

CREDIT OPINION

10 May 2019

 Rate this Research

RATINGS

Département de L'Eure

Domicile	France
Long Term Rating	Aa3
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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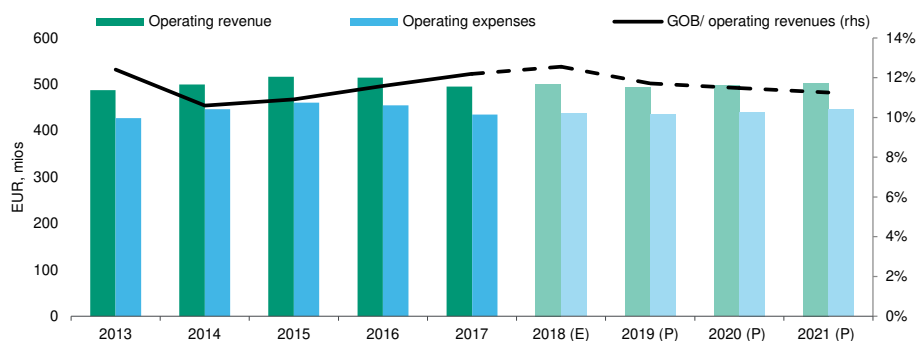
Département de L'Eure (France)

Update to credit analysis

Summary

The credit profile of the [Département de L'Eure \(Aa3 Positive\)](#) reflects stable financial results supported by stronger tax revenues and lower social spending in a national context of acceleration of economic growth. We expect the département to post a gross operating margin of 11.5% of operating revenue on average over the next three years. The département's credit quality is also supported by its moderate and stable debt level, good financial governance, as well as prudent liquidity management. We expect its direct debt to increase moderately to 68% of operating revenues in 2021 due to sustained investments.

Exhibit 1
Stable financial results



(E) - estimated data, (P) - projections.
 Source: Département de L'Eure, Moody's Investors Service

Credit strengths

- » Solid financial performance, compared with other French départements
- » A moderate and stable level of debt
- » Secure liquidity profile
- » Prudent budgetary and financial management

Credit challenges

- » An institutional framework limiting départements' budgetary flexibility
- » A diversified, but relatively small-sized economy

Rating outlook

The positive rating outlook reflects the improved sovereign environment and the strong link between French regional and local governments (RLGs) and the central government, as well as the good financial results that the Département de l'Eure should, in our view, continue to show while its debt burden remains moderate.

Factors that could lead to an upgrade

- » Higher than expected operating results and/or lower debt ratios would positively impact the département's rating.
- » In addition, a strengthening of the credit profile of France (Aa2, positive outlook) leading to an increase in the country's rating would have a positive impact on all ratings of French RLGs, including the Département de l'Eure.

Factors that could lead to a downgrade

- » Weaker fiscal performance associated with lower than expected gross operating balance levels or significantly higher debt levels and debt payback ratios (direct debt to gross operating balance) exceeding 10 years, would negatively influence the rating.
- » In addition, a downgrading of France's rating could also lead to a lowering of the département's rating.

Key indicators

Exhibit 2

Key indicators

Département de l'Eure

	2013	2014	2015	2016	2017	2018 (E)
Gross operating balance / operating revenues (%)	12.4	10.6	10.9	11.6	12.2	12.6
Capital spending / total expenditure (%)	21.5	17.8	15.2	13.2	14.8	15.9
Self-financing ratio	0.7	0.9	1.0	1.1	1.0	0.9
Financing surplus (requirement) / of total revenues	-5.9	-2.6	-0.7	1.8	-0.2	-1.0
Interest expenses / operating revenues (%)	0.8	0.8	0.8	0.8	0.8	0.7
Intergovernmental revenues / operating revenues (%)	32.0	30.8	28.1	27.7	26.5	26.7
Net Direct and Indirect debt / operating revenues (%)	56.0	58.0	58.4	56.5	58.0	58.8

(E) - estimated data.

Source: Département de l'Eure, Moody's Investors Service

Detailed credit considerations

The credit profile of the Département de l'Eure, as expressed in an Aa3 long term rating with positive outlook, combines (1) a BCA (Baseline Credit Assessment) of aa3 and (2) a moderate likelihood of extraordinary support from the French national government in the event that the Département should face an acute liquidity stress.

Baseline credit assessment

Solid financial performance, particularly in comparison with other French Départements

The Département de l'Eure has shown solid financial performance over the last five years, despite the double constraint created by the decline in central government's transfers and the increase in its operating expenses. In fact, its gross operating balance (realized operating revenue minus realized operating expenses) represented on average 11.7% of operating revenue for the 2013-2018 period, which is lower than the French départemental average (estimated at 15% over the same period), while the ratio of direct debt to operating revenues remained relatively stable over the period (51.5% in 2018 compared to 47.8% in 2013).

