

POSSIBILITIES TO FINANCE SOCIALLY SIGNIFICANT PROJECTS WITH OWN RESOURCES FROM LOCAL BUDGETS (THE CASE OF BURGAS MUNICIPALITY)

MOGU NOST FINANCIRANJA DRUŠTVENO ZNA AJNIJIH PROJEKATA VLASITIM SREDSTVIMA IZ LOKALNIH PRORA UNA (SLU AJ OP INA BURGAS)

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Abstract: *This report investigates the possibilities for municipalities to generate their own financial resources and to invest them in projects with high social and economic potential for the development of the regions. The analysis is focused on the possibilities and limitations of municipal budgets following the example of the municipality of Burgas. It outlines the challenges facing the financing of socially important projects with own resources and makes suggestions regarding a municipality's ability to generate additional resources and to optimize its budget expenditure.*

Key words: *municipal budget, own resources of local government, socially significant projects.*

Sažetak: *Ovaj rad istražuje mogu nosti kako op ine mogu generirati vlastite financijske resurse te da ih ulažu u projekte s visokim društvenim i gospodarskim potencijalom za razvoj regije. Analiza je usmjerena na mogu nostima i ograni enjima op inskih prora una po uzoru na podru ju op ine Burgas. On isti e izazove s kojima se suo ava financiranje društveno važnih projekata s vlastitim resursima i daje sugestije u vezi op inskih sposobnost da se generiraju dodatni resursi i da se poboljša prora unski izdatak.*

Ključne riječi: *op inski prora un, vlastita sredstva jedinica lokalne samouprave, društveno zna ajni projekti*



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1. Introduction

The socio-economic development of the regions is a priority of the policy pursued by the local authorities. In Bulgaria, local budgets are financed with subsidies from the central Republican budget and the municipalities' own revenues. The subsidies provided from the state budget to the municipalities are targeted according to the activities delegated in the sphere of health care, education, maintenance of the road network, etc. The economic crisis in the last five years narrowed the possibilities to increase the state subsidies provided to the municipalities. The importance of local governments' ability to generate own income from municipal activities is growing under these circumstances. The municipalities' own revenues become a major "driver" of the sustainable development of the regions [1,2]. The investment of the resources coming from the municipal revenues in local projects contributes, on one hand, to the opening of new jobs, the increase of employment and decrease of unemployment among the local population [3,4]. On the other hand, the implementation of local projects in socially significant spheres is a precondition not only for sustainable growth of the expected future municipal revenues but also for improving the welfare of the municipal population [1,4].

The accession of the country of the European Union allowed the local governments to utilize funds also from European funds under regional development programs. The active utilization of resources from European funds however requires the relevant financial potential to ensure availability of the necessary co-financing from local budgets. Subject of this study are the possibilities to finance projects with substantial social and economic significance using municipalities' own funds. Subject of the study is the municipality of Burgas which is one of the most dynamically developing municipalities in Bulgaria. The purpose of this paper is to outline the new possibilities for the municipality to finance with its own resources projects and activities which will contribute to its socio-economic development.

2. Structural analysis of municipal budget

The approval and implementation of municipal budgets is subject to certain legal limitations related to the economic appropriateness and the cost efficiency requirements. For example, according to the Public Finance Act, the growth rate of the annual municipal expenditures may not exceed their average annual growth rate over the last four years. Another limitation concerns the undertaking and payment of municipal debt. The annual disbursements under the debt may not exceed 15% of the amount of own revenues. These conditions aim to ensure, first of all, compliance with the public interest and binding the annual amount of municipal expenditure with the planned revenues to the municipal budget.

Another important aspect is the minimization of the risk of sharp increase in the indebtedness of municipalities and the occurrence of problems with the proper payment of the municipal debt. Under these expenditure restricting conditions the

investments drawing on the municipalities' own resources must focus on the implementation of long-term objectives and lead to sustainable growth of the future municipal revenues.

