

CREDIT OPINION

10 December 2020

 Rate this Research

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.

Contacts

Cedric Poynard +33.1.5330.3379
 Analyst
 cedric.poynard@moodys.com

Sebastien Hay +34.91.768.8222
 Senior Vice President/Manager
 sebastien.hay@moodys.com

Matthieu Collette +33.1.5330.1040
 VP-Senior Analyst
 matthieu.collette@moodys.com

Khalil Etienne Janbek +33.1.5330.1036
 Associate Analyst
 khalil-etienne.janbek@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Departement de la Seine Maritime (France)

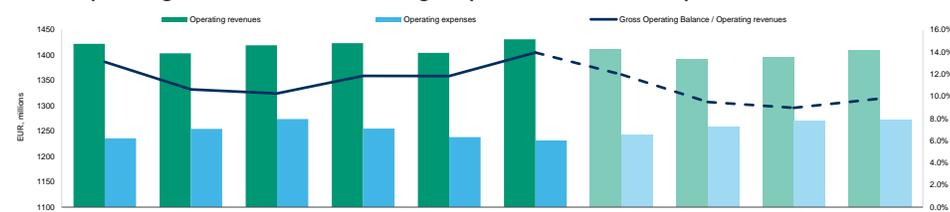
Update to credit analysis

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 in 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 a 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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

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 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 department 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

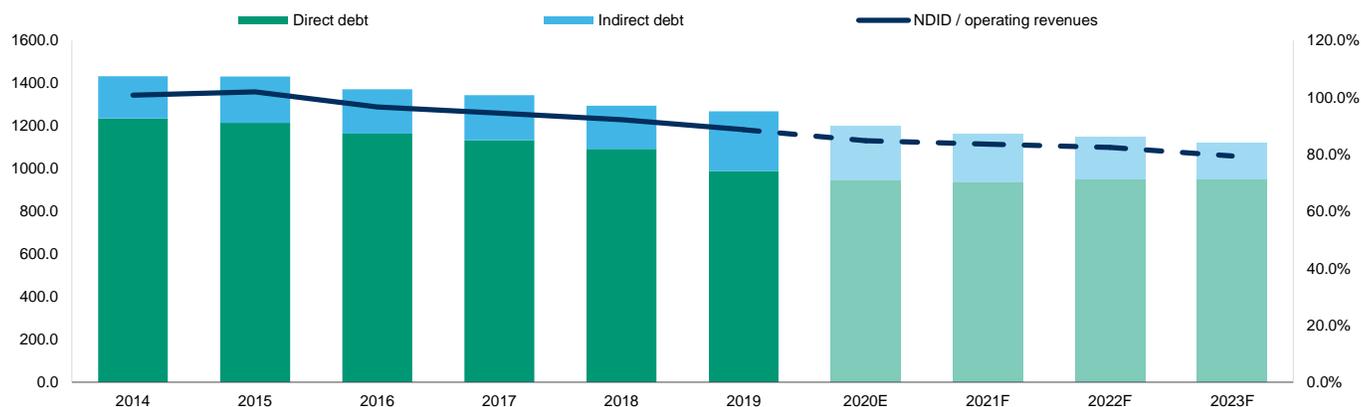
DSM's leverage will remain high, but sustainable, and will allow the department to pursue important investment plans. After several years of declining leverage, direct debt will stabilise below €1,000 million in the next three years, down from €1,236 million (87% of revenue) in 2015 (see Exhibit 3).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

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

Source: Moody's Investors Service

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJJK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454