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CREDIT OPINION
17 December 2019

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RATINGS

Departement de la Seine Maritime

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

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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Department de la Seine Maritime (France)

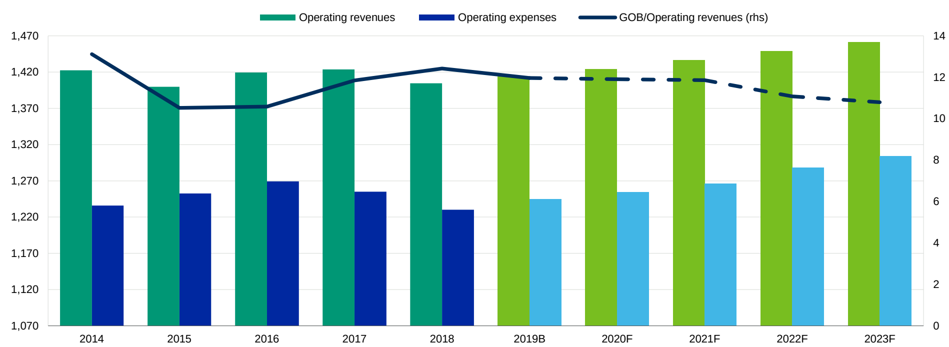
New issuer

Summary

The credit profile of the Départment of Seine Maritime (DSM, A1/P-1 positive) reflects its strong financial results, with a gross operating balance (GOB) of 12% of operating revenue in 2019, which we expect to remain stable at above 10% over the next three years. These results are supported by an increase in tax revenue and efficient control of expenses. The department's credit quality is also supported by its secure liquidity profile and prudent budgetary and financial management. Our assessment of DSM's credit quality also takes into account the institutional framework, which limits the department's financial flexibility, as well as the department's high but decreasing stock of direct and indirect debt.

Exhibit 1

Stable operating results



B = budget data. F = forecasts.
Sources: Departement de la Seine Maritime and Moody's Investors Service

Credit strengths

» Strong and stable GOB, driven by expenditure control and increasing tax revenue

» Prudent budgetary and financial management

» Strong liquidity

Credit challenges

» High but decreasing debt

» Institutional framework unfavorable for the financial flexibility of French departments

Rating outlook

The positive outlook reflects Moody's expectation that economic growth prospects will support DSM's revenue growth and help stabilise its social expenditure in the next 12-18 months, as well as the strong links between regional and local governments (RLGs) and the central government of France (Aa2 positive).

Factors that could lead to an upgrade

» Higher-than-expected operating results or lower debt ratios or both would lead to an upgrade of the department's rating.

» A strengthening of the credit profile of France, leading to an increase in the country's rating, would benefit all the ratings of French RLGs, including the Department of Seine Maritime.

Factors that could lead to a downgrade

» A weaker fiscal performance, leading to lower-than-expected GOB levels, would affect the department's rating.

» Higher-than-expected debt levels would strain the rating.

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

Key indicators

Exhibit 2
Department of Seine Maritime

	2014	2015	2016	2017	2018	2019B
Gross operating balance / operating revenues (%)	13.1	10.6	10.3	11.8	11.8	12.9
Capital spending/total expenditure (%)	13.4	11.4	11.5	9.2	11.1	13.4
Self-financing ratio	1.2	1.1	1.1	1.6	1.3	0.8
Financing surplus (requirement) / of total revenues (%)	2.0	1.3	0.6	5.5	2.9	-2.5
Interest expenses / operating revenues (%)	2.7	2.6	2.3	2.2	2.1	1.7
Intergovernmental revenues / operating revenues (%)	24.2	23.3	22.7	21.3	21.0	21.5
Direct debt / operating revenues (%)	86.9	86.5	82.0	79.7	77.8	78.8
Net Direct and Guaranteed debt / operating revenues (%)	100.8	102.0	96.7	94.5	92.2	84.4

B = Budget data.
Sources: Département de la Seine Maritime and Moody's Investors Service

Detailed credit considerations

The credit profile of the Département de la Seine Maritime, as expressed by an A1 rating with a positive outlook, combines (1) its Baseline Credit Assessment (BCA) of a1, and (2) a moderate likelihood of extraordinary support from the French national government in the event that the department faces acute liquidity stress.