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The Département's gross operating balance ratio has stabilized over the last five years, with a low compound annual growth rate (CAGR) of 0.8%, a trend in line with that of other French Départements. This direction is mainly due to a significant growth in départemental social spending, which represents approximately two-thirds of its operating budget.

The welfare benefit Active Solidarity Income (RSA [revenu de solidarité active]) has grown at an average annual rate of 4.3% over the last five years. In addition, both the benefit to the elderly known as the personal autonomy allowance (APA [allocation personnalisée d'autonomie]) and aid to unaccompanied minors (MNA) expenditures continue to gain significance in the Département's social budget. This last item impacted the Département's expenses both because of an increase in the number of minors eligible for the program, as well as an increase in the operational cost of the plan.

Since June 11, 2018, the Département has been participating in the contracting program with the central government, whose main goal is to improve budget control, as well as to have a medium-term vision regarding the main expenditure items. On the one hand, the central government undertakes to maintain the overall operating transfers, while the Département undertakes to control its operating expenses at a rate below the annual ceiling of 1.2%, including inflation (in 2018, estimated growth in operating expenses was 0.7%).

As seen during 2017, the national context of economic acceleration continued in 2018. Thus, the Département's tax revenues increased, with a 3% increase in property tax on built properties, which remains the most significant direct tax for the Département. Also, transfer duties against payment (DMTO [les droits de mutation à titre onéreux]) have shown a good level of dynamism over the last five years, with an average growth rate of 8.3% per year. As a result, the Département's gross operating margin increased significantly in 2018, with an estimated amount of 62.8 million euros, or 12.6% of operating revenue.

We anticipate that the Département de l'Eure will maintain good financial results over the next three years. Indeed, the baseline scenario of the Département is based on an increase in RSA expenditures similar to that of 2018, as a result of a moderate increase in gross domestic product (GDP) and strict control of other expenses, particularly those of personnel. We believe the expected operating revenue growth assumptions to be prudent, in line with the observed historical average, in particular, the physical development of the property tax bases on built properties. We also believe that contracting with the central government should increase the visibility on the Département's gross operating balances, since it makes it possible to confirm central government transfers through the control of expenditure. As a result, we expect the Département to post a gross operating margin at 11.3% of operating revenues by 2021.

We also note that the Département de l'Eure has considered a pessimistic scenario of a decline in revenue from DMTO revenue of 9 million euros over the next three years, as well as the replacement of the share of property tax on built properties with an endowment (paid by the central government) equal to the amount collected in 2020 and which would not evolve. This pessimistic scenario would lead to a deterioration of gross operating balances and debt ratios (see graphs below).

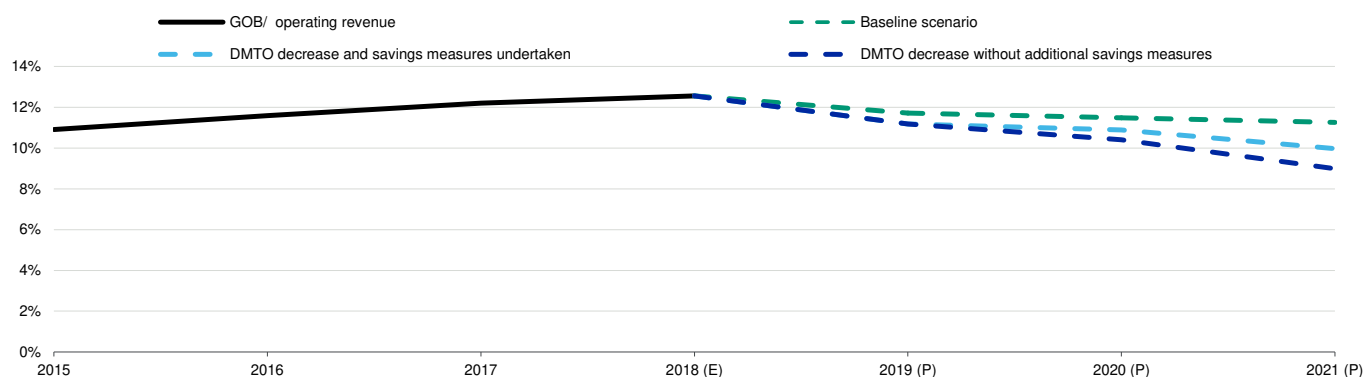
Nevertheless, the Département has some leeway, both in operating expenses and investment, which could be used. Using even stricter control of management expenditure (personnel costs and non-compulsory expenditure, in particular), the gross operating balance would reach 10% of operating income by 2021 (blue curve in Chart 3), against a gross operating balance ratio of 9% without an increase in savings made (dark blue curve).

