Capital District of Bogota

Full Rating Report

Ratings

Long-Term Foreign Currency IDR	BBB
Long-Term Local Currency IDR	BBB
National	
Long-Term Rating	AAA(col)
Short-Term Rating	F1+(col)
Issuances	
USD300 Million Equivalent, 9.75% COP-Denominated Notes due 2028	BBB
Programa de Emision y Colocacion COP2.0 Billion	AAA(col)

Rating Outlooks

Long-Term IDR	Stable
Long-Term Local Currency IDR	Stable
National Long-Term Rating	Stable

Financial Data

Capital District of Bogota

(COP Mil.)	2017	2016
Operating Revenue	10,322,564	9,563,784
Debt	1,215,043	1,253,888
Operating Balance/ Operating Revenue (%)	22.57	26.53
Debt Service/ Current Revenue (%)	1.68	1.8
Debt/Current Balance (Years)	0.47	0.45
Operating Balance/ Interest Paid (x)	28.2	31
Capex/Total Expenditure (%)	37.25	39.26
Surplus (Deficit) Before Debt Variation/Total Revenue (Excluding New Debt) (%)	2.13	(1.64)
Current Balance/ Capex (%)	53.12	60.07

Related Research

Institutional Framework for Colombian Subnationals (October 2011)

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Key Rating Drivers

Strong National Economy: The Capital District of Bogota is Colombia's largest economy, contributing approximately 25% of GDP. Legislative and judicial institutions as well as the nation's most significant companies are based in the district. It is also the country's most populous city, with 8 million inhabitants. Its social and economic ratios are among the nation's most favorable.

Strong Fiscal Management: Bogota maintains a strong financial position through a solid base of tax revenues, high liquidity levels and a conservative debt policy. Tax revenues represented approximately 62% of total revenues in 2017. The entity experienced significant growth in 2011–2017, due to the fiscal management model, the payment culture of its taxpayers and the good performance of the region's economy.

Solid Operating Margins: Bogota's operating margin decreased in 2017, as operating expenditures grew. Overall, the district recorded sound fiscal and financial performance. Bogota's operating balance totaled COP2.3 trillion at YE 2017, with a margin equivalent to 22.6%. Fitch Ratings estimates the operating margin will exceed 20% of operating revenues.

Focus on Long-Term External Debt: Debt totaled COP1.2 trillion (USD410 million) in April 2018, 89% of which was external debt, with 64% of total debt denominated in local currency. The main risks linked to its debt portfolio, such as foreign exchange exposure, interest rate fluctuations and liquidity levels, are subject to continuous monitoring under the guidelines established by the district.

Sustainable Debt Projections: In its development plan, Bogota para Todos, the administration foresees significant road infrastructure and mobility projects. Its financing strategy is based on greater tax revenues, current transfers, capital revenues and debt. Bogota expects to use additional resources through debt up to COP9.4 trillion, including debt of COP6.9 trillion approved by the Concejo Distrital in 2016 and 2017.

Need for Continuous Capex: Bogota's growing population demands greater social and infrastructure needs, particularly related to transportation. The development plan includes projects such as the Bogota Metro; 30 schools; six hospitals; a new investment for Transmilenio; and security infrastructure.

Strong Liquidity: Bogota had strong liquidity, with resources for COP4.7 trillion, which absorbs the debt. Fitch believes the entity maintains efficient policies and guidelines in terms of the excess liquidity management and is in accordance with the regulatory framework at the district and national level.

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.

An upgrade of the sovereign rating could trigger a positive rating action on its international rating. The main factors that, individually or collectively, could lead to a negative rating action include a greater than expected increase in debt, a substantial deterioration in operating margins and cash levels, and persistent budget deficits.

Issuer Rating History

Date	LT IDR (FC)	LT IDR (LC)
July 28, 2016	BBB	BBB
Jan. 17, 2014	BBB	BBB+
June 29, 2011	BBB–	BBB
July 10, 2007	BB+	BBB–
Jan. 10, 2002	BB	—
March 17, 2000	BB+	BBB–
Aug. 23, 1999	BBB–	BBB–
Aug. 15, 1997	BBB	BBB

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

Related Criteria

International Local and Regional Governments Rating Criteria — Outside the United States (April 2016)

Principal Rating Factors

Summary: Strengths and Weaknesses

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

Source: Fitch.

