

City of Medellin

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR BBB

Local Currency

Long-Term IDR BBB

Rating Outlooks

Long-Term Foreign Currency IDR Stable

Long-Term Local Currency IDR Stable

Financial Data

City of Medellin

(COP Mil.)	12/31/17	12/31/16
Operating Revenue	3,478,975	3,148,402
Direct Debt	1,360,224	1,147,787
Operating Balance/Operating Revenue (%)	16.61	16.45
Direct Debt Servicing/Current Revenue (%)	3.2	7.33
Direct Debt/Current Balance (Years)	2.0	1.9
Operating Balance/Interest Paid (x)	8.80	6.90
Capex/Total Expenditure (%)	42.74	32.73
Surplus (Deficit) Before Debt Variation/Total Revenue (Excluding New Debt) (%)	(3.90)	3.21
Current Balance/Capex (%)	30.26	43.77

Related Research

[Fitch Affirms Colombia at 'BBB'; Outlook Stable \(November 2018\)](#)

[Fitch Affirms Municipality of Medellin's International Ratings at 'BBB'; Outlook Stable \(November 2018\)](#)

[Institutional Framework for Colombian Subnationals \(October 2011\)](#)

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Key Rating Drivers

Strong Economy: The City of Medellin is considered Colombia's (BBB/Stable) second-most important city, after Bogota, contributing approximately 7% of GDP. The local economy is mainly based on services and commerce, although Medellin is home to many industries important to national and international trade. The city sustains strong socioeconomic indicators with higher coverage of public services, education and health than national standards.

Robust Tax Collection: Fiscal revenue steadily rose in recent years, reflecting the success of the city's fiscal management model and taxpayers' positive payment culture. Operating revenue is well diversified among taxes, national transfers and other operating revenue.

Good Fiscal and Financial Performance: Medellin maintains favorable fiscal and financial performance. The city's operating margins had a positive trend in 2015–2017. In 2017, the operating balance was COP577.8 billion and the operating balance/operating revenue, or operating margin, was 16.6%. Fitch Ratings expects the operating margin will remain stable in the medium term, at an average of 16%.

EPM Financial Support Is Key: The city's total ownership of Empresas Publicas de Medellin E.S.P. (EPM; BBB/Rating Watch Negative) is a key factor in financial performance, as the significant amount of dividends transferred from EPM to the city increased its financial flexibility. Dividends represented around 20% of total income for the city since 2012.

Moderate Debt Burden: In December 2017, debt was COP1.36 trillion, or USD427 million, and direct debt/current balance represented 2.0 years in 2017, lower than the median of entities rated in the 'BBB' category. Foreign debt represents 49.5% of total debt, and is not hedged to prevent exchange rate risk.

Sustainable Debt Projections: The administration issued internal debt of COP268.8 billion in 2017 and is considering new internal debt issuances in 2018–2020. Although Medellin's credit metrics will be pressured in coming years, metrics remain consistently within the rating range.

Strong Management: Medellin maintains a strong financial position. Fitch notes the fiscal capacity of the administration to improve tax collections, as it implemented a new model to efficiently manage tax collection coupled with efforts to restrain operating expenditures.

Rating Sensitivities

Rating Action Unlikely: The Stable Outlook reflects Fitch's sensitivity analysis, which does not foresee any developments that would lead to a rating action.

Medellin presents strong financial indicators; the Issuer Default Rating is capped by Colombia's sovereign risk. A change in the sovereign rating could lead a similar rating action for Medellin.

Rating History

Date	LT FC IDR	LT LC IDR
Nov. 22, 2017	BBB	BBB
Aug. 22, 2017	BBB	BBB
March 15, 2017	BBB	BBB
Nov. 23, 2016	BBB	BBB
July 28, 2016	BBB	BBB
Dec. 21, 2015	BBB	BBB+
Jan. 20, 2015	BBB	BBB+

LT – Long term. FC – Foreign currency.
 LC – Local currency. IDR – Issuer
 Default Rating.
 Source: Fitch Ratings.

Principal Rating Factors

Summary: Strengths and Weaknesses

	Institutional Framework	Debt and Liquidity	Fiscal Performance	Management and Administration	Economy
Status	Neutral	Neutral	Strength	Strength	Neutral
Trend	Stable	Stable	Stable	Stable	Stable

Source: Fitch Ratings.

