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Research Update:

French Department of Eure Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

Primary Credit Analyst:
Mehdi Fadli, Paris (33) 1-4420-6706; mehdi.fadli@standardandpoors.com

Secondary Contact:
Laurent Niederberger, Paris (33) 1-4420-6704; laurent.niederberger@standardandpoors.com

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Overview

- In our opinion, the French Department of Eure has strong financial management and strong liquidity.
- We are affirming our 'AA-/A-1+' ratings on Eure.
- The stable outlook reflects our view that Eure will maintain a strong budgetary performance with moderate deficits after capital accounts until 2017, despite government transfer cuts.

Rating Action

On Oct. 23, 2015, Standard & Poor's Ratings Services affirmed its 'AA-' long- and 'A-1+' short-term issuer credit ratings on the French Department of Eure. The outlook is stable.

At the same time, we affirmed our 'AA-' long-term rating on the department's €400 million Euro Medium-Term Note program and our 'A-1+' short-term rating on its €100 million French commercial paper (CP) program.

Rationale

The ratings on Eure reflect our view of its strong financial management, strong liquidity position, strong budgetary performance, and strong economy by international standards. We also factor into our ratings our view of the evolving but balanced institutional framework for French departments and Eure's moderate debt burden and contingent liabilities. The ratings are constrained by Eure's weak budgetary flexibility. The long-term rating on Eure is at the same level as its stand-alone credit profile, which we assess at 'aa-'.

We view the institutional framework for French departments as evolving but balanced, versus very predictable and well balanced for all other French local and regional governments (LRGs). Compared with other French LRGs, we consider that French departments suffer from structural revenue and expenditure imbalances and have weak budgetary flexibility overall and high exposure to the economic and real estate cycles. The central government's decision to cut €11 billion of its transfers to French LRGs during 2015-2017 has increased financial pressure on departments.

Our base-case scenario assumes that Eure will partly offset state cuts of €9 million per year (an annual reduction of 2% of its operating revenues) through strong financial management. It has a clear and realistic budgetary strategy; realistic long-term financial planning; and proactive, prudent, diversified, and very efficient debt and liquidity management. Moreover, we view positively the executive’s strategy to monitor operating expenditures through tighter management

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and control of staff, stronger budget monitoring, and increased control of government-related entities (GREs), while developing streamlining and cost-effectiveness measures.

In line with our previous forecast in May 2015, we expect that Eure will post a strong budgetary performance in the coming years. We consider that the department will be able to contain the gradual decline of its operating balance at about 7% in 2017 (versus 12% on average in 2013-2014) and continue to post moderate deficits after capital accounts of less than 3% of total revenue on average during 2015-2017. Consequently, we forecast that Eure will limit its tax-supported debt to a moderate 64% of consolidated operating revenues by 2017 (compared with 55% in 2014), in line with our previous base case.

Although we expect Eure to tap its budgetary flexibility to meet its budgetary targets in case of need, we see this flexibility as relatively limited. Because of the nature of its responsibilities, especially for social aid, Eure's operating expenditures (82% of total expenditures in 2014) are highly rigid, in our opinion. Nevertheless, we think Eure could postpone or reduce capital expenditures, if necessary. It could also make use of its remaining tax leeway, as modifiable tax revenues accounted for 21% of operating revenues in 2014. Nevertheless, we understand that the department is committed to not increasing tax pressure.

We consider that the department has moderate contingent liabilities. Self-supporting guarantees (52% of operating revenues at year-end 2014) and Eure's GREs are mainly linked to the social housing sector, for which the corresponding institutional framework moderates the associated risks.

Eure is a midsize department in Upper Normandy that has about 600,000 inhabitants. Its socioeconomic indicators are in line with national standards and high compared with international peers. We estimate its GDP per capita at €23,068 in 2014. The local economy has a large industrial base, especially in pharmaceuticals, aeronautics, and the automotive sector.

Liquidity

We view Eure's liquidity as "strong" under our criteria. We consider that it has a strong debt coverage ratio and satisfactory access to external liquidity. In our view, the department enjoys predictable and regular cash flows, especially in the form of central government transfers and tax proceeds.

Eure's liquidity currently benefits from €50 million of available in liquidity lines and about €25 million in revolving lines. We consider that the average amount available under these facilities and the average amount of cash will cover debt service of about €41 million by more than 120% over the next 12 months, including approximately €15 million of outstanding CP.

We also think that the amount available under the committed bank lines will cover 100% of Eure's outstanding CP at any time.

Outlook

The stable outlook reflects our expectations under our base-case scenario that Eure will maintain strong budgetary performance and deficits after capital accounts well below 5% of total revenues until 2017, thanks to strong monitoring of expenses.

