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Solothurn (Canton of)

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Solothurn (Canton of)

Major Rating Factors

Strengths:

- Stable Swiss political and fiscal system including fiscal equalization
- Strong (albeit declining) budgetary performance of the canton
- Sophisticated and conservative cantonal fiscal management committed to fiscal consolidation
- Increasingly diverse economy with continuing long-term growth prospects in the medical engineering and life-science industries

Issuer Credit Rating

AA/Stable/A-1+

Weaknesses:

- Below-average wealth in a Swiss context and dependency on funds from the Swiss national equalization system
- Large underfunding of the cantonal pension insurance scheme
- Concentration risk of corporate tax payers

Rationale

The ratings on the Swiss Canton of Solothurn reflect the very stable Swiss political and government system including vertical and horizontal financial equalization.

The ratings are supported by Solothurn's above-average past budgetary performance, its sophisticated and conservative fiscal management, and moderate, albeit increasing, debt levels. Furthermore, the canton's economic structure has become increasingly diverse over recent years. This is partly due to the favorable geographic position of the canton, which is well connected to Switzerland's transportation infrastructure.

The ratings are constrained by Solothurn's below Swiss national average economic wealth levels, leaving the canton dependent on funds from the national fiscal equalization system. The ratings also take into account the relatively low cover ratio of Solothurn's cantonal pension fund of 65.2% (as of year-end 2008). Another constraining factor is the canton's high concentration of its corporate tax revenues on some large corporate tax payers, which makes the canton's revenues potentially vulnerable. Standard & Poor's Ratings Services believes, however, that close contacts between the large corporate taxpayers and the cantonal management make relocations of corporate taxpayers very unlikely.

Over the past few years, the canton has shown strong budgetary performance. For the years 2006-2008, operating surpluses reached on average 12.8% of operating revenues. The average surplus of after-capital spending for the same period was 6.3% of total revenues. Solothurn lowered its debt level from Swiss franc (CHF) 605 million in 2008 (equivalent to 34.5% of 2008) to CHF1,276 million in 2001 (equivalent to 103.8% of 2001 operating revenues).

In our opinion, the budgetary performance of the canton will considerably decline over the next three to four years reflecting the severe decline in global and Swiss economic performance, and additional expenditure pressure stemming from reforms to the Swiss health care financing system in 2012.

Liquidity

The canton has a favorable liquidity position to offset parts of the upcoming tax shortfalls. Due to a concentration of refinancing in 2010 (CHF190 million) and 2012 (CHF150 million), we believe that the canton will need to increase its borrowing between 2010 and 2012. We forecast direct debt as a percentage of operating revenues to increase to 46.8% in 2012 from 34.5% in 2008. Debt levels might increase in excess of our forecast if the canton injects any debt-financed capital into the cantonal pension fund. Irrespective of this particular debt increase, we consider the long-term commitment towards prudent fiscal policies of the canton as unchanged.

We observed that the seasonality of Solothurn's annual cash inflows and outflows has recurred since 2005, making cash flows during the fiscal year predictable. As of April 2009, the canton had sufficient cash and equivalents of CHF406 million, equivalent to 25.7% of expected 2009 operating expenditures. Parts of this high liquidity will be used to repay debt of CHF105 million maturing in 2009. Solothurn has sufficient access to additional liquidity in the form of committed credit lines with four different banks totaling CHF300 million (equivalent to 19% of 2009 expected operating expenditures).

Outlook

The stable outlook reflects our expectation that the canton should be able to weather the projected decline in budgetary performance. The canton has a well-above-average liquidity position. The high quality of the cantonal infrastructure provides additional fiscal flexibility to postpone parts of planned investment expenditures if necessary. We believe that the canton will maintain its commitment towards prudent fiscal policies over the medium term. The forecast increase of the canton's relative debt level to 46.8% of operating revenues by 2012 from 34.5% in 2008 is still below the median value for the 'AA' rating category.

The ratings could be raised in the medium term if Solothurn continues with its dynamic economic development. This development may continue to narrow the still-high economic gap compared with the Swiss national average, making the canton less dependent on transfers from the Swiss national fiscal equalization system. The rating could come under pressure if we observe a discontinuation of the political long-term commitment towards prudent fiscal policies and fiscal consolidation.

The rating could be lowered if expenditure increases and/or revenue shortfalls considerably deviate from our current forecast leading to higher-than-expected net borrowing.

Peer Comparison

From 2006 to 2008 the canton's budgetary performance was better than for most of its peers (see table 1). Solothurn's direct debt level of 34.5% of operating revenues in 2008 is lower than the median value for the 'AA' rating category.

