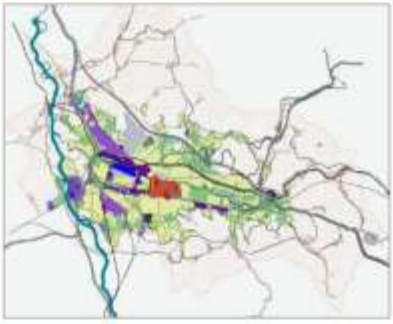
Economy: Business entities: 2,975 (excluding entrepreneurs); labor force: 101,403 (40 percent of the population); unemployment rate (2015): 31.7 percent. Niš is the industrial, commercial, and financial center of southeastern Serbia. As an industrial center, it is well known for tobacco, electronics, construction, mechanical engineering, textiles, nonferrous metal, food processing, and rubber goods.

Utilities management: The city provides services through its 15 majority-owned public enterprises, 8 of which are utility companies, covering water supply and sewerage, heating, funeral services, marketplaces, landscaping, sanitation, parking, public transportation, road maintenance, city housing, collection of utility fees, and other services.

Municipal staff: Total: 2,642; city administration: 1,703; preschool education: 668.

Urban issues and challenges: Improve the quality of Niš' local system, including job creation, business development, institutional capacity, and overall quality of life, in accordance with the principles of sustainability.

Existing Project Investment Plan: The city adopted a three-year capital expenditure rolling plan based on its 2009–20 development strategy, the master plan, the spatial plan, and the detailed regulation plan. The capital expenditure plan envisages extensive projects mainly focused on urban, transportation, and utility infrastructure, including land development (70 percent), reconstruction of streets with water and sewerage networks, construction of new utility infrastructure, and public housing. Planned investments: RSD 2.0 billion (2016); RSD 1.9 billion (2017); and RSD 2.1 billion (2018).



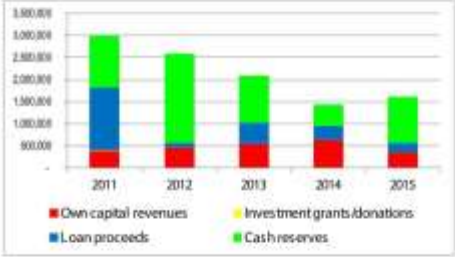
FINANCIAL SITUATION

Items in 000 RSD	2011	2012	2013	2014	2015	Growth	2015 (000 EUR)
Current revenue	5,625,533	7,061,338	7,017,532	6,705,139	6,526,681	3.8%	53,662
Operating expenditure	4,761,636	5,331,993	5,803,150	6,003,127	5,739,678	4.8%	47,191
Gross operating balance	863,897	1,729,345	1,214,382	702,012	787,003	-2.3%	6,471
Debt service and borrowing costs	313,061	307,374	773,241	838,716	360,475	3.6%	2,964
NET CURRENT BALANCE	**550,836**	**1,411,971**	**441,141**	**(136,704)**	**426,528**	**-6.2%**	**3,507**
Capital revenues	406,730	453,009	547,723	640,143	354,234	-3.4%	2,912
Own capital revenues	395,556	450,129	547,723	640,143	354,234	-2.7%	2,912
Investment grants and donations	11,174	2,880	-	-	-	-100.0%	-
Capital investment expenditures	2,436,646	1,912,298	1,444,342	787,939	908,176	-21.9%	7,467
BALANCE AFTER INVESTMENTS	(1,479,080)	(47,318)	(455,478)	(284,500)	(127,414)	-45.8%	(1,048)
Cash reserves from previous years	124,046	68,706	136,920	143,141	64,756	-15.0%	532
Loan proceeds	1,415,369	103,524	479,347	323,333	216,314	-37.5%	1,779
OVERALL CLOSING BALANCE	**60,369**	**124,912**	**159,789**	**181,974**	**153,656**	**26.3%**	**1,263**

Exchange rate 1 EUR = 121.6261 RSD (end of 2015)

