

Contacts:**Rating Methodology for Local Government**

Nopalak Rakthum
Senior Vice President,
Office of Research &
Development
(662) 231-3011 EXT. 400
nopalak@tris.co.th

Watana Tiranuchit, CFA
Senior Executive Vice President
(662) 231-3011 EXT. 200
watana@tris.co.th

Wiyada Pratoomsuwan, CFA
Senior Vice President,
Credit Rating Department
(662) 231-3011 EXT. 202
wiyada@tris.co.th

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Local government management systems vary across countries as they reflect level of social and economic development of each nation. In Thailand, local and regional governments have gradually been transformed (step-by-step) from a centralized system to a more decentralized system. Generally, representatives of local administration units are elected at the local level. In Thailand, local administrations have been divided into changwat (provinces), amphur, tambon, sanitary districts (sukha-pibarn) and villages. In the past, these administration units were governed by the policies laid out by the central government. The central government had authority to nominate and replace heads of the administration units. Nowadays, local administrations are becoming more decentralized, with local residences given a greater participatory role in drafting their own administration policies. Provincial Administrative Organizations and Tambon Administrative Organizations were established. The Bangkok Metropolitan Administration (BMA), a special, complex organization unit, was founded to manage the greater Bangkok metropolitan area, including a capital city of Thailand. BMA serves as the local government, in accordance with the Bangkok Metropolitan Administration Act B.E. 2528 (1985), and is supervised by the Minister of Interior. Another comparable local administration unit is Pattaya City, which was established by the Pattaya Administration Act B.E. 2542 (1999).

Local Government under Thai Laws

The Constitution of the Kingdom of Thailand B.E. 2540 (1997) provides guidelines for local governments with respect to their roles and responsibilities relating to both the provision of services and budgetary policies. Each independent administration is obliged to follow international standards, particularly regarding elections of the local government councils or management teams. Local government administration units in Thailand, which are stipulated in the Plan and Process of Decentralization to Local Government Organization B.E. 2542 (the Decentralization Act), include Provincial Administrative Organization, Tambon Administrative Organizations, Pattaya City,

BMA, and other local government units established by laws.

Credit Rating for Local Governments

As it is for issuer or company credit ratings, ratings for local governments reflect the overall ability and willingness of the rated local government to repay its debts. In that respect, local government rating symbols are the same as to those of private issuer ratings; “AAA” is assigned to the highest creditworthiness entities, “C” to the lowest ones, and “D” is assigned in the event that defaults have occurred due to entities failing to make payment according to their obligations.

Nonetheless, evaluating the credit risks of a local government is by no means similar to that of private enterprises. Local governments have different authority and responsibility from private operators, especially with regard to the issuance of laws or regulations. Most local governments also are permitted to levy and collect local taxes, which can affect their future income, even though the tax rates may need to be approved by the central government. In the case of Thailand, this means the approval from the Cabinet or the Parliament.

Risk Factors of Local Government

TRIS Rating assesses the credit risks of local government based on the following five risk factors.

1. Economic environment

TRIS Rating analyses the growth prospects of the local economy; the economic structure, including factors such as size of the local economy, types of the important business activities and employment rate; and demographics, such as the size of the population and age, etc. These factors help TRIS Rating determine the prospects for the local economy, which is the principal source of income for local government. A large, growing local unit that is also endowed with valuable natural resources is likely to generate sufficient income to sustain the administrative body. Local authorities whose income is derived from only a few revenue sources faces higher risks than local authorities whose revenue sources are more diverse. Industry diversification helps mitigate risks that may arise due to economic volatility that may affect some industries more than others.

2. Relationship between local and central governments

The relationship between local and central governments and the degree of support given by the central government to the local administrative body is evaluated with respect to the continuity and stability of such support. TRIS Rating examines the local administrative body’s dependency on the central government for its budget and the balance between the responsibilities transferred to local government and its revenue raising authority and ability. Local governments that receive regular support from the central government and whose support is explicitly set forth in laws have an easy task in estimating future income. A large city that is an important tax base for the central government is likely to receive timely support during difficult times.

3. Administration capability of local government

This includes studying the local government's administrative structure, fiscal controls, and project approval procedures. These factors determine the local government's ability to control fiscal policy and planning. In addition, TRIS Rating examines the financial reports for accuracy, reliability and timeliness. Generally, a local government that is in the early stages of standardizing its fiscal and operational processes may not publicly announce its financial reports. Indeed, in many cases, a local government will not publicize its financial reports until long after the fiscal year has ended.

4. Budgetary management

Major revenue sources of local government are evaluated with respect to volatility and predictability. The ability of local government to control its major sources of revenue illustrates its financial flexibility. TRIS Rating will also examine trends of local demand for public services based on the estimated growth rate of the population and urbanization rate, taking into account expectations on future development projects. A fast growing local economy tends to have its local revenue base expanding; however, such an economy generally demands more infrastructure, which in turn will pressure the local government to increase investment and public spending in the future.

5. Fiscal performance

TRIS Rating will assess the ability of local government to manage its financial obligations. Regulations related to debt management and financial discipline are important factors in this assessment. Financial flexibility and the ability of the local government to meet its financial obligations including off-balance-sheet liabilities will be carefully analyzed. TRIS Rating will also focus on financial ratios such as operating balance to revenue, balance after capital expenditures to revenue, total debt to revenue, etc.