Overall Strengths

- Strong fiscal management.
- Importance to the nation.
- Manageable debt metrics, conservative debt policy.

Overall Weaknesses

- Need for continuous 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, as well as mechanisms for recovering fiscal viability.

Debt and Liquidity

Fitch considers debt to be a strength for Bogota, considering its conservative debt policy, focused on long-term external debt. Bogota's debt is low. Consolidated debt amounted to COP1.2 trillion as of April 2018, composed of 11% internal debt and 89% of external debt. The debt's maturity profile concentrates in 2026–2028, during which the external bonds will mature.

In April 2018, 64% of total debt was denominated in local currency, while the rest was exposed to the volatility of the U.S. dollar and euro exchange rates. In turn, the 42.5% of the debt is variable rate. Bogota manages natural hedges through management of its treasury resources.

Multilateral bank loans and the external bonds are largest proportion of the debt. The external bonds represented 48.3% as of April 2018, followed by multilateral bank loans with 39%. The main risks in relation to the debt portfolio, such as foreign exchange exposure, variable interest rates and liquidity levels, are subject to continuous monitoring and are under the guidelines established by the district.

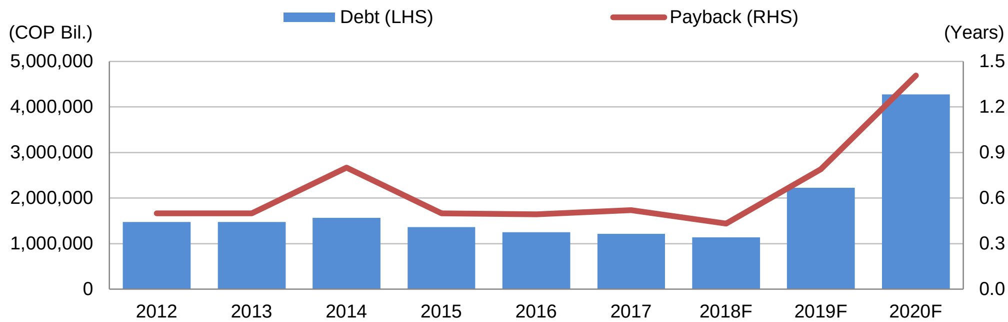
The indicators of Law 358/97 estimated by the entity are lower than the maximums allowed. According to Bogota's estimates, the interest/operating savings ratio was 1.2% by the end of 2017, a significantly lower level than the maximum of 40% allowed. In turn, debt represented 12.6% of the current income, lower than the legal maximum of 80%. Fitch makes adjustments to the estimates of sustainability and creditworthiness; the adjusted indicators are suitable to the affirmed rating.

Under its analysis criteria, Fitch estimates that the above indicators have higher levels, although they remain favorable against its peer group. Adjustments exclude from income those with specific destinations that do not finance operating expenses. In addition, they include recurrent expenditure supported with nonrestricted income.

The Development Plan of Bogota includes the use of debt. Bogota expects to use additional resources through debt up to COP9.4 trillion, including debt of COP6.9 trillion approved by the Concejo Distrital in 2016 and 2017. The current administration believes withdrawal of these resources will occur between 2018 and 2023. In addition, the multilateral bank loans and issuance of internal bonds will be used as main creditors.

Fitch will monitor the use of debt, which is expected to be consistent with Bogota's rating level given its financial soundness and strong liquidity, despite expectations that leverage will increase in coming years.

Debt and Payback



F – Forecast.
Source: Bogota, Fitch calculations.

Bogota requested ordinary maturities regarding future budget allocations (vigencias futuras) for COP1.2 trillion between 2018 and 2019, and extraordinary maturities for COP817 billion to be covered in 2017–2026. In addition, Bogota requested COP6.1 trillion for the Metro project to be covered in 2018–2041.