In addition, the Département still has margins for maneuver, albeit limited ones, with regard to property tax on built properties that it could mobilize if necessary, even if this assumption is not retained in the financial projections of the executive.

Exhibit 3

Gross operating balance maintained at more than 10% of operating revenue

Gross operating balance / Operating revenue



(E) - estimated data, (P) - projections.

Source: Département de l'Eure, Moody's Investors Service

A moderate and stable debt level

The Département's direct debt stock increased to 258 million euros at the end of 2018, representing a relatively moderate share (51.5%) of its operating revenues. This ratio remains well below the French départemental average, estimated at 80% at the end of 2018, reflecting in particular the good performance of the Département's revenue.

Guaranteed debt, while significant, represents a low risk. In 2018, it reached 289 million euros. A significant portion (87%) is earmarked for state-subsidized social housing providers (mostly social housing associations), which represent, generally, a limited credit risk. Thus, with the inclusion of the other portion of guaranteed debt, the Département's direct and indirect net debt (NDID) ratio amounts to 59% of operating revenues at the end of 2018. The debt payback ratio reached 4.1 years in 2018, stable with regard to the last two years.

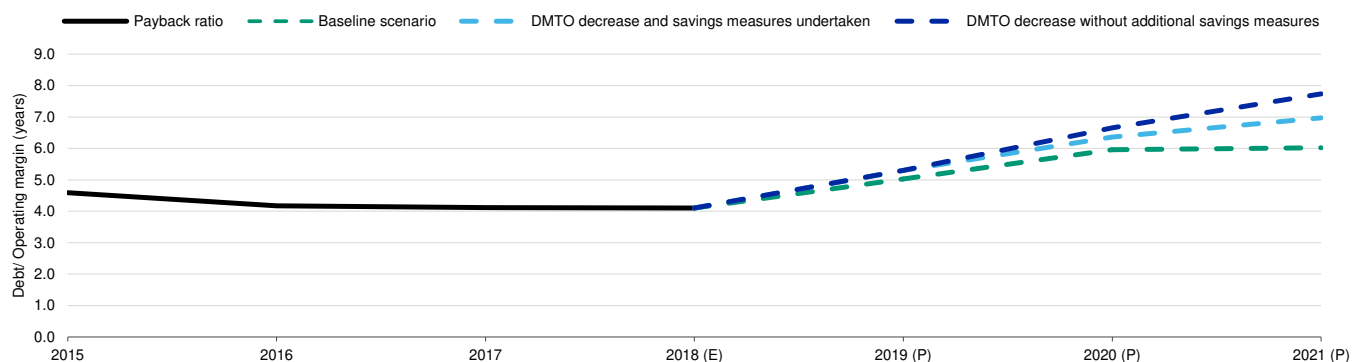
However, we note that the public social housing provider OPH Eure Habitat, which benefits from the explicit guarantee of the Département de l'Eure for an amount of 55.3 million euros at the end of 2018, is currently under the procedures of the French Social Rental Housing Guarantee Fund (Caisse de Garantie du Logement Locatif Social, CGLLS). As such, the OPH currently benefits from assistance under a multi-party agreement, which falls within the scope defined in France for social housing and applies to landlords in financial difficulty. In force until 2021, this convention sets several binding targets such as a savings plan and debt restructuring. We also note that the Département de l'Eure has developed a scheme for bringing together and mutualizing social housing providers in Eure, in line with the national commitment to innovation in the social housing sector.

The Département de l'Eure has an ambitious capital investment program for the next three years, including: (1) in June 2016 a 172 million euro investment plan to establish the reconstruction or refurbishment of around 15 middle schools in the territory, and (2) a 125 million euro plan for road financing and renovation, more than half of this sum being used for pavement maintenance. According to our projections, in this scenario involving an increased level of investment of 97 million euros on average each year between 2019 and 2021, with an expected peak in 2020 of 119 million euros, the direct and indirect net debt of the Département could reach 377 million euros in 2021, or about 75% of projected operating revenue for the year (2018: 59%), equivalent to around 6 years of gross savings.

Faced with a negative shock on DMTO, as well as the replacement of the share of the property tax on built properties with a State-paid endowment, and taking into account the levers in operation and the possible leveling out of the capital expenditure dedicated to the middle schools refurbishment, the Département de l'Eure would be able to maintain a good financial equilibrium and display a debt payback capacity of less than 8 years of gross savings from its direct debt in 2021 (light blue line of graph below).