Inflation, end of period:

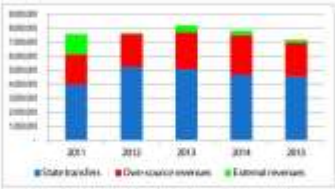
2011: 7.0 %
2012: 12.2 %
2013: 2.2 %
2014: 1.7 %
2015: 1.5 %



The city of Niš generated a total budget surplus over the observed period. However, a declining operating balance combined with a downward trend in cash reserves resulted in the city experiencing limited self-financing capacity toward the end of the period. Substantial changes and a reduction in the amount of current revenues generated from one year to another, together with increasing debt repayments, were the reasons for the generation of net-current deficit in 2014. A drop in cash reserves, including the net margin, absent significant growth in other financing sources resulted in a major reduction of investment activities—from RSD 2.4 billion in 2011 to only RSD 787 million and RSD 908 million over the last two years.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
State transfers	3,991,215	5,246,865	5,076,237	4,697,523	4,572,148	3.5%	64%
Own-source revenues	2,164,920	2,326,188	2,625,938	2,790,900	2,373,333	-2.3%	33%
External revenues	1,415,567	103,524	478,347	323,333	216,314	-37.5%	3%
Total revenue	**7,571,702**	**7,676,577**	**8,180,522**	**7,811,756**	**7,161,795**	**-1.4%**	**100%**



Revenue: The revenue structure confirms that city's finances were highly dependent on shared state taxes and transfers, constituting 64 percent of total revenues. This has implications for the stability and predictability of the city's finances. The primary current revenues were shared personal income tax (52 percent), local property tax (12 percent), unconditional transfers (11 percent), and local fees (12 percent), together constituting 87 percent of total revenues. The primary revenues earmarked for capital expenditure financing were proceeds from the sale of assets and land development fees, constituting 5 percent of total revenues.

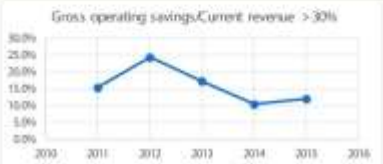
Expenditure (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
Operating expend.	4,761,636	5,331,993	5,803,150	6,003,127	5,739,678	4.8%	82%
Salaries & wages	1,791,114	2,043,603	2,153,881	2,268,660	2,060,042	3.6%	29%
Capital investments	2,436,646	1,912,298	1,444,342	787,939	908,176	-21.9%	13%
Debt services	313,061	307,374	773,241	838,716	360,475	3.6%	5%
Total expenditures	**7,511,343**	**7,551,665**	**8,020,733**	**7,629,782**	**7,008,329**	**-1.7%**	**100%**

Expenditures: The expenditure structure was dominated by operating expenses that accounted for 82 percent of the total budget in 2015. The rest of the city budget resources were allocated to capital investments (13 percent) and debt services (5 percent). Payroll accounted for 29 percent of total expenditures and more than one-third of operating expenditures (36 percent), mostly generated by city administration staff.

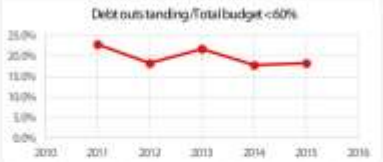
RATIO ANALYSIS

Indicator	Benchmark	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross operating savings/ Current revenue	> 30%	15.4%	24.4%	17.3%	10.5%	12.1%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	1.7	0.9	1.6	2.4	1.9
Debt service / Total current revenue	< 10 %	5.8%	4.4%	11.0%	12.5%	5.5%
Debt outstanding /Total budget	< 60%	22.9%	18.3%	21.8%	17.8%	18.3%
Borrowing /Current revenues	< 15%	25.2%	1.5%	6.8%	4.8%	3.3%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total current revenue	> 80 %	100%	100%	100%	100%	100%
4 Capital investment effort						
Capital investment / Total current revenue	> 40 %	43%	27%	21%	12%	14%
Capital investments from earmarked grants / Total investment exp.	< 50 %	0%	0%	0%	0%	0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	1%	1%	6%	7%	6%
Fees collected/ Fees billed	> 90 %	70%	62%	94%	100%	84%
Taxes collected/Taxes levied	> 90 %	86%	82%	102%	91%	95%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	37%	38%	36%	37%	35%
Number of municipal employees/1000 citizens	< 20			10	10	10
Actual revenue / Planned revenue	95<A/P<1.05	78%	76%	69%	71%	67%