Baseline Credit Assessment

Strong and stable GOB, driven by control of expenditure and increasing tax revenue

We expect the Département de la Seine Maritime's GOB ratio to continue its current trend, and to remain strong and stable at close to 12% of its operating revenue in 2022. DSM showed a strong operating and fiscal performance, with a GOB at an average of 12% of its operating revenue over the past five years, reaching €166 million (11.8%) in 2018.

DSM reduced its operating expenses by 2.8% over 2016-18, notably through a 1.3% decrease in personnel expenditures. Over the same period, because of its proactive debt management through the early repayment of expensive debt and refinancing with cheaper loans, DSM reduced its interest expenses by €7 million.

Those cost control measures only partially enabled DSM to offset the 5% rise in mandatory expenditures from 2014 to 2018, which represented 74.6% of the department's operating expenditures in 2018. That share has been constantly growing since 2014, on the back of a steady rise in the unemployment welfare benefit (Revenu de Solidarité Active) of 14.2% over 2014-18, because of DSM's relatively high unemployment rate (10.2% as of year-end 2018).

Dynamic trends in tax revenue and the stabilization of state transfers constitute the second factor underpinning the stability of DSM's operating performance. Property tax proceeds grew by 2.6% to €406 million in 2018, representing 29% of DSM's operating revenue. Transfer duties (Droits de Mutation à Titre Onéreux) had an average annual growth of 9% over 2015-18 and reached €164 million, a gain of €50 million since 2014.

Prudent budgetary and financial management

We expect DSM's financial performance to remain strong and stable over the next three years. DSM's budget planning is efficient and conservative. It relies on prudent GDP and 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 shows a commitment to improving its efficiency gains to offset its limited budget flexibility, such as asset sales resulting in €1 million-€2 million of revenue annually.

DSM's executive has a prudent budgetary approach, pursuing appropriate and credible long-term targets. The debt management strategy of the department pursues the objectives of (1) decreasing direct debt levels below €1,000 million in 2019, and (2) diversifying its funding sources.

Strong liquidity

DSM has a very strong and secure liquidity profile, 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 hand. DSM's cash balance amounted to nearly €100 million as of year-end 2018, and is supported by €50 million in committed bank loans and €25 million in revolving facilities.

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

High but decreasing debt

DSM's leverage will remain high but sustainable and will allow the department to pursue important investment plans. Total direct debt was €1,092 million in 2018 or 77.8% of operating revenue, down from €1,236 million (87% of revenue) in 2015. The department's costs remain manageable, with interest expenses at 2.1% of operating revenue in 2018. We expect direct debt to amount to €901 million in 2022, or 62% of operating revenue.