Although unlikely at this stage, we could lower the ratings on Eure by one notch in the next 24 months under our downside scenario if Eure loosened its discipline, allowing higher expenditures without any revenue adjustment, triggering a deviation of the budgetary performance compared with our base-case scenario.

Given the financial pressure stemming from government transfer cuts and still growing social expenses, we currently do not see any upside scenario over 2015-2017 based on a positive evolution of Eure’s individual credit profile. We could raise the ratings by one notch only if we were to revise upward our assessment of the institutional framework for French departments in the next two years, which currently seems very unlikely.

Key Statistics

Table 1

Department of Eure Financial Statistics

	--Fiscal year end Dec. 31--				
(Mil. €)	**2013a**	**2014a**	**2015bc**	**2016bc**	**2017bc**
Operating revenues	486.4	497.4	499.0	492.8	488.0
Operating expenditures	423.4	443.3	450.5	451.9	453.1
Operating balance	62.9	54.1	48.5	40.9	39.4
Operating balance (% of operating revenues)	12.9	10.9	9.7	8.3	7.2
Capital revenues	27.5	30.3	26.7	27.0	26.7
Capital expenditures (capex)	96.7	98.5	83.0	80.0	80.0
Balance after capital accounts	(6.3)	(14.1)	(7.8)	(12.1)	(18.4)
Balance after capital accounts (% of total revenues)	(1.2)	(2.7)	(1.5)	(2.3)	(3.6)
Debt repaid	23.5	22.2	20.9	20.9	20.9
Gross borrowings	20.0	37.0	30.0	33.0	39.3
Balance after borrowings	(9.8)	0.7	1.3	0.0	0.0
Direct debt (outstanding at year-end)	239.1	253.9	263.0	275.1	293.5
Direct debt (% of operating revenues)	49.2	51.0	52.7	55.8	60.1
Interest (% of operating revenues)	0.9	0.9	0.8	0.9	1.0
Direct debt (x operating balance)	3.8	4.7	5.4	6.7	8.4
Tax-supported debt (% of consolidated operating revenues)	53.7	55.4	56.8	59.8	63.9
Capital expenditures (% of total expenditures)	18.6	18.2	15.6	15.0	15.0

Table 1

Department of Eure Financial Statistics (cont.)

	--Fiscal year end Dec. 31--				
(Mil. €)	**2013a**	**2014a**	**2015bc**	**2016bc**	**2017bc**

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. a--Actual. bc--Base case, reflects Standard & Poor's expectations of the most likely scenario.

Table 2

Department of Eure Economic Statistics

	--Fiscal year end Dec. 31--						
	2011	**2012**	**2013**	**2014bc**	**2015bc**	**2016bc**	**2017bc**
Population (as of Jan. 1)	588,111	591,616	594,266	596,574	600,153*	603,754*	607,377*
Population growth (%)	0.3	0.6	0.4	0.4	0.6	0.6	0.6
Unemployment rate at year-end (%)	9.6	10.6	10.5	10.7	N.A.	N.A.	N.A.
GDP (nominal) per capita (€)	22,900	23,100	23,181*	23,068*	23,022*	23,320*	23,668*
Real GDP growth (%)	1.4*	1.1*	(0.2)*	(0.7)*	0.2*	0.7*	0.6*

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include national statistical offices, Eurostat, and Experian Limited. bc--Base-case forecast; reflecting Standard & Poor's expectations of the most likely scenario. N.A.--Not available. *Standard & Poor's estimates.

Ratings Score Snapshot

Table 3

Department of Eure Ratings Score Snapshot

Key rating factors	
Institutional framework	Evolving but balanced
Economy	Strong
Financial management	Strong
Budgetary flexibility	Weak
Budgetary performance	Strong
Liquidity	Strong
Debt burden	Moderate
Contingent liabilities	Moderate

*Standard & Poor's ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of Standard & Poor's "Methodology For Rating Non-U.S. Local And Regional Governments" summarizes how the eight factors are combined to derive the rating.

Key Sovereign Statistics

- Sovereign Risk Indicators, Oct. 12, 2015. An interactive version is available at www.spratings.com/sri

Related Criteria And Research

Related Criteria

- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments - June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs - October 15, 2009

Related Research

- Sovereign Risk Indicators - October 12, 2015. An interactive version is available at www.spratings.com/sri
- Default, Transition, and Recovery: 2014 Annual International Public Finance Default Study And Rating Transitions - June 8, 2015
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments - February 05, 2015

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

Ratings List

	Rating	
	To	From
Eure (Department of)		
Issuer credit rating		
Foreign and Local Currency	AA-/Stable/A-1+	AA-/Stable/A-1+
Senior Unsecured		
Foreign and Local Currency	AA-	AA-
Commercial Paper		
Local Currency	A-1+	A-1+

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Additional Contact:
International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com