The city of Burgas has a number of comparative advantages in terms of geographic location, developed industry, cultural and historical heritage. The city has won three times the “The best city to live in Bulgaria” Prize over the past four years. Best developed here are tourism and the oil refining industry. The macro frame of the budget of the municipality of Burgas for 2014 envisages spending a total of 165 million BGN of which nearly 100 million BGN comes from the municipalities' own revenues (fig. 1).

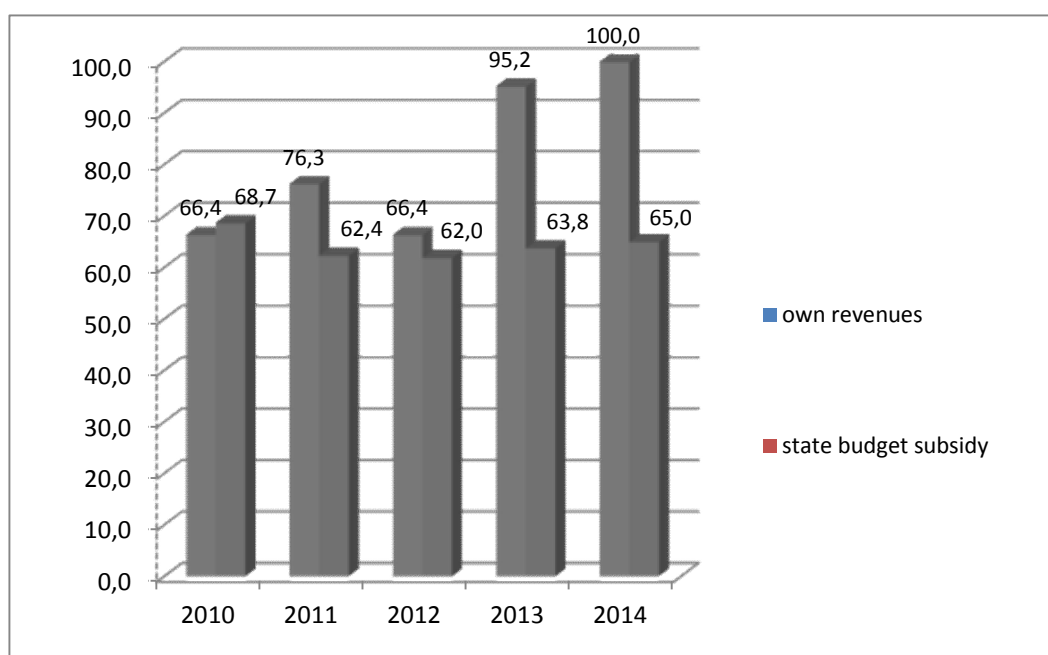


Fig. 1 Dynamics in the changes of the own revenues of the municipality of Burgas and the state subsidies provided for the period 2010 – 2014 (million BGN), Source: Annual reports on the implementation of the budget of the municipality of Burgas; Budget 2014 of the municipality of Burgas.

The growing importance of municipal own revenues became clearly visible over the last two years when the revenues from own sources sharply increased. Their growth significantly exceeded the subsidies provided from the state budget.

Non-tax revenues (45%) are expected to constitute the largest share in the revenues of the municipal budget for 2014. This “item” expects largest income from municipal waste charges – 17, 2 million BGN and the income from municipal property (income from sale of goods and services, rents, dividends, etc.) – 10,3 million BGN (Fig. 2).