Overall Strengths

- Good fiscal and financial performance.
- Debt credit metrics appropriate for risk level.
- Strong fiscal management.
- Financial support from EPM.
- Significant role in the Colombian economy.

Overall Weaknesses

- Manageable, but higher, debt burden relative to historical debt levels.
- A need for capex.

Institutional Framework

Fitch considers the Colombian institutional framework to be neutral from a credit perspective. Compared with other countries in the region, Colombia has more explicit regulations for debt and operating expenditure ceilings, and mechanisms for recovering fiscal viability.

Debt and Liquidity

Fitch considers Medellin’s debt profile to be neutral to the rating and likely to remain stable, reflecting debt credit metrics appropriate for the risk level assigned. In December 2017, debt was COP1.36 trillion, or USD427 million, and direct debt/current balance represented 2.0 years in 2017, lower than the median of entities rated in the ‘BBB’ category. Direct debt servicing/operating balance was 20.2%.

Debt includes internal bond debt at 18.3% and external debt at 49.5% of the total, and is not hedged for exchange rate risk. Medellin’s administration is working to hedge coverage of external debt to reduce exposure to exchange rate risks. The administration issued internal debt of COP268.80 billion in 2017 and is considering new internal debt issuances in 2018–2020. Although Medellin’s credit metrics will be pressured in coming years, metrics are consistently within the rating range.

Fitch modeled a scenario reflecting the plan to issue new debt during 2018–2020, and subjected financial projections to adverse scenarios. The results showed credit metrics in line with the entity’s credit rating range. According to Fitch’s projections, the highest ratio of direct debt/current balance will be less than 3.43 years and direct debt servicing/operating balance will be slightly higher than 50%.

The city’s debt indicators are lower than the maximums allowed in Law 358/97. According to Medellin’s estimates at YE 2017, interest/operating savings was 4.13%, a significantly lower level than the allowed maximum of 40.00%. Debt/current income was 60.79%, lower than the legal maximum of 80.00%. These indicators are estimated in accordance with local regulation.

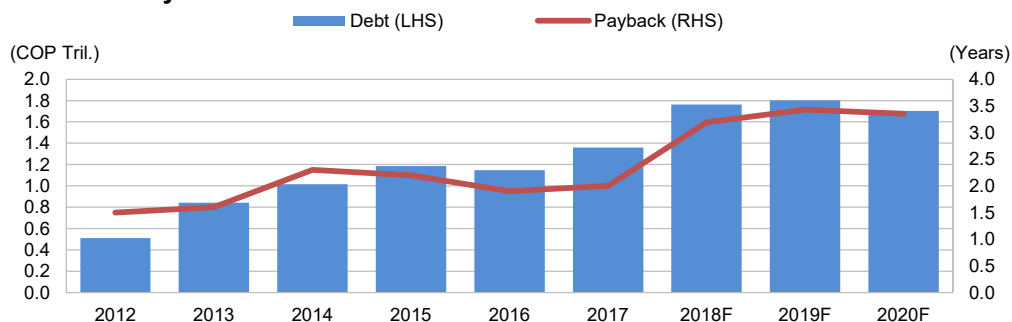
Related Criteria

[International Governments Outside the United States \(April 2016\)](#) [Local Rating Criteria – United States](#) [Regional Criteria – United States](#)

According to information from the Consolidator of Finance and Public Information at YE 2017, Medellin had liquid resources of COP485.8 billion. The city maintains guidelines on excess liquidity management.

The city estimated pension liabilities at YE 2017 at COP2.9 trillion, with a reserve equivalent to 41%. Fitch does not consider these liabilities to be risks as Medellin is increasing coverage. Local regulation stipulates coverage for pension liabilities until 2029.

Debt and Payback



F – Fitch forecast.
Source: Fitch Ratings, Fitch Solutions, City of Medellin.

City Services and Public Entities

The decentralized sector in Medellin consists of 46 entities, with 29 direct entities and 17 entities with strategic partners. The city created a public conglomerate, or a corporate governance model, to coordinate the decentralized sector, seek efficiencies, and guarantee the sustainability and autonomy of entities. The mayor’s office has prepared and presented consolidated accounting information since 2012.

The decentralized and participating entities created by Medellin have full legal status and full administrative and financial autonomy; however, the entities are subject to central-level control. The entities in the general budget of Medellin are the central entity, the control bodies and the public establishments. The state industrial and commercial companies and mixed economy companies are overseen by the Municipal Council of Fiscal Policy, which approves these entities’ budgets and acquired indebtedness.