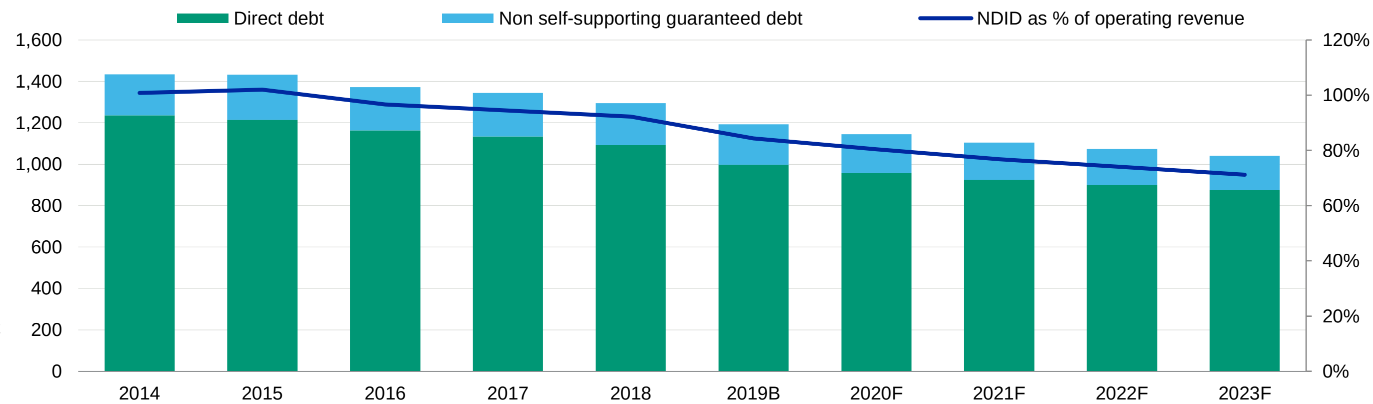
DSM's debt displays a smooth depreciation profile and a very secure structure, with 94% of total debt being at fixed or variable rates based on European benchmarks. Half of DSM's €160 million funding needs for the capital spending plan for middle school renovation will be funded by the European Investment Bank (Aaa stable).

Contingent liabilities are high, in the form of guaranteed debt for a total of €1,531 million in 2018. Most of the outstanding guaranteed debt is earmarked for state-subsidized social housing providers, which DSM closely monitors through a sophisticated scoring system.

French social housing providers generally pose limited risks, hence they are not added to its net direct and indirect debt (NDID). As the industry is evolving and is challenged by fiscal measures, such as the recent rent cut, Moody's will monirtor the risks involved 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 € 211 million. DSM's NDID reached €1,295 million, amounting to 92.2% of operating revenue as of year-end 2018.

Exhibit 3
High debt levels although they are steadily decreasing



B = budget data. F = forecasts.
Sources: Department de la Seine Maritime and Moody's Investors Service

Institutional framework unfavorable for the financial flexibility of French departments
Similar to that of most French departments, DSM's budget structure is characterized by low fiscal autonomy and the rigidity of its operating expenses. This situation of low financial flexibility will be further compounded by the upcoming fiscal reform, which will limit 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 tax over which departments have no rate-setting power.

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. The share of social transfers amounted to 74% of operating expenses in 2018 for French departments.

Extraordinary support considerations
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 positive) 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 toward greater accountability for RLGs.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Department de la Seine Maritime
We take account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of the Department of Seine Maritime, the materiality of ESG 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 September fire at an important chemical factory. However, this incident had a limited impact, with financial consequences currently estimated under €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, aging and dependency. DSM is more specifically exposed to the evolution of its demography, with its population exposed to net outmigration flows.

Governance risk is material to DSM's credit profile, as captured by our methodology. We assess the Department of Seine Maritime'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” section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

Rating methodology and scorecard factors

The assigned BCA of a1 matches the scorecard-indicated outcome. The matrix-generated BCA of a1 reflects (1) an Idiosyncratic Score of 3 (see below) on a scale of 1-9, where 1 represents the highest credit quality and 9 the weakest; and (2) a Systemic Risk score of Aa2, as reflected in the sovereign debt rating of Aa2.

Exhibit 4
Rating factors
2018 scorecard

Seine Maritime, Department of						
Baseline Credit Assessment	**Score**	**Value**	**Sub-factor Weighting**	**Sub-factor Total**	**Factor Weighting**	**Total**
Scorecard						
Factor 1: Economic Fundamentals						
Economic strength	7	91.99	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	12.00	12.5%	3.75	30%	1.13
Interest payments / operating revenues (%)	3	2.17	12.5%			
Liquidity	5		25%			
Net direct and indirect debt / operating revenues (%)	5	92.18	25%			
Short-term direct debt / total direct debt (%)	3	11.40	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	Positive
Issuer Rating	A1
ST Issuer Rating	P-1

Source: Moody's Investors Service

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