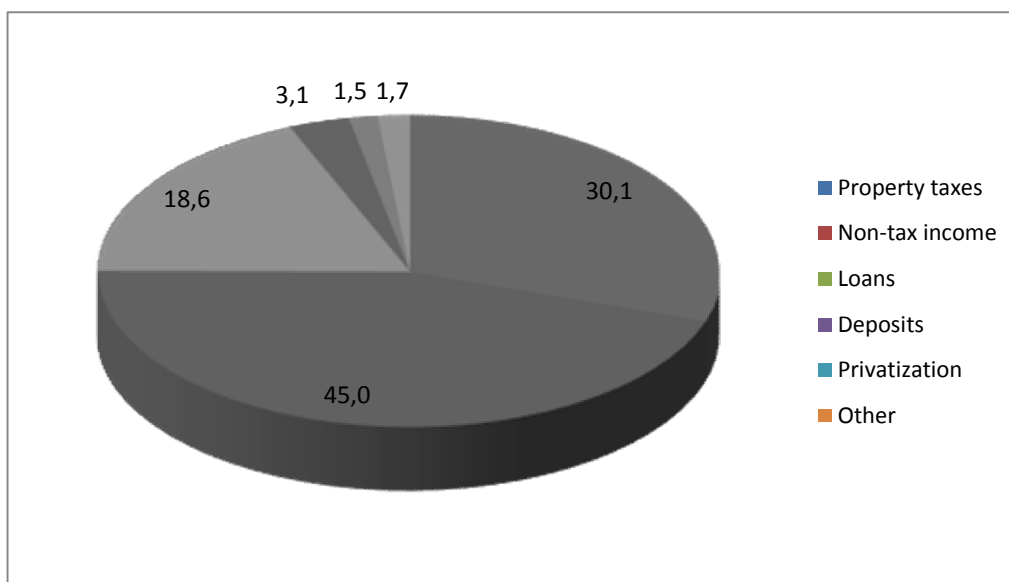


Fig. 2 Structure of municipal revenues in 2014 (%), Source: Budget 2014 of the municipality of Burgas.

The statutory local taxes are expected to bring 29.5 million BGN to the municipal treasury. Most significant are the revenues from taxes on real estate (13 million BGN), motor vehicles (8.5 million BGN), legacies, donations and tourist tax.

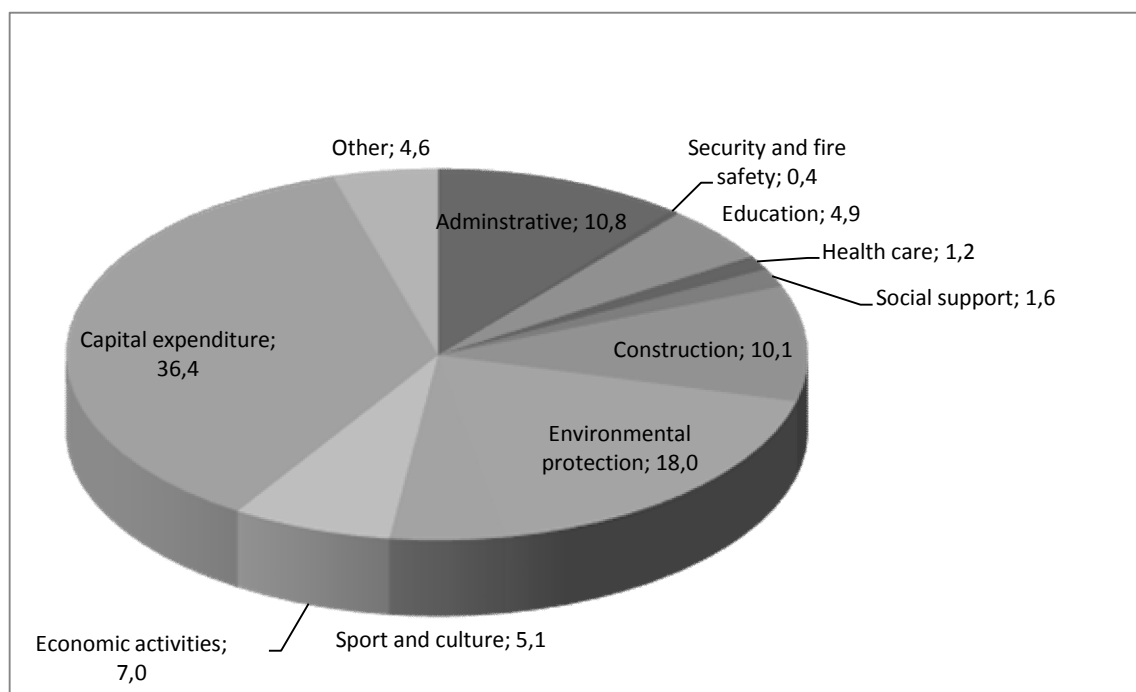


Fig. 3 Structure of municipal expenditure in 2014 (million BGN), Source: Budget 2014 of the municipality of Burgas.

