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CREDIT OPINION
10 December 2020

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RATINGS

Departement de la Seine Maritime

Domicile	France
Long Term Rating	A1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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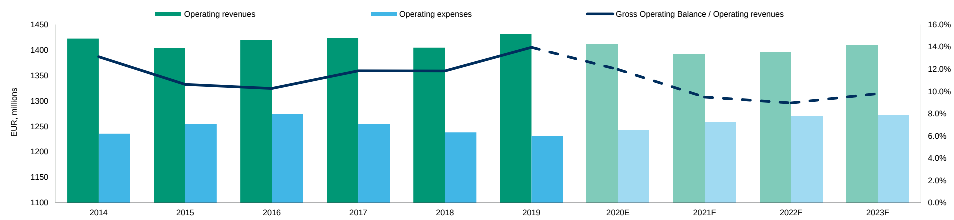
Departement de la Seine Maritime (France)

Update to credit analysis

Summary

The credit profile of the Département de la Seine Maritime (DSM, A1/P-1 stable) reflects its prudent budgetary and financial management, and its secure liquidity profile. Our assessment of DSM's credit quality also takes into account the institutional framework, which limits the department's financial flexibility, as well as its stable stock of direct and indirect debt despite the economic consequences of the current coronavirus pandemic. DSM's gross operating balance (GOB) will decrease through both lower tax revenue and increased expenses but we expect its GOB to remain close to around 9.5% of revenue over the next three years because of DSM's efficient control of expenses and resilient tax revenues.

Exhibit 1
DSM's operating results will remain strong despite the coronavirus epidemic



E - Estimates; F - Forecasts
Source: Moody's Investors Service and Departement de la Seine Maritime

Credit strengths

- » GOB to remain high, despite the coronavirus crisis
- » Prudent budgetary and financial management
- » Strong liquidity

Credit challenges

- » A leverage that will remain high but stable despite the coronavirus
- » Institutional framework unfavourable for the financial flexibility of French departments

Rating outlook

The stable outlook reflects our expectation that the coronavirus crisis will hit DSM's GOB and interrupt the decrease in debt, which will remain at levels commensurate with its rating the next two years.

Factors that could lead to an upgrade

» Higher-than-expected operating results, lower debt ratios and increased liquidity would exert positive pressure on the rating.

» A strengthening of France's credit profile, leading to an increase in the country's rating, would benefit the ratings of all French regional and local governments (RLGs), including DSM. However, such as scenario is unlikely, given the Government of France's current Aa2 rating with a stable outlook.

Factors that could lead to a downgrade

» A lastingly deteriorated financial performance, leading to a persistently low GOB and higher debt than we currently project, could trigger a downgrade of the ratings.

» A downgrade of the Government of France's rating could also lead to a downgrade of the department's rating.

Key indicators

Exhibit 2
Departement de la Seine Maritime

	2014	2015	2016	2017	2018	2019
Gross operating balance / operating revenues (%)	13.12	10.63	10.27	11.85	11.84	13.95
Capital spending / total expenditure (%)	13.39	11.42	11.54	9.17	11.06	13.41
Self-financing ratio	1.16	1.12	1.05	1.63	1.27	1.48
Financial surplus (requirement) / total revenues (%)	2.03	1.33	0.63	5.45	2.90	5.23
Interest expenses / operating revenues (%)	2.69	2.61	2.34	2.21	2.10	1.75
Intergovernmental revenues / operating revenues (%)	24.20	23.28	22.67	21.32	21.02	21.47
Direct debt / operating revenues (%)	86.87	86.54	81.99	79.65	77.78	69.07
Net Direct and Indirect Debt / operating revenues (%)	100.80	102.00	96.66	94.48	92.18	88.70

Source: Moody's Investors Service and Departement de la Seine Maritime

Detailed credit considerations

The credit profile of Departement de la Seine Maritime, as expressed by an A1 rating with a stable outlook, combines its Baseline Credit Assessment (BCA) of a1 and a moderate likelihood of extraordinary support from the French government in the event that the department faces acute liquidity stress.

Baseline Credit Assessment

GOB will remain high, despite the coronavirus crisis

DSM's GOB will decline as a result of the coronavirus crisis. After reaching a record high of €195 million in 2019, or 13.9% of operating revenue, we expect its GOB to decrease to 12.0% of its operating revenue in 2020 and 9.5% in 2021. Property transfer tax will decrease in 2020 and 2021 after record year 2019 but will remain at a high level. When the central government swaps land tax for a share of national value-added tax (VAT), we expect the minimum amount to be guaranteed which will allow DSM's GOB to stabilise. On the expenses side, mandatory expenditures will rise in 2020 and 2021, mainly because of long-term unemployment benefits *Revenu de Solidarité Active* (RSA). We expect an increase of RSA expenses of €38 million, or 2.7% of total expenses in 2021 when compared to 2019 data.