Nil's fiscal performances were modest, with thin double-digit operating surpluses over the observed period. The city's self-financing capacity needs to be improved in the short term by significantly reducing operational expenditures and possibly increasing current revenues. Revenue collection improved, but staff costs continue to be high, approaching the upper benchmark. Reduced indebtedness leaves room for further acceleration of investment efforts from external resources.



The deterioration of the operating performance was driven by the low revenue growth along with the drop of the local economy.



The City's debt burden was bellow the benchmark, total debt ranged from 18% to 23% of the budget.

Despite the high infrastructure needs, the investments were reduced from 42% (2011) to the historically lowest 12% of current revenue (2014), due to the low self-financing capacity of the City

FINANCIAL PROJECTIONS

Over the medium-term, the city needs to provide financing sources for capital investments, expected to be RSD 2 billion per year. To this end, the city should focus on improving its self-financing capacity by cutting operating expenditures and increasing its use of external sources of funding, such as loans and private capital.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Enhance creditworthiness by improving own-source revenue collection through the establishment of links between different databases within the tax administration (2017); foster budget realism by improving the operational capacity for policy-based budget planning and capital investments coordination (2017); and advance sustainability of service delivery by improving capital projects planning through the establishment of a single platform and methodology for public investment analysis and planning led by the Ministry of Finance (2018).

CITY OF ŠABAC

CITY PROFILE

Territorial organization: Šabac is located on the right bank of the Sava River, 103 kilometers upstream from Belgrade, near the borders with Croatia and Bosnia and Herzegovina. Total area of the city and the 51 surrounding settlements is 795 square kilometers.

Demography: Population, according to the 2011 census: 117,388; according to 2015 estimate: 113,113; annual growth rate: -0.9 percent; density: 142 inhabitants per square kilometer.

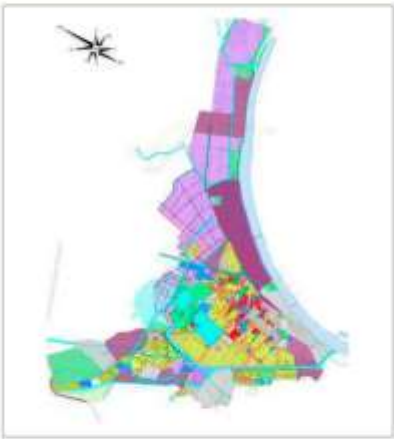
Economy: Business entities: 2,946, excluding entrepreneurs; labor force: 42,386 or 37 percent of the population; unemployment rate: 26.8 percent (registered). Fertile agricultural land and the waters of the rivers Sava and Drina support industrial activities, water processing, agriculture, river transport, and tourism. Šabac's economy is very vital and diverse. It has significant capacity in chemical, metalworking, woodworking, food industry, construction, medicine manufacturing, water management, leather processing, and textiles, among other enterprises.

Utilities management: The city provides services through its nine owned public enterprises, five of which are public utility companies, covering water supply, heating, waste management and sanitation, greenery, and parking services.

Municipal staff: Total: 797; city administration: 192; preschool education: 392.

Urban issues and challenges: Modernize the existing infrastructure and reduce unemployment by attracting new industries and services, including small- and medium-size enterprises (business clusters).