Medellin transfers resources directly to the public establishments to cover operational costs and capex. The city is only able to transfer resources to other decentralized entities via an agreement, a contract or a capitalization framed within the execution of investment projects.

Internal credit operations, which will be carried out by decentralized entities, require approval from the mayor. A decentralized entity must take into consideration funding limitations. Entities must ensure debt service does not exceed 30% of ordinary income in the corresponding fiscal period. Pursuant to Decree 610 of 2002, entities will not be able to manage external debt or carry out external or internal public credit operations with a term greater than one year if the entities have not previously obtained a credit rating. Medellin does not guarantee entities’ debt.

Some of the entities in the city’s public conglomerate are Metro de Medellin, Metroplus, EPM, Olaya Herrera Airport and Metrosalud.

Account Policies and Adjustments

Accounts and financial reports presented are based on data provided by Medellín between 2013 and 2017.

Fitch makes some adjustments for analytical purposes, which explains possible differences between the information presented in this report and the city's public information.

Fiscal Performance

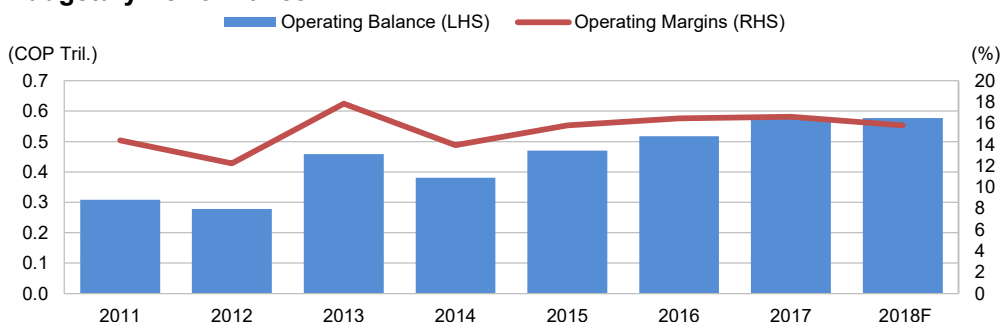
Fitch assesses Medellín's budgetary performance as strong. Fiscal revenue steadily increased in recent years, reflecting the success of the city's fiscal management model, taxpayers' payment culture and a positive economic performance. In 2017, Medellín's operating revenue was COP3.5 trillion and tax revenue/operating revenue was 46.9%.

The tax base for the city is drawn mainly from property taxes and trade and industry taxes, which represented more than 75% of taxes in 2017. Medellín collected COP659.0 billion of property taxes in 2017, with 7.4% growth over 2016. Trade and industry taxes were COP588.8 billion in 2017, 12.1% higher than 2016.

In 2017, Medellín's operating expenditure grew 10.3% over the previous year. The city's quality indicator was 35.4% in 2017; this indicator, as defined in Law 617 of 2000 and measured as operating expenditure divided by nonrestricted revenue, remains at a level significantly lower than the established limit of 50.0%.

The city's operating margins recorded a positive trend in 2015–2017. The operating balance was COP577.8 billion and operating margin was 16.6% in 2017. Fitch expects operating margins will remain stable in the medium term, considering tax collection performance will continue to benefit from control and inspection initiatives and from cadastral updating. Medellín's operating margin is expected to remain at an average of 16% in the next few years.

Budgetary Performance



F – Fitch forecast.
Source: Fitch Ratings, Fitch Solutions, City of Medellín.

Medellín benefits from significant dividends received from EPM, permitting the municipality to be more flexible to allocate them to finance further capex. As a whole, dividends have represented around 20% of the city's total income since 2012. Transfers to Medellín in 2017 were for COP1,013.4 billion, additionally, COP300 billion was paid corresponding to the sale of EPM's stake in Isagen S.A. ESP. EPM's transfers represented 29.1% of Medellín's operating revenues. Based on 2017 financial results, Medellín will receive COP1,200 billion in 2018 from EPM.

The Ituango Hydroelectric project contingency has affected EPM's financial plan, given the related expenses to resolve its technical issues and the change in projections from delays.

EPM's transfers are classified by Fitch as capital revenue and are used exclusively to fund Medellín's capex program. Therefore, we do not expect the difficulties at Ituango to have a meaningful effect on the city's key financial ratios in the short to medium term. Medellín holds a high degree of financial flexibility, allowing for necessary adjustments to its medium-term financial plans if transfers from EPM decline.