However, due to the relatively high underfunding of Solothurn's cantonal pension scheme (with a cover ratio of 65.2% in 2008), the net financial liabilities of the canton are 86.5% of the 2008 consolidated operating revenues, which is commensurate with the median value of the 'AA' rating level.

The Swiss Cantons of Aargau (AAA/Stable/A-1+), Basel-City (AA+/Stable/A-1+), and Zurich (AAA/Stable/--) have substantially higher economic wealth levels than Solothurn. Zurich and Basel-City are large net contributors to the

Swiss financial equalization system, whereas Solothurn is a large net beneficiary. Since Solothurn sold its cantonal bank in 1995 after financial difficulties, there are no more cantonal guarantees outstanding for a cantonal bank.

Note: A full report is available in German. To request a copy, please e-mail to PublicFinanceEurope@standardandpoors.com.

Table 1

Solothurn (Canton Of) 2008 Peer Comparison							
	Solothurn (Canton Of)	AA Median	Basel-City (Canton Of)	Galicia (Autonomous Community Of)	Manitoba (Province Of)	St Gallen (Canton Of)	Vaud (Canton Of)
Issuer credit rating (LC)	AA/Stable/A-1+	N/A	AA+/Stable/A-1+	AA/Stable/A-1+	AA/Stable/A-1+	AA+/Stable/A-1+	AA/Stable/--
Issuer credit rating (FC)	AA/Stable/A-1+	N/A	AA+/Stable/A-1+	AA/Stable/A-1+	AA/Stable/A-1+	AA+/Stable/A-1+	AA/Stable/--
National scale ratings	--/--/--	N/A	--/--/--	--/--/--	--/--/--	--/--/--	--/--/--
Three-year averages (2006-2008), using actual results only							
Operating balance (% of operating revenues)	12.8	11.6	16.8	19.1	2.5	8.0	13.0*
Balance after capital expenditures (% of total revenues)	6.3	(1.4)	3.8	(1.1)	(4.1)	5.1	14.5*
Capital expenditures (% of total expenditures)	10.8	13.9	13.9	26.9	6.8	5.0	5.5*
Transfers received (% of total revenues)	30.9	25.3	10.5	53.6	27.6	27.6	22.7*
2008 (Mil. CHF)							
Total revenues	1,846.3	N/A	4,802.8	17,452.1	11,628.0	3,736.1	7,790.0*
Modifiable revenues (% of operating revenues)	63.1	56.8	87.7	20.4	73.7	66.1	75.5*
Direct debt (at year-end)	605.0	N/A	2932.1	5,487.4	10,398.6	550.0	5,410.0*
Direct debt (% of operating revenues)	34.5	57.2	61.9	34.7	90.0	15.0	77.8*
Direct debt (% of GDP)	4.3	5.2	10.1	5.7	21.1	1.9	
Tax-supported debt (% of conso oper revenues)	45.1	N/A	62	42.5	101.2	14.7	89.6*
Net financial liabilities (% of conso oper rev)	86.5	80.56	85.2	42.5	131.0	(3.6)	100.8*
Interest (% of operating revenues)	2.0	2.6	2.3	1.5	7.2	0.8	2.9*
Debt service (% of oper revenues)	17.4	N/A	27.6	5.2	(1.9)	6.2	13.0*

Table 1

Solothurn (Canton Of) 2008 Peer Comparison (cont.)							
Free cash and liquid assets as % of debt service	150.4	N/A	23.9	0.2*	(485.2)	684.9	245.0*
Population	254,444	748,493¶	181,600	2,727,387¶	1,190,400*	460,581¶	658,572¶
Total revenues (% of GDP)	13.23	11.7	16.6	17.99	22.53	12.71	N.A.

*Figures for 2007. ¶ Figures for 2006. § Figures for 2005. N.A.--Not available. N/A--Not applicable. CHF -- Swiss Francs.