Existing Project Investment Plan: The city adopted a three-year capital expenditure rolling plan based on its 2010–20 development strategy, master plan, spatial plan, and detailed regulation plan. It envisages extensive projects, primarily focused on urban, transportation, and utility infrastructure, including the construction of a new biomass heating plant, public utility networks (water, sewage, and heating), and a new international port on the Sava River. Planned investments (in millions of RSD): 615 (2016); 783 (2017); and 959 (2018).



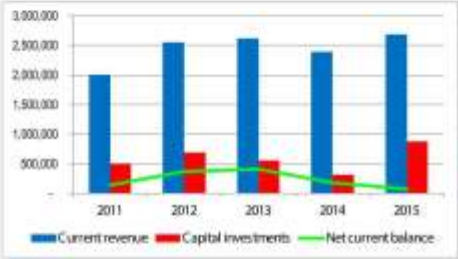
FINANCIAL SITUATION (IN CURRENT TERMS)

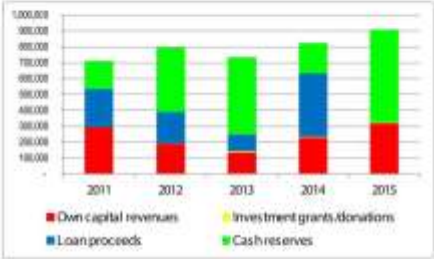
Items in 000 RSD	2011	2012	2013	2014	2015	Growth	2015 (000 EUR)
Current revenue	2,000,482	2,550,059	2,617,603	2,397,645	2,680,201	7.6%	22,036
Operating expenditure	1,560,822	1,807,666	1,916,103	1,960,560	2,417,818	11.6%	19,879
Gross operating balance	439,640	742,393	701,500	437,085	262,385	-12.1%	2,157
Debt service and borrowing costs	302,489	372,585	294,652	254,896	190,640	-10.9%	1,567
NET CURRENT BALANCE	**137,151**	**369,808**	**406,848**	**182,189**	**71,745**	**-15.0%**	**590**
Capital revenues	295,967	191,654	147,051	232,930	324,243	2.3%	2,666
Own capital revenues	295,966	190,654	133,533	230,321	319,501	1.9%	2,627
Investment grants and donations		1,000	13,518	2,609	4,742	729.8%	39
Capital investment expenditures	500,279	684,839	555,345	311,433	880,356	15.2%	7,238
BALANCE AFTER INVESTMENTS	(67,161)	(123,377)	(1,446)	103,686	(484,368)	60.9%	(3,982)
Cash reserves from previous years	37,034	31,073	78,619	8,485	512,151	62.1%	4,194
Loan proceeds	240,786	200,695	100,029	400,000	-	100.0%	-
OVERALL CLOSING BALANCE	**210,659**	**108,391**	**177,202**	**516,151**	**28,783**	**-46.9%**	**212**

Exchange rate: 1 EUR = 121.6261 RSD (end of 2015)

Inflation, end of period:

2011: 7.0 %
2012: 12.2 %
2013: 2.2 %
2014: 1.7 %
2015: 1.5 %

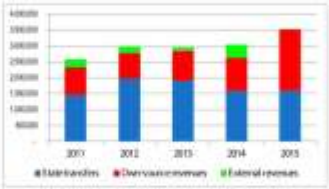




The city of Šabac realized a total budget surplus during observed five-year period. However, the slower generation of current revenues compared with the growth of operating expenditures resulted in a downward trend of operating balances. The generated operating surplus was used exclusively for debt repayment and capital expenditure funding. Apart from a modest net current surplus, capital expenditures were funded primarily with capital revenues, such as land development fees and asset sales, in addition to loans and municipal bonds. Accordingly, the city's capital investment expenditures recorded much faster growth compared with operating expenditures over the observed period.

HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
State transfers	1,449,244	1,960,352	1,901,724	1,583,239	1,584,069	2.2%	45%
Own-source revenues	884,218	812,434	941,549	1,051,192	1,925,784	21.5%	55%
External revenues	240,786	200,695	100,029	402,608	4,742	-62.5%	0%
Total revenue	**2,574,248**	**2,973,481**	**2,943,302**	**3,037,040**	**3,514,595**	**8.1%**	**100%**



Revenue: The revenue structure confirms that the city's finances were highly dependent on state taxes and transfers, representing 45 percent of total revenues, which influenced the stability and predictability of the city's financing. Main current revenues were shared personal income taxes, local property taxes, unconditional transfers, and local fees, constituting 74 percent of total revenues. Main revenues earmarked for financing of capital expenditures were proceeds from the sale of assets and land development fees, representing 9 percent of total revenue.

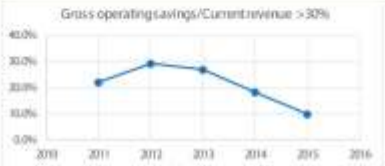
Expenditure (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
Operating expend.	1,560,822	1,807,666	1,916,103	1,960,560	2,417,816	11.6%	69%
Salaries & wages	474,319	605,292	691,794	656,461	601,583	6.1%	17%
Capital investments	500,279	684,839	555,345	311,433	880,356	15.2%	25%
Debt services	302,489	372,585	294,652	254,896	190,640	-10.9%	5%
Total expenditures	**2,363,590**	**2,865,090**	**2,766,100**	**2,526,889**	**3,488,812**	**10.2%**	**100%**

Expenditures: The expenditure structure was dominated by operating expenses, accounting for 69 percent of the total 2015 budget. The rest of the city budget resources were allocated to capital investments (25 percent) and debt services (5 percent). Payroll accounted for 17 percent of total expenditures and 25 percent of operating expenditures, mostly generated by preschool education staff and, to a lesser extent, by the city administration.

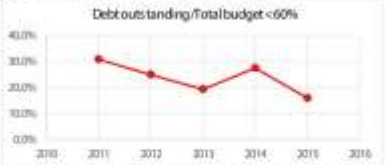
RATIO ANALYSIS

Indicator	Benchmark	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross operating savings/ Current revenue	> 30%	22.0%	29.1%	26.8%	18.2%	9.8%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	2.0	1.0	0.8	1.8	2.5
Debt service / Total current revenue	< 10 %	15.1%	14.6%	11.3%	10.6%	7.1%
Debt outstanding /Budget total	< 60%	30.8%	25.0%	19.3%	27.4%	15.9%
Borrowing /Current revenues	< 15%	12.0%	7.9%	3.8%	16.7%	0.0%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total current revenue	> 80 %	100%	100%	100%	100%	100%
4 Capital investment effort						
Capital investment / Total current revenue	> 40 %	25%	27%	21%	13%	33%
Capital investments from earmarked grants / Total investment expenditure	< 50 %	0%	0%	2%	0%	0%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	7%	6%	9%	10%	13%
Fees collected/ Fees billed	> 90 %	68%	73%	124%	96%	116%
Taxes collected/Taxes levied	> 90 %	76%	87%	88%	90%	100%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	29%	32%	35%	33%	24%
Number of municipal employees/1000 citizens	< 25			7.0	7.0	7.0
Actual revenue / Planned revenue	95<A/P<1.05	102%	89%	86%	90%	98%

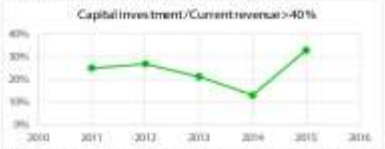
Šabac's fiscal performance was solid, with double-digit operating surpluses over the observed period. The city enhanced its self-financing capacity by increasing own-source revenues and cutting operating expenditures. Reduced and manageable indebtedness allows the city to access the capital market to finance investment projects.



The decrease in operating performance was driven by the low level of revenue growth, mainly state transfers, along with the significant increase in operating expenditures over the last observed year.



The total direct debt declined from 31 percent of the budget (2011) to 16 percent in 2015 through the repayment of loans to commercial banks.



Capital expenditures, ranging between 13 percent and 33 percent of current revenues, confirm the significant investment effort of the city despite of downstream trend of state transfers.