We expect DSM's GOB to stabilise slightly below 10% of revenue in 2023. Its history of prudent financial management and ability to control expenses will provide resilience. Its GOB averaged 12% of operating revenue over the past five years. DSM reduced its operating expenses by 3.3% in 2016-19. Over the same period, it reduced interest expenses by €9.7 million because of its proactive debt management through the early repayment of expensive debt and refinancing with cheaper loans. Further initiatives, such as participation to experiments with the central government to improve back-to-work schemes, will limit the growth of RSA expenses.

Prudent budgetary and financial management

We expect DSM's financial performance to remain strong and stable over the next three years. The department's budget planning is efficient and conservative. It relies on prudent revenue growth assumptions, resulting in accurate operating expenditure forecasts and a slight underestimation of operating revenue. The objectives of cost control measures are widely shared among elected officials and the administration. DSM is committed to improving its efficiency gains to offset the economic consequences of the pandemic, such as lowering operating expenditure of €20 million when compared to the drafted 2021 budget. DSM will also proceed to asset sales worth €15 million in 2021 and €1 million-€2 million annually afterwards.

DSM's executive team has a prudent budgetary approach and pursues appropriate and credible long-term targets. The department's debt management strategy the pursues the objectives of maintaining direct debt below €1,000 million and diversifying its funding sources. Thanks to DSM's ability to quickly assess the potential impact of an evolving economic environment, we expect it to reach both objectives despite the economic consequences of the pandemic.

Strong liquidity

DSM has very strong and secure liquidity, supported by predictable and regular treasury cycles, with cash inflows corresponding to monthly tax revenue on the one hand and regular cash outflows corresponding to state subsidies (around €40 million per month) and wages (€20 million) on the other. DSM's cash balance amounted to more than €150 million as of year-end 2019 and is supported by €32 million in unused revolving facilities. The departement has no committed liquidity line because it does not need any. Its 2020 cash position averaged €136 million and immediately available cash never dipped below €90 million.

Debt management is supported by DSM's strong cash position: in 2019, the department redeemed €28 million of expensive debt.

A leverage that will remain high but stable despite the coronavirus

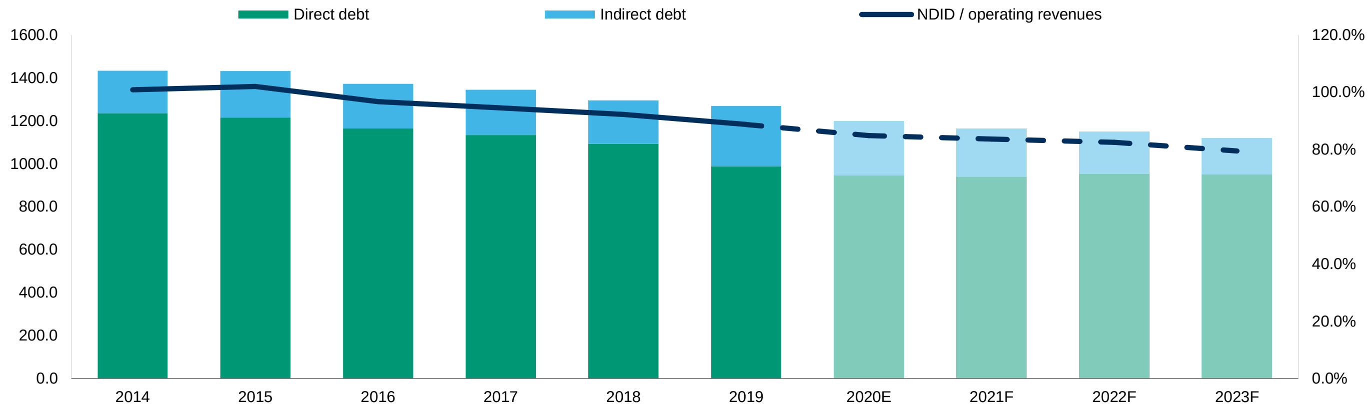
DSM's leverage will remain high, but sustainable, and will allow the department to pursue important investment plans. After several years of declining leverage, direct debt will stabilise below €1,000 million in the next three years, down from €1,236 million (87% of revenue) in 2015 (see Exhibit 3). The department's costs remain manageable, with interest expenses at 1.6% of operating revenue in 2019.

DSM's debt has a smooth depreciation profile and a very secure structure, with 94% of total debt being at fixed or variable rates based on European benchmarks. Half of DSM's €160 million funding needs for the capital spending plan for middle school renovation will be funded by the European Investment Bank (Aaa stable). The departement plans on issuing bonds in 2021 to further diversify its funding sources.

Contingent liabilities are high, in the form of guaranteed debt for a total of €1,524 million in 2019. Most of the outstanding guaranteed debt is earmarked for state-subsidised social housing providers, which DSM closely monitors through a sophisticated scoring system. French social housing providers generally pose limited risks; thus, they are not added to its net direct and indirect debt (NDID). Because the industry is evolving and is challenged by fiscal measures, such as the recent rent cut, we will monitor the risks faced by smaller social housing providers whose debt is guaranteed by DSM.