Management and Administration

Management and governance is a strong rating factor with a stable trend, despite a change in administrations. The city is led by Mayor Federico Gutierrez, who was elected to serve from 2016 to 2020. Mayor Gutierrez has no party affiliation and secured his position with a community movement promoting his candidacy.

Mayor Gutierrez presented the Development Plan, or Medellin Cuenta con Vos. The administration initiated an organizational modification of the previous structure by abolishing vice mayors and reorganizing the public conglomerate. Likewise, functions were distributed to the respective dependencies.

Fitch notes the fiscal capacity of the administration to improve tax collections, as the city implemented a new model to efficiently manage tax collection, coupled with efforts to restrain operating expenditure.

Economy

Medellin is the capital of the department of Antioquia in Colombia. The city is the most populous city in the department and the second most populous in the country, after Bogota. Medellin's population was 2.5 million in 2017. Growth of the city's population is stable, at close to 1% per year. This growth allowed Medellin to improve city planning, space allocation and the provision of public services, which are 100% urban. Medellin is attractive to immigrants, and Fitch observes the need for infrastructure improvements in various social sectors.

The city is the country's second most significant economic center, after Bogota. According to the National Administrative Department of Statistics, Medellin contributes about 7.3% of national GDP, while the Metropolitan Area of the Aburrá Valley (MAAV) generates 11.6% of national GDP. In 2016, MAAV contributed 13.9% of GDP. During the last four years the unemployment rate for Medellin was close to 10%–11%, higher than the national rate.

The city's economic activity is diversified. The economy transitioned to services, commerce, and to a lesser extent, the industrial sector, more than a decade ago. Services and commerce are diversified into retail, wholesale, legal, engineering, advertising and financial services. Medellin is home to national and international industries such as telecommunications, textiles, construction, hygiene and pharmaceutical goods, among others.

Appendix A: Financial Summary — City of Medellin

(COP Mil., As of Dec. 31)	2013	2014	2015	2016	2017
Taxes	1,222,233.6	1,309,114.4	1,435,162.3	1,517,342.0	1,630,773.0
Transfers Received	1,088,031.4	1,158,200.6	1,284,941.9	1,333,852.0	1,533,301.0
Fees, Fines and Other Operating Revenue	262,164.1	255,822.0	258,990.6	297,208.0	314,901.0
Operating Revenue	2,572,429.1	2,723,137.0	2,979,094.8	3,148,402.0	3,478,975.0
Operating Expenditure	(2,113,603.7)	(2,342,181.8)	(2,508,810.2)	(2,630,599.7)	(2,901,140.3)
Operating Balance	458,825.4	380,955.2	470,284.6	517,802.3	577,834.7
Financial Revenue	82,956.3	101,837.9	126,376.0	169,492.0	169,426.0
Interest Paid	(26,847.2)	(43,926.8)	(65,754.9)	(75,267.3)	(65,679.3)
Current Balance	514,934.5	438,866.3	530,905.7	612,027.0	681,581.4
Capital Revenue	1,006,993.7	2,497,573.5	1,081,608.8	922,212.7	1,375,342.0
Capex	(1,846,840.5)	(2,935,412.2)	(1,712,260.7)	(1,398,343.9)	(2,252,774.9)
Capital Balance	(839,846.8)	(437,838.7)	(630,651.9)	(476,131.2)	(877,432.9)
Surplus (Deficit) Before Debt Variation	(324,912.3)	1,027.6	(99,746.2)	135,895.8	(195,851.5)
New Borrowing	318,187.0	115,499.8	0.0	—	268,800.0
Debt Repayment	(10,929.5)	(43,913.8)	(21,080.3)	(168,058.0)	(51,187.9)
Net Debt Movement	307,257.5	71,586.0	(21,080.3)	(168,058.0)	217,612.1
Overall Results	(17,654.8)	72,613.6	(120,826.5)	(32,162.2)	21,760.6
Debt					
Short Term	—	—	—	—	—
Long Term	843,498.9	1,014,453.2	1,185,045.1	1,147,787.0	1,360,223.7
Direct Debt	843,498.9	1,014,453.2	1,185,045.1	1,147,787.0	1,360,223.7
+ Other Fitch Classified Debt — Pre-Financing	—	—	—	—	—
Direct Risk	843,498.9	1,014,453.2	1,185,045.1	1,147,787.0	1,360,223.7
– Cash, Liquid Deposits, Sinking Fund	580,332.4	294,722.6	308,757.3	401,682.0	485,811.3
Net Direct Risk	263,166.5	719,730.6	876,287.8	746,105.0	874,412.4
Guarantees and Other Contingent Liabilities	—	—	—	—	—
Net Indirect Debt (Public Sector Entities Excluding Guaranteed Amount)	—	—	—	—	—
Net Overall Risk	263,166.5	719,730.6	876,287.8	746,105	874,412.4
Memo for Direct Debt					
% Foreign Currency	46.6	59.8	67.1	63.6	49.6
% Issued Debt	16.7	38.4	32.9	36.4	30.7
% Fixed Interest Rate Debt	0.0	43.1	48.6	46.2	36.1