FINANCIAL PROJECTIONS

The medium-term financial projection for the city's budget includes upgrading the city's operating performance to enhance its self-financing capacity and investment efforts by continuing the effective collection of the own-source revenues, the rationalization of operating expenses, and the increased use of private capital through the implementation of public-private partnership projects.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Enhance budget realism by improving the operational capacity for policy-based budget planning and capital investments coordination (2017, fourth quarter); foster creditworthiness: expand own-source revenue collection by the establishment the links between different databases within the tax administration (2018); promote service sustainability by improving capital projects planning through the establishment of a single platform and methodology for public investment analysis and planning, led by the ministry of finance (2018, fourth quarter).

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CITY OF SUBOTICA

CITY PROFILE

Territorial organization: Subotica is the second most populous city in the province of Vojvodina. The city's metropolitan organization comprises an inner city and 19 suburban settlements. Located close to the border with Hungary, the city holds a strategic position and is the most important administrative, industrial, trade, traffic, and cultural center in the northern Bačka region. The total area of the city is 1,007 square kilometers.

Demography: Population, according to 2011 census: 143,179; according to 2015 estimate: 139,011; annual growth rate: -0.7 percent; density: 138inhabitants per square kilometer (1.4 per hectare).

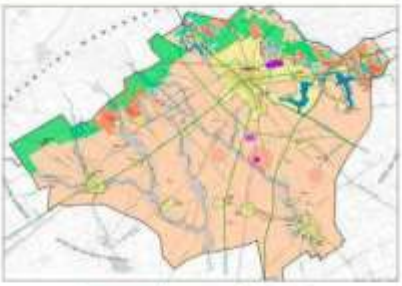
Economy: Business entities: 2,946, excluding entrepreneurs; labor force: 51,235 or 37 percent of the population; unemployment rate: 17.3 percent (registered); key economic sectors: agriculture, food production and processing, electronics, metal and chemical industry, and the service sector. There is an enormous development potential for tourism.

Utilities management: The city of Subotica has created 11 public utility companies in the field of waste management, heating, water supply and sewage, funeral services, marketplaces, sanitation, public transportation, and road maintenance.

Municipal staff: Total: 1,266; city administration: 686; preschool education: 505.

Urban issues and challenges: Develop an integrated system of public transportation, including for suburban settlements; upgrade environmental facilities; and develop tourism based on Palić Lake and the potential for the city to be a cultural heritage site.

Existing Project Investment Plan: The city adopted a three-year capital expenditure rolling plan based on the development strategy, master plan, spatial plan, and detailed regulation plan. Some capital projects are open to different forms of partnerships and investment, including industrial business parks, greenfield and brownfield investments, regional solid waste management facility, transportation and utility infrastructure, and reconstruction of the national theater building and schools. Planned investments (in millions of RSD): 1.541 (2016), 815 (2017), 863 (2018).



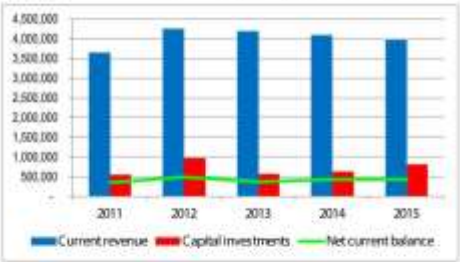
FINANCIAL SITUATION (IN CURRENT TERMS)