We include in DSM's indirect debt the guarantees to entities that rely on subsidies to remain balanced. These guarantees amount to €281 million. DSM's NDID reached €1,269 million, amounting to 88.7% of operating revenue as of year-end 2019.

Exhibit 3
Direct debt stock will remain below EUR 1 billion



E - Estimate; F - Forecast
Source: Moody's Investors Service and Departement de la Seine Maritime

Institutional framework unfavourable for the financial flexibility of French departments
Similar to that of most French departments, DSM's budget structure is characterised by low fiscal autonomy and the rigidity of its operating expenses. This low financial flexibility will be compounded by the upcoming fiscal reform, which will limit the department's taxing power. Starting 2021, the land tax, which accounts for close to 30% of operating revenue, will be replaced by a share of VAT, over which departments have no rate-setting power. However, this revenue will be guaranteed by the central government to be at least equal to the proceeds of the land tax.

Against the backdrop of this loss of dynamic tax proceeds, French departments will still face significant rigidity in expenses because of mandatory social transfers, which are linked to the economic cycle. Social transfers amounted to 74% of operating expenses in 2018 for French departments.

Extraordinary support assumptions
The moderate level of extraordinary support from the French government factored into the rating reflects the various mechanisms put in place by the central government during the global financial crisis to support the RLG sector. Such mechanisms include intervention by Caisse des Depots et Consignations (Aa2 stable) and the establishment of a liquidity fund to help RLGs refinance their structured loans. On the other hand, the level of support also factors in our assessment of the central government's encouragement towards greater accountability for RLGs.

ESG considerations

How environmental, social and governance risks inform our credit analysis of DSM
We take account of the impact of environmental, social and governance (ESG) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of DSM, the significance of the ESG factors to its credit profile is as follows:

Environmental risks are not material to DSM. The main risk DSM faces is flooding. However, in case of a major event, the impact would be limited by the government's intervention. DSM also faces some industrial risk exposure, as illustrated by the 2019 fire at an important chemical factory. However, this incident had a limited impact, with the financial consequences currently estimated at less than €1 million for the department and most costs supported by the central government and the Ministry for Agriculture.

Social considerations are material to DSM's credit profile. Social benefits are the primary expenses of the French department, which are closely linked to unemployment, ageing and dependency. DSM is more specifically exposed to the evolution of its demography, with its population exposed to net outmigration. We also regard the coronavirus pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety. For DSM, the shock transmits mainly through lower tax revenue and an increase in operating expenses.

Governance risk is material to DSM's credit profile, as captured by our methodology. We assess DSM's governance as sound (a score of 1 for factor 4: Governance and Management), as illustrated by its prudent budgetary and financial management.

All of these considerations are further discussed in the Detail credit considerations. Our approach to ESG is explained in our cross-sector rating methodology General Principles for Assessing ESG Risks.

Rating methodology and scorecard factors

The assigned BCA of a1 matches the scorecard-indicated outcome. The scorecard-indicated BCA of a1 reflects an Idiosyncratic Risk score of 3 on a scale of 1-9, where 1 represents the highest credit quality and 9 the weakest; and a Systemic Risk score of Aa2, as reflected in the sovereign debt rating of Aa2.

The principal methodology used in these ratings was our Regional and Local Governments rating methodology, published in January 2018.

Exhibit 4
2019 scorecard

Rating Factors						
Departement de la Seine Maritime						
Baseline Credit Assessment	**Score**	**Value**	**Sub-factor Weighting**	**Sub-factor Total**	**Factor Weighting**	**Total**
Scorecard						
Factor 1: Economic Fundamentals						
Economic strength	7	91.77	70%	5.2	20%	1.04
Economic volatility	1		30%			
Factor 2: Institutional Framework						
Legislative background	1		50%	3	20%	0.60
Financial flexibility	5		50%			
Factor 3: Financial Performance and Debt Profile						
Gross operating balance / operating revenues (%)	1	13.05	12.5%	3.75	30%	1.13
Interest payments / operating revenues (%)	3	1.86	12.5%			
Liquidity	5		25%			
Net direct and indirect debt / operating revenues (%)	5	88.70	25%			
Short-term direct debt / total direct debt (%)	3	18.98	25%			
Factor 4: Governance and Management - MAX						
Risk controls and financial management	1			1	30%	0.30
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						**3.07(3)**
Systemic Risk Assessment						**Aa2**
Suggested BCA						**a1**

Source: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
DEPARTEMENT DE LA SEINE MARITIME	
Outlook	Stable
Issuer Rating	A1
ST Issuer Rating	P-1

Source: Moody's Investors Service

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CLIENT SERVICES

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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