Financial debt of the Empresa de Acueducto y Alcantarillado de Bogota E.S.P. (EAAB; AAA(col)/Stable) totaled COP300.2 billion by the end of 2017. This is the only debt considered as contingent debt within Bogota's finances; however, Bogota does not guarantee these loans or future indebtedness. Due to the EAAB's financial strength and creditworthiness, Fitch considers a bailout by Bogota unlikely to address the debt servicing of this decentralized entity.

Bogota had liquid resources that covered 1.8x its current liabilities at the end of 2017. Fitch believes the entity maintains efficient policies and guidelines in terms of the excess liquidity management and is in accordance with the regulatory framework at the district and national level.

Bogota estimated pension liabilities were COP10.3 trillion with a hedge equivalent to 66% by the end of 2017. In addition to the provisions in the National Fund of Pensions of Territorial Entities (Fonpet, as per its acronym in Spanish), Bogota had autonomous wealth. Fitch does not foresee risks associated with these liabilities, as it considers provision levels are appropriate to the maximum term established by local regulations, which stipulate covering complete pension liabilities until 2029.

Bogota was authorized to take reserves from Fonpet of COP863.3 billion for 2014–2017. These have been used for the most part to pay teacher liabilities and, to a lesser extent, to cover the subsidized health sector.

The decentralized sector in Bogota is comprised of 51 entities of diverse sector and legal status. The district's annual budget is consolidated with 17 public agencies, three special administrative units and the District University Jose Francisco de Caldas. Most of these entities carry out their missions through a combination of district transfers and their own revenues.

Within its jurisdiction, Bogota has 22 public hospitals, some of which undertook plans for fiscal and financial consolidation. However, Fitch recognizes that these entities are subject to different financial problems that signify a direct risk to the district.

The state's most important industrial and commercial companies are EAAB; Empresa de Telecomunicaciones de Bogota, S.A., E.S.P. (ETB) and Transmilenio, S.A. EAAB and ETB have independent and strong credit profiles, while Transmilenio receives support from the district. Transmilenio has financial difficulties mainly from the public integrated transport system, including the number of users who do not pay for their tickets. Fitch will monitor Bogota's support to Transmilenio, including future infrastructure plans.

Fiscal Performance

Fitch assesses Bogota's budgetary performance to be neutral. Bogota benefits from a strong generation base of own revenues that, with the ongoing improvements in audits, collection and fiscal simplification, results in strong cash flow. The district has used these resources to advance investments and to pay its financial obligations in a timely fashion. Given Bogota's model for tax collection, Fitch believes the district can control and monitor liquidity requirements and minimize risk.

Bogota's total income was of COP13.3 trillion in 2017, 62% from taxpayers. During the last five years, tax collection performance has been positive; the annual average growth rate was almost 9%. The positive trend is due to good management of the fiscal model, the payment culture of taxpayers and the region's economic performance. Bogota's taxpayers are known for having a sound payment culture.

The tax base derives mainly from property taxes (IPU, as per its acronym in Spanish) and trade and industry taxes (ICA, as per its acronym in Spanish), which have historically represented more than 70% of taxes (72% in 2017). Bogota collected COP3.5 trillion of ICA and COP2.4 trillion of IPU in 2017, while taxes grew 9.4% and operating revenue 7.9%.

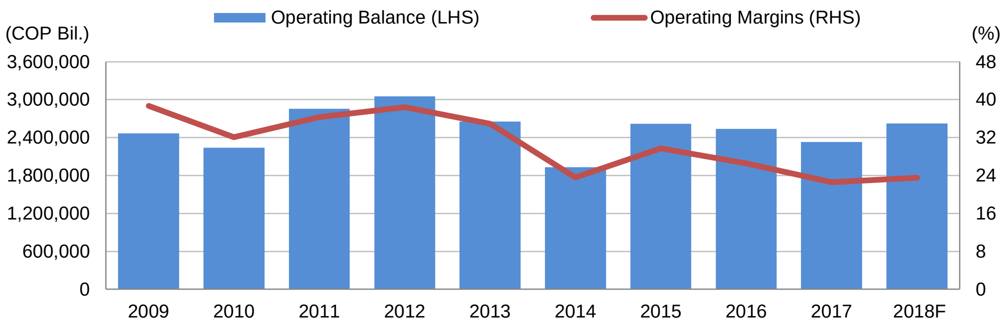
Bogota also can receive resources from company dividends and has proprietary interests in several firms, mainly from Empresa de Energía de Bogota S.A. E.S.P (EEB), ETB and EAAB.