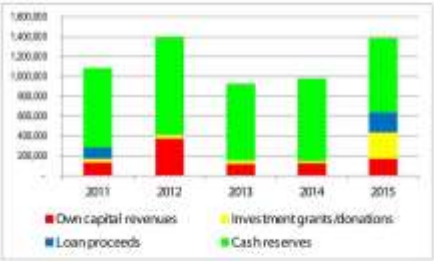
Items in 000 RSD	2011	2012	2013	2014	2015	Growth	2015 (000 EUR)
Current revenue	2,000,462	2,550,059	2,617,603	2,387,645	2,680,201	7.6%	22,036
Operating expenditure	1,590,822	1,807,666	1,916,103	1,960,560	2,417,616	11.6%	19,879
Gross operating balance	439,640	742,393	701,500	437,085	262,585	-12.1%	2,157
Debt service and borrowing costs	302,489	372,585	294,652	254,896	190,640	-10.9%	1,567
NET CURRENT BALANCE	**137,151**	**369,808**	**406,848**	**182,189**	**71,745**	**-15.0%**	**590**
Capital revenues	295,967	191,654	147,051	232,600	324,243	2.3%	2,666
Own capital revenues	295,966	190,654	133,533	230,321	319,501	1.9%	2,627
Investment grants and donations		1,000	13,518	2,669	4,742	729.8%	39
Capital investment expenditures	500,279	684,839	555,345	311,433	880,356	15.2%	7,238
BALANCE AFTER INVESTMENTS	(67,161)	(123,377)	(1,446)	103,686	(484,368)	63.9%	(3,982)
Cash reserves from previous years	37,034	31,073	78,619	6,488	510,151	92.7%	4,194
Loan proceeds	240,786	200,695	100,029	400,000	-	100.0%	-
OVERALL CLOSING BALANCE	**210,659**	**108,391**	**177,202**	**510,151**	**25,783**	**-46.9%**	**212**

Exchange rate: 1 EUR = 121.6261 RSD (end of 2015)

Inflation, end of period:

2011: 7.0 %
2012: 12.2 %
2013: 2.2 %
2014: 1.7 %
2015: 1.5 %

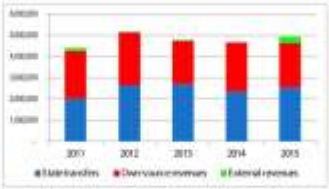




Sound and growing operating margins combined with regular cash reserves resulted in a solid level of self-financing capacity for the city of Subotica. Due to the trend of successfully aligning operating expenditures with negative current revenues, the city generated a stable operating and net current balance. Increased annual debt service did not jeopardize the positive net-operating surplus trend, which was used for investments. The city is capable of implementing additional investment activities from accumulated cash reserves.

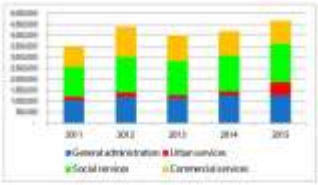
HISTORICAL ANALYSIS: REVENUES & EXPENDITURES

Revenues (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
State transfers	1,999,042	2,637,905	2,703,806	2,359,572	2,550,573	6.3%	52%
Own-source revenues	2,265,109	2,496,658	2,036,526	2,286,853	2,072,563	-2.2%	42%
External revenues	120,509	5,804	780	-	294,968	25.1%	6%
Total revenue	**4,384,660**	**5,139,365**	**4,741,112**	**4,646,425**	**4,918,104**	**2.9%**	**100%**



Revenue: The revenue structure confirms that the city's finances were highly dependent on shared state taxes and transfers, which constituted 52 percent of total revenue. This affected the stability and predictability of the city's financing. Since 2011, the city's fiscal autonomy was further disrupted by the much faster growth of state transfers compared with own-source revenues. State shared revenue grew at an annual rate of 6.3 percent, while own-source revenue declined by 2.2 percent.

Expenditure (000 RSD)	2011	2012	2013	2014	2015	Growth	Struct. 2015
General administration	1,024,626	1,172,021	1,128,084	1,275,704	1,269,547	5.5%	27%
Urban services	184,115	236,270	150,429	173,328	595,090	34.1%	13%
Social services	1,369,798	1,594,014	1,558,827	1,647,774	1,763,368	6.5%	38%
Commercial services	918,249	1,393,658	1,151,863	1,104,044	1,039,218	3.1%	22%
Total expenditures	**3,496,788**	**4,395,963**	**3,989,203**	**4,200,850**	**4,667,223**	**7.5%**	**100%**

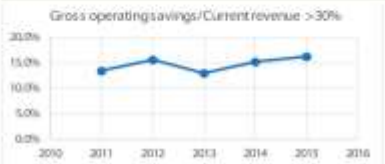


Expenditures: The expenditure structure in 2015 was dominated by social services (38 percent) and general administration costs (27 percent). The city of Subotica allocated substantial resources to commercial services, primarily land development and local economic development. The rest of the city's budget resources were allocated to urban services (13 percent), which grew at an annual rate of 34 percent.