Table 2

Solothurn (Canton Of) Financial Statistics							
--Year ended Dec. 31--							
(CHF. Mil)	2012e	2011e	2010e	2009e	2008	2007	2006
Exchange rate date	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Exchange rate to U.S. \$	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Operating revenues	1,711.2	1,690.4	1,665.0	1,690.6	1,755.1	1,652.1	1,528.9
Operating expenditures	1,734.4	1,644.8	1,604.9	1,580.9	1,526.5	1,405.4	1,368.1
Operating balance	(23.2)	45.6	60.1	109.7	228.6	246.7	160.8
Operating balance (% of operating revenues)	(1.4)	2.7	3.6	6.5	13.0	14.9	10.5
Capital revenues	48.8	55.6	57.8	56.0	91.2	59.5	62.1
Capital expenditures (capex)	169.9	174.3	177.6	181.0	194.8	172.4	152.8
Balance after capex	(144.3)	(73.1)	(59.7)	(15.3)	125.0	133.8	70.1
Balance after capex (% of total revenues)	(8.2)	(4.2)	(3.5)	(0.9)	6.8	7.8	4.4
Debt repaid	150.0	10.0	190.0	105.0	270.0	50.0	115.0
Net budget loans	2.5	2.2	2.2	2.3	(0.5)	(2.7)	0.7
Balance after debt repayment and onlending	(296.8)	(85.3)	(251.9)	(122.6)	(144.5)	86.5	(45.5)
Balance after debt repayment and onlending (% of total revenues)	(16.9)	(4.9)	(14.6)	(7.0)	(7.8)	5.1	(2.9)
Gross borrowings	300.0	100.0	250.0	0.0	0.0	0.0	0.0
Balance after borrowings	3.2	14.7	(1.9)	(122.6)	(144.5)	86.5	(45.5)
Balance after borrowings (% of total revenues)	0.2	0.8	(0.1)	(7.0)	(7.8)	5.1	(2.9)
Modifiable revenues (% of operating revenues)	63.5	63.1	62.4	63.4	63.1	71.0	69.3
Capex (% of total expenditures)	8.9	9.6	10.0	10.3	11.3	10.9	10.1
Operating-revenue growth (%)	1.2	1.5	(1.5)	(3.7)	6.2	8.1	2.5
Operating-expenditure growth (%)	5.5	2.5	1.5	3.6	8.6	2.7	6.0
Direct debt (debt outstanding at year-end)	800.0	650.0	560.0	500.0	605.0	875.2	925.3
Direct debt (% of operating revenues)	46.8	38.5	33.6	29.6	34.5	53.0	60.5
Tax-supported debt (% of conso oper revenues)	46.8	38.5	33.6	29.6	45.1	60.7	81.9
Interest (% of operating revenues)	1.9	1.7	1.5	1.8	2.0	2.2	2.6
Debt service (% of operating revenues)	10.7	2.3	12.9	8.0	17.4	5.3	10.2
Free cash and liquid assets (as % operating expenditures)	12.5	13.0	12.4	12.7	26.6	29.0	23.8
Free cash and liquid assets (as % of debt service)	144.5	2,136.0	104.7	191.2	150.4	815.5	283.5

f--Forecast. b--Budgeted. e--Estimated. p--Planned. N.A.--Not available

Table 3

Solothurn (Canton Of) Economic Statistics								
	Scale	2010f	2009f	2008e	2007	2006	2005	2004
Currency		CHF	CHF	CHF	CHF	CHF	CHF	CHF
Exchange Rate Date		Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Population	Thousands	257.0	254.4	254.4	253.1	251.7	250.6	249.7
GDP (nominal)	Millions	13,927.7	13,681.5	13,960.7	13,377.0	12,747.6	12,102.7	11,712.0
GDP (nominal) per capita	Thousands	54,085.3	53,660.3	54,867.4	52,861.5	50,654.7	48,292.3	46,900.7
GDP (real) growth (%)	None	(0.2)	(3.0)	1.8	3.1	3.6	3.2	2.7

f--Forecast. e--Estimated.

Related Research

- Public Sector Accounting Report: Swiss Cantons (published on March 9, 2007)
- Public Finance System Overview: Swiss Cantons (published on Oct. 3, 2007)
- Fiscal Flexibility Index For International Local and Regional Governments (published on Dec. 17, 2007)

Related research articles are available on RatingsDirect.

Ratings Detail (As Of June 16, 2009)*

Solothurn (Canton of)

Issuer Credit Rating AA/Stable/A-1+

Issuer Credit Ratings History

10-Jun-2008 AA/Stable/A-1+

Default History

None

Population

254,444 (Dec. 31, 2008, Cantonal data)

Per Capita GDP

CHF54,867 (2008 estimate, Experian data)

Current Government

The current government was elected in 2005. Klaus Fischer was appointed head of the canton's government in 2009. All five government members are directly elected by the people and belong to three different political parties. In March 2009, all five members of the current government were re-elected and will serve the term 2009 to 2013.

Election Schedule

Last: March 2009

Next: 2013

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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