Account Policies and Adjustments

Accounts and financial reports presented are based on data provided by the head of the Treasury Department of Bogota between 2013 and 2017.

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

Budgetary Performance



F – Forecast.
Source: Bogota, Fitch calculations.

Bogota's current expenditure grew 13.7% in 2017 over the previous year. The operating balance totaled COP2.3 billion at YE 2017, with a margin equivalent to 22.6%. Although this level showed a decline from more accelerated growth of operating expenditures versus operating revenues, Bogota's operating balance compares favorably with international standards and is in accordance with the risk level assigned. Fitch estimates operating margin will exceed 20% of operating revenues.

The district's urban and economic dynamism requires higher infrastructure spending. For its rating, Fitch believes the requirements of social and infrastructure investments are constraints. Capex totaled COP1.6 trillion in 2017, equivalent to 37.3% of total expenditure.

The Bogota administration, through its development plan, expects to execute significant road and mobility infrastructure projects with the use of own resources, transfers, capital resources and credit resources. The main projects of the development plan are six new hospitals; social integration infrastructure; two cultural centers; 10 new schools; a mobility plan (includes Metro); and capital injection for health.

Management and Administration

Fitch believes Bogota's management is solid and established, despite difficulties the government has faced in undertaking initiatives and the change of administrations. The relationship between the cabinet members is strong, the government team is mostly technocratic and the decision-making process is considered efficient.

The mayor of Bogota is Enrique Peñalosa for 2016–2020, who was elected under the Team for Bogota Movement. An effort is currently underway for his removal, based on alleged breaches of the government plan. Fitch will monitor the plans of the administration and the removal effort.

The administration's relationship with the District Council is complex, related with some of administration's initiatives, such as the sale of Bogota's stakes in ETB and EEB and the project for urban development in the Thomas van der Hammen Forest Reserve.

The Bogota Metro transportation system is one of the main projects of the administration, and the financial structure is advancing. The administration has complied with one of the national requirements for the construction of the metro system related to the incorporation of the company Metro de Bogotá S.A., which is in charge of the construction, to expedite the national government's contribution of funds.

Bogota stands out for its tax collection management, treasury and audit strategies, which is the result of consolidation of its management model, efficient management and payment culture of taxpayers. These factors, combined with the economic strength of the city, allow local revenues to represent a high proportion of operating revenues, as well as the highest per capita level of tax collection at the national level.

Economy

Fitch considers Bogota's socioeconomic profile neutral for its ratings. Bogota, as the capital of Colombia, is the base of legislative and judicial institutions, as well as the nation's most important companies. It is considered the most significant cultural, industrial and tourism center of Colombia.

Bogota contributes 25% of Colombia's GDP, which makes it the country's most important economic center. The city has significant economic diversification, socioeconomic indicators higher than the national average and a favorable tax culture.

Bogota average GDP growth rate grew 3% in 2016 and 2.3% in 2017, due in part to the national economic situation, compared with 4.5% in 2011–2015. Although Bogota's economy had below-average growth, Fitch believes its diversification allows it to more easily absorb these cycles. Bogota's growth in 2014–2017 is higher than national growth due to the importance of the financial sector and its dynamism.

Colombia and Bogota C.D.

According to the Department of National Statistics (DANE, as per its acronym in Spanish), the largest sectors as a percentage of GDP were financial (38.7%), services (18.3%), commerce (16.4%) and industry (9.7%) in 2016. This structure has been maintained over the last five years, and Fitch expects it to remain at least for the medium term.

Bogota's unemployment rate stood at 9.5% at the end of 2017, higher than in previous years and higher than the national figure of 8.5%. The trade and services sectors absorb more than 50% of the employment generated in the city.