Source: Fitch Ratings, Fitch Solutions, City of Medellin.

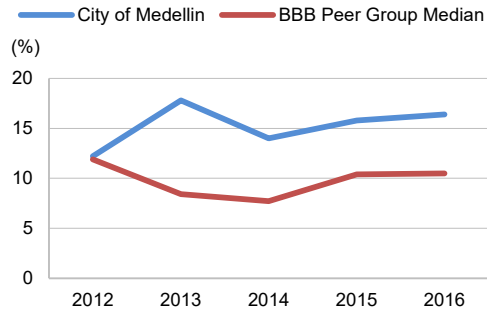
Appendix B: Key Ratios — City of Medellin

(%, As of Dec. 31)	2013	2014	2015	2016	2017
Fiscal Performance Ratios					
Operating Balance/Operating Revenue	17.84	13.99	15.79	16.45	16.61
Current Balance/Current Revenue ^a	19.39	15.54	17.10	18.45	18.68
Surplus (Deficit) Before Debt Variation/Total Revenue ^b	(8.87)	0.02	(2.38)	3.21	(3.9)
Overall Results/Total Revenue (%)	(0.48)	1.36	(2.89)	(0.76)	0.43
Operating Revenue Growth (Annual % Change)	12.93	5.86	9.40	5.68	10.5
Operating Expenditure Growth (Annual % Change)	5.70	10.81	7.11	4.85	10.28
Current Balance Growth (Annual % Change)	48.01	(14.77)	20.97	15.28	11.36
Debt Ratios					
Direct Debt Growth (Annual % Change)	64.93	20.27	16.82	(3.14)	18.51
Interest Paid/Operating Revenue	1.04	1.61	2.21	2.39	1.89
Operating Balance/Interest Paid (x)	17.1	8.7	7.2	6.9	8.8
Direct Debt Servicing/Current Revenue	1.42	3.11	2.80	7.33	3.2
Direct Debt Servicing/Operating Balance	8.23	23.06	18.46	46.99	20.23
Direct Debt/Current Revenue	31.77	35.91	38.16	34.59	37.28
Direct Risk/Current Revenue	31.77	35.91	38.16	34.59	37.28
Direct Debt/Current Balance (Years)	1.64	2.31	2.23	1.88	2
Net Overall Risk/Current Revenue	31.77	35.91	38.16	34.59	23.97
Direct Risk/Current Balance (Years)	1.64	2.31	2.23	1.88	2
Direct Debt/GDP	1.45	1.59	1.71	1.52	1.77
Direct Debt Per Capita (Local Currency)	348,986	415,589	480,944	459,851	542,354
Revenue Ratios					
Operating Revenue/Budget Operating Revenue	N.A.	N.A.	N.A.	N.A.	N.A.
Tax Revenue/Operating Revenue	47.51	48.07	48.17	48.19	46.88
Modifiable Tax Revenue/Total Tax Revenue	—	—	—	—	—
Current Transfers Received/Operating Revenue	42.30	42.53	43.13	42.37	44.07
Operating Revenue/Total Revenue ^b	70.24	51.16	71.15	74.25	69.25
Total Revenue ^b Per Capita (Local Currency)	1,515,258	2,180,479	1,699,302	1,698,761	2,003,087
Expenditure Ratios					
Operating Expenditure/Budget Operating Expenditure	N.A.	N.A.	N.A.	N.A.	N.A.
Staff Expenditure/Operating Expenditure	17.11	18.50	18.19	18.62	17.82
Current Transfer Made/Operating Expenditure	80.10	78.83	78.94	78.21	79.51
Capex/Budget Capex	N.A.	N.A.	N.A.	N.A.	N.A.
Capex/Total Expenditure	46.19	54.71	39.75	32.73	42.74
Capex/Local GDP	3.17	4.59	2.47	1.85	2.93
Total Expenditure Per Capita (Local Currency)	1,654,208	2,198,048	1,748,338	1,711,646	2,101,588
Capex Financing					
Current Balance/Capex	27.88	14.95	31.01	43.77	30.26
Capital Revenue/Capex	54.53	85.08	63.17	65.95	61.05
Net Debt Movement/Capex	16.64	2.44	(1.23)	(12.02)	9.66