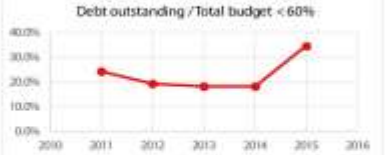
RATIO ANALYSIS

Indicator	Benchmark	2011	2012	2013	2014	2015
1 Credit worthiness						
Gross operating savings/ Current revenue	> 30%	13.4%	15.6%	13.0%	15.2%	16.2%
2 Indebtedness						
Debt outstanding /Gross operating savings	< 10 years	2.4	1.6	1.7	1.4	2.7
Debt service / Total current revenue	< 10 %	3.7%	3.9%	4.2%	4.7%	5.4%
Debt outstanding /Budget total	< 60%	24.3%	19.3%	18.2%	18.2%	34.5%
Borrowing /Current revenues	< 15%	3.2%	0.1%	0.0%	0.0%	5.2%
3 Fiscal autonomy						
Own (taxes + fees + unconditional grants) / Total current revenue	> 80 %	100%	100%	100%	100%	100%
4 Capital investment effort						
Capital investment / Total current revenue	> 40 %	15%	23%	14%	15%	21%
Capital investments from earmarked grants / Total investment exp.	< 50 %	5%	3%	5%	3%	22%
5 Level of service sustainability						
Maintenance works expenditure / Operating expenditures	> 15 %	6%	6%	6%	5%	8%
Fees collected/ Fees billed	> 90 %	92%	92%	75%	80%	79%
Taxes collected/Taxes levied	> 90 %	98%	96%	94%	95%	98%
6 Other ratios						
Salaries & wages / Operating actual expense	< 40 %	32%	32%	31%	34%	28%
Number of municipal employees/1000 citizens	< 25	8	8	8	9	9
Actual revenue / Planned revenue	95<A/P<1.05	96%	93%	96%	92%	88%

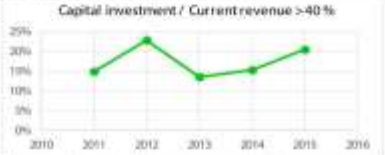
Subotica's fiscal performance has been sound, with stable double-digit operating surpluses over the last five years. The city's self-financing capacity could be enhanced by increasing own-source revenues and reducing city administration costs. The low level of indebtedness leaves room for further acceleration of investment efforts based on new borrowing.



Gross operating savings ranged from 13 to 16 percent of current revenues, confirming the improvement of the city's operating performance, which resulted from the successful alignment of operating expenditures with a negative current revenue trend.



Total direct debt increased from 24 to 35 percent of the budget during the observed five-year period, reflecting the city's low level of indebtedness.



The city's capital investment efforts experienced cyclical movement (every four years), ranging from 14 to 23 percent of current budget revenues.

FINANCIAL PROJECTIONS

The medium-term financial projection for the city's budget is a stable operating performance with a need to further increase financing sources for the enormous infrastructure needs. To this end, the city will focus on the effective collection of own source-revenues and an increased use of external funding sources, such as loans and private capital.

MUNICIPAL FINANCE IMPROVEMENT PLAN

Enhance budget reality by improving the operational capacity for policy-based budget planning and the coordination of capital investments (2017); promote creditworthiness by increasing own-source revenue collection through the establishment of links among databases within the tax administration (2018); and foster service sustainability by improving capital projects planning through the establishment of a single platform and methodology for public investment analysis led by the ministry of finance (2018, fourth quarter).

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