Largest share in the structure of the planned expenditure from the municipal budget in 2014 (fig. 3) is attributed to the capital expenditure which was increased by 13% on an annual basis compared to the previous year. The expenditures for environmental protection have decreased by 5% compared to the previous year but are second in terms of largest relative share (18%) in 2014 and include cleaning and landscaping activities.

A positive fact in the structure of municipal expenditure of Burgas in 2014 is the envisaged reduction of administrative expenditure by 5% to 10.8 million BGN compared to 2013. The expenditure for cultural and sports activities grows by 11% on an annual basis and the expenditure for education, health care and social activities remain at the same relative levels.

3. Dynamics of long-term indebtedness and credit rating

The dynamics of long-term indebtedness of the municipality of Burgas (table 1) shows that the financing of long-term bank loans has sharply increased over the last two years of the analyzed period. The resources coming from these loans are invested in capital expenditure. The annual amount of the interest due under the utilized bank loans is expected to grow proportionately to the growth rate of the loan facilities.

Until 2014 the municipality has duly paid all obligations under its bank loans and has not admitted delays. So far the municipality has not taken advantage of the possibility to finance capital investments with bonds.

Bank loans	Years				
	2010	2011	2012	2013	2014
Utilized loans	6965	10004	1032	22176	24340
Repaid loans	3682	4229	4548	5808	5714
Paid interest	560	791	928	895	820

Table 1. Dynamics of the long-term debt of the municipality of Burgas (thousand BGN), Source: Annual reports on the implementation of the budget of the municipality of Burgas; Budget 2014 of the municipality of Burgas.

Bond loans are one of the instruments which have not been used by the municipality and which may turn out to be an efficient tool to finance projects with long-term socio-economic benefits. It has been widely discussed that bond loans offer some advantages to bank loans in terms of lower cost of financing when the borrower's investment rating is available [5,6,7]. The investment rating of the municipality of Burgas has been assessed by BCRA Credit Rating Agency (table 2).

Rating	Initial rating 08.2008	Update 09.2009	Update 30.08.2010	Update 13.01.2012	Update 25.02.2013
Long-term			+	+	-
Perspective	Stable	Stable	Stable	Positive	Positive
Short-term	-2	-2	-2	-2	-1

Table 2. Credit rating of the municipality of Burgas, Source: www.bcra-bg.com

The rating issued to the municipality of Burgas and its updates in a positive direction indicate that the municipality may be financed with a bond loan at a relative low cost due to its investment rating. A bond loan would have considerably decreased the budget expenditure by optimizing the payments of interest rates [5,8]. Bank loan interests are usually paid in monthly installments while the payments of interest coupons under bonds are made once or twice a year. A possible substitution of some bank loans with bond issues requires preparation of prospectuses to acquaint the investors with the investment intentions of the municipality. Gaining investors' trust is of crucial importance to form an attractive cost of the debt. Investments offering security under conditions of relative profitability draw investors' interest.

The municipality of Burgas has all required conditions to attract investors' interest and to achieve attractive terms under the municipal bond debt. The stable financial situation of the municipality, the sustainable growth rate of its own revenues, the active investment program, the sound financial management and the absence of overdue obligations are indicators favouring a successful municipal bond issue.

4. Conclusion

Resources to finance social important projects using the own resources the municipality of Burgas may be obtained by restructuring the expenditures of the municipal budget. It would be appropriate to reallocate more resources to activities related to the rich cultural and historical heritage and the places of special natural interest. This would have a favourable impact on the possibilities to generate more income in the future for the municipality from the increased tourist flow.

In view of the proven higher cost efficiency of bond loans when an investment rating has been provided the financing of projects of socio-economic significance could be partially or even fully supported by the issue of municipal bonds.

The municipality of Burgas could make wider use of the possibilities to set up public-private partnerships between municipal companies and private businesses. Another source of financial resources to be invested in socially important projects is the revenues from the sale of municipal tangible assets and the privatization of municipal property.

5. References

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