According to DANE estimates, Bogota's population will exceed 8.1 million by the end of 2018. Although the population growth rate is declining (1.26% at the end of 2017), it is higher than the national level of 1.1% due to the migration of people to the capital. The population makeup overall is favorable to the city's economic potential, despite the increase in older adults and the decline in birth rates.

Appendix A: Capital District of Bogota

(COP Mil.)	2013	2014	2015	2016	2017
Taxes	5,821,591.0	6,410,258.8	7,002,919.6	7,478,278.8	8,1793,82.1
Transfers Received	1,422,921.4	1,503,739.7	1,542,829.7	1,741,324.6	1,981,713.1
Fees, Fines and Other Operating Revenue	363,008.2	297,601.3	270,132.2	344,180.6	161,469.0
Operating Revenue	**7,607,520.6**	**8,211,599.8**	**8,815,881.5**	**9,563,784.0**	**10,322,564.2**
Operating Expenditure	(4,951,715.4)	(6,278,149.2)	(6,196,658.0)	(7,026,632.2)	(7,992,327.4)
Operating Balance	**2,655,805.2**	**1,933,450.6**	**2,619,223.5**	**2,537,151.8**	**2,330,236.8**
Financial Revenue	211,941.1	222,596.3	270,022.4	342,811.0	328,835.2
Interest Paid	(102,519.6)	(104,177.3)	(102,764.4)	(81,726.2)	(82,623.5)
Current Balance	**2,765,226.7**	**2,051,869.6**	**2,786,481.5**	**2,798,236.6**	**2,576,448.5**
Capital Revenue	1,140,254.8	1,683,272.5	1,765,865.7	1,670,265.4	2,555,172.4
Capex	(3,301,048.1)	(3,969,531.4)	(5,136,384.6)	(4,657,937.0)	(4,849,978.4)
Capital Balance	(2,160,793.3)	(2,286,258.9)	(3,370,518.9)	(2,987,671.6)	(2,294,806.0)
Surplus (Deficit) Before Debt Variation	**604,433.4**	**(234,389.3)**	**(584,037.4)**	**(189,435.0)**	**281,642.5**
New Borrowing	18,548.9	61,147.5	14,316.4	18,376.0	60,000.0
Debt Repayment	(61,938.3)	(79,393.1)	(390,453.0)	(96,989.0)	(96,541.0)
Net Debt Movement	(43,389.4)	(18,245.6)	(376,136.6)	(78,613.0)	(36,541.0)
Overall Results	**561,044.0**	**(252,634.9)**	**(960,174.0)**	**(268,048.0)**	**245,101.5**
Debt					
Short-Term	0.0	0.0	—	—	—
Long-Term	1,474,288.0	1,567,166.4	1,363,893.0	1,253,888.4	1,215,043.6
Direct Debt	**1,474,288.0**	**1,567,166.4**	**1,363,893.0**	**1,253,888.4**	**1,215,043.6**
+ Other Fitch Classified Debt — Pre-Financing	—	—	—	—	—
Direct Risk	**1,474,288.0**	**1,567,166.4**	**1,363,893.0**	**1,253,888.4**	**1,215,043.6**
- Cash, Liquid Deposits, Sinking Fund	4,350,888.5	4,286,262.4	3,314,555.0	3,163,052.0	4,664,179.2
Net Direct Risk	**(2,876,600.5)**	**(2,719,096.0)**	**(1,950,662.0)**	**(1,909,163.6)**	**(3,449,135.6)**
Guarantees and Other Contingent Liabilities	—	—	—	—	—
Net Indirect Debt (Public Sector Entities Excluding Guaranteed Amount)	406,000.0	397,511.6	384,578.7	371,646.0	300,199.0
Net Overall Risk	**(2,470,600.5)**	**(2,321,584.4)**	**(1,566,083.3)**	**(1,537,517.6)**	**(3,148,936.6)**
Memo for Direct Debt					
% in Foreign Currency	32.2	33.7	55.2	50.0	40.3
% Issued Debt	59.6	56.1	42.4	46.1	47.6
% Fixed Interest Rate Debt	51.4	48.1	54.5	48.2	43.1

Source: Issuer, Fitch.