^aIncludes financial revenue. ^bExcluding new borrowing. N.A. – Not available.
Source: Fitch Ratings, Fitch Solutions, City of Medellin.

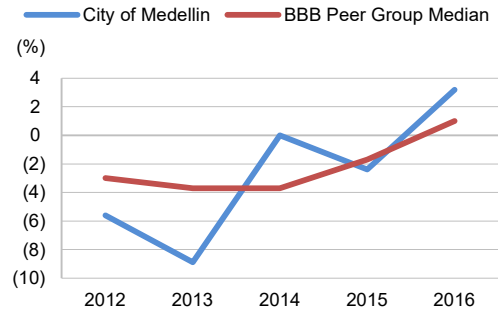
Appendix C: Peer Comparison — City of Medellin

Operating Balance
(% Operating Revenue)



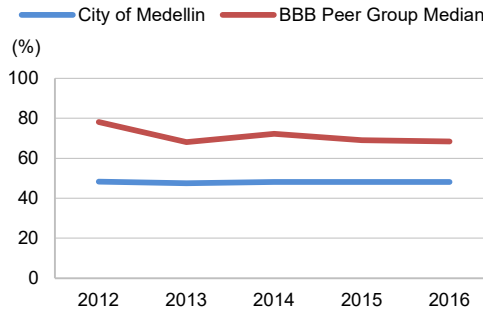
Source: Fitch Ratings, Issuers.

Surplus (Deficit)
(% Total Revenue)



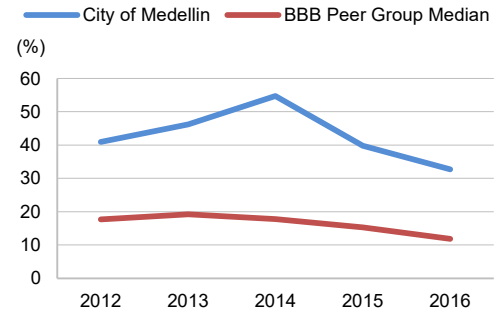
Source: Fitch Ratings, Issuers.

Taxes
(% Operating Revenue)



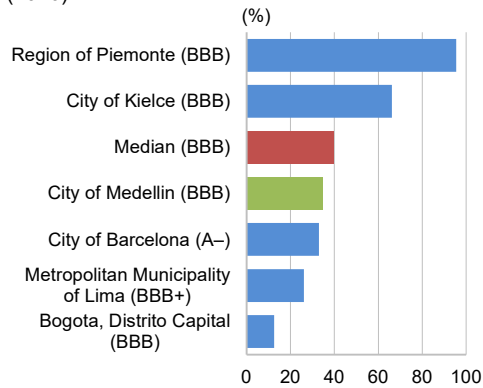
Source: Fitch Ratings, Issuers.

Capex
(% Total Expenditure)



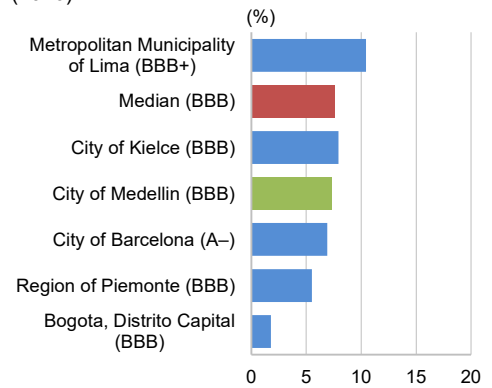
Source: Fitch Ratings, Issuers.

Debt to Current Revenue
(2016)



Source: Fitch Ratings, Issuers.

Debt Servicing to Current Revenue
(2016)



Source: Fitch Ratings, Issuers.

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