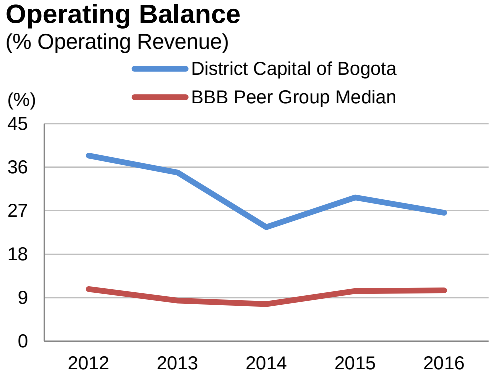
Appendix B: Capital District of Bogota

	2013	2014	2015	2016	2017
Fiscal Performance Ratios					
Operating Balance/Operating Revenue (%)	34.91	23.55	29.71	26.53	22.57
Current Balance/Current Revenue (%)[a]	35.36	24.33	30.67	28.25	24.19
Surplus (Deficit) Before Debt Variation/Total Revenue (%)[b]	6.75	(2.32)	(5.38)	(1.64)	2.13
Overall Results/Total Revenue (%)	6.26	(2.5)	(8.85)	(2.32)	1.86
Operating Revenue Growth (Annual % Change)	(4.3)	7.94	7.36	8.48	7.93
Operating Expenditure Growth (Annual % Change)	1.12	26.79	(1.3)	13.39	13.74
Current Balance Growth (Annual % Change)	(6.83)	(25.8)	35.8	0.42	(7.93)
Debt Ratios					
Direct Debt Growth (Annual % Change)	(0.19)	6.3	(12.97)	(8.07)	(3.10)
Interest Paid/Operating Revenue (%)	1.35	1.27	1.17	0.85	0.80
Operating Balance/Interest Paid (x)	25.9	18.6	25.5	31	28.2
Direct Debt Servicing/Current Revenue (%)	2.1	2.18	5.43	1.8	1.68
Direct Debt Servicing/Operating Balance (%)	6.19	9.49	18.83	7.04	7.69
Direct Debt/Current Revenue (%)	18.85	18.58	15.01	12.66	11.41
Direct Risk/Current Revenue (%)	18.85	18.58	15.01	12.66	11.41
Direct Debt/Current Balance (Years)	0.53	0.76	0.49	0.45	0.47
Net Overall Risk/Current Revenue (%)	(31.6)	(27.53)	(17.24)	(15.52)	(29.56)
Direct Risk/Current Balance (Years)	0.53	0.76	0.49	0.45	0.47
Direct Debt/GDP (%)	N.A.	0.83	0.67	0.57	0.54
Direct Debt per Capita (Local Currency)	192,115	201,513	173,105	157,129	150,358
Revenue Ratios					
Operating Revenue/Budget Operating Revenue (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Tax Revenue/Operating Revenue (%)	76.52	78.06	79.44	78.19	79.24
Modifiable Tax Revenue/Total Tax Revenue (%)	—	—	—	—	—
Current Transfers Received/Operating Revenue (%)	18.7	18.31	17.5	18.21	19.20
Operating Revenue/Total Revenue (%)[b]	84.91	81.16	81.24	82.61	78.16
Total Revenue per Capita (Local Currency)[b]	1,167,542	1,300,948	1,377,303	1,450,734	1,634,274
Expenditure Ratios					
Operating Expenditure/Budget Operating Expenditure (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Staff Expenditure/Operating Expenditure (%)	85.92	81.14	84.23	80.37	83.21
Current Transfer Made/Operating Expenditure (%)	8.51	12.66	8.57	13.11	9.93
Capex/Budget Capex (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Capex /Total Expenditure (%)	39.22	38.05	43.43	39.26	37.25
Capex /Local GDP (%)	N.A.	2.11	2.51	2.10	2.14
Total Expenditure per Capita (Local Currency)	1,096,849	1,341,295	1,500,985	1,486,627	1,611,368.7
Capex Financing					
Current Balance/ Capex (%)	83.77	51.69	54.25	60.07	53.12
Capital Revenue/ Capex (%)	34.54	42.4	34.38	35.86	52.68
Net Debt Movement/ Capex (%)	(1.31)	(0.46)	(7.32)	(1.69)	(0.75)

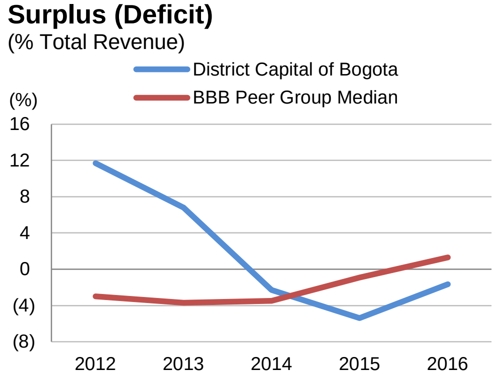
[a]Includes financial revenue. [b]Excluding new borrowing. N.A. – Not available.
Source: Issuer, Fitch.

Appendix C

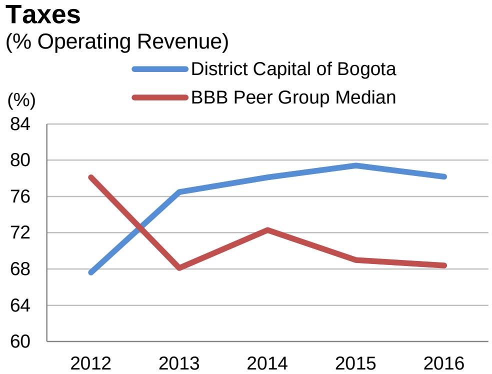
Peer Comparison — Capital District of Bogota



Source: Issuers, Fitch calculations.



Source: Issuers, Fitch calculations.



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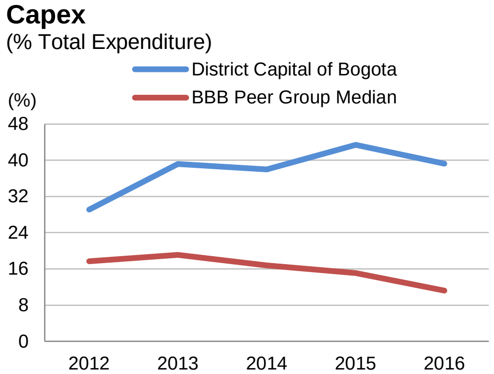
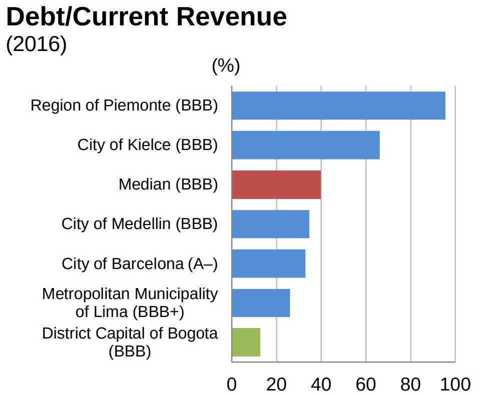
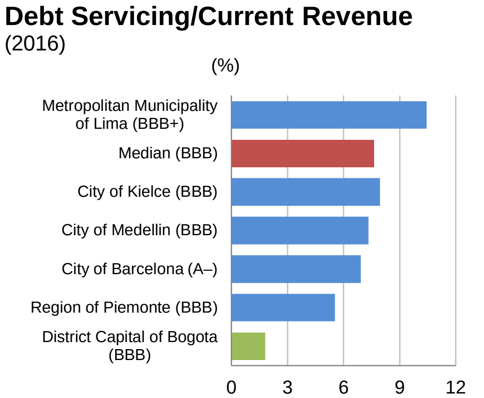


Source: Issuers, Fitch calculations.



Source: Issuers, Fitch calculations.



Source: Issuers, Fitch calculations.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.