Exhibit 4

Evolution of the Département's debt payback capacity Debt/gross operating balance



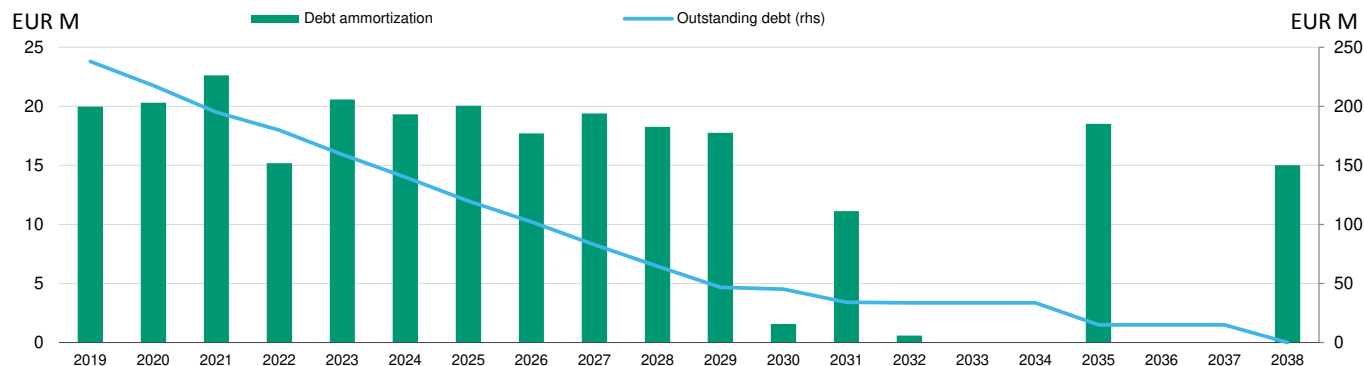
(E) - estimated data, (P) - projections.

Source: Département de l'Eure, Moody's Investors Service

The Département shows a sound debt profile with a smooth depreciation profile. The debt is entirely denominated in euros and does not include risky loans (within the meaning of the Gissler charter). In addition, on December 31, 2018, 64% of the outstanding amount of the Départemental debt (after swaps) was at a fixed rate and the remainder at variable rate.

Exhibit 5

A smooth amortization profile for the next ten years As of December 31, 2018



Source: Département de l'Eure, Moody's Investors Service

In addition, the Département set up a financing plan in July 2018 in the form of issuance of social, environmental and responsible bonds as part of the Département's EMTN program, which is in line with its ambitions for sustainable development. We understand that the Département is to use issuances of this type from this year onwards to finance part of projects related to ecological transition, energy and social action, including to finalize the construction of the "Seine à vélo" greenway, a cycle path that will connect Paris to the sea along the Seine for 120 kilometers, and accommodation facilities for the elderly (EHPAD).

Secure liquidity profile

The Département de l'Eure has a favorable liquidity situation with access to short-term financing, both bank- and market-based. In addition, the Département's cash flow profile is predictable, in particular, monthly tax revenue and state subsidies.

In the first quarter of 2019, the entity has two lines of cash totaling 50 million euros - which should be renewed in July 2019 - and revolving credit lines with short-term financing needs of 5.1 million euros.

We consider this level adequate to cover the Département's short-term future financing needs, including short-term marketable securities (NEU CP or Negotiable European Commercial Paper) repayments as part of its 100 million euros program launched in 2013.

In 2018, the average outstanding amount of NEU CP issued by the Département amounted to 23.5 million euros and its maximum outstanding amount was 40 million euros, at the beginning of 2018. In the first two months of 2019, the average outstanding amount was 14 million euros. These levels are expected according to the Département's projections to remain stable for the rest of the current year, but will remain covered by available cash lines.

Prudent budgetary and financial management

The Département favors a prudent fiscal approach and efficiently manages its debt and cash flow. We consider that the financial strategy of the Départemental executive is clear with appropriate long-term objectives. In particular, the Département is committed to a minimum operating balance ratio of 10% and a debt payback capacity of less than 10 years. Finally, the financial reporting of the Département is deemed complete and transparent.

Faced with limited budget flexibility, the Département has put in place a financial strategy to mitigate the deterioration of its major fiscal balances through sustained control of operating expenditures. The plan for reducing staff costs, reducing overhead costs, setting up pooling schemes for support services, particularly the Départemental Fire and Rescue Service (SDIS), as well as the reorganization of the management of satellite entities are the main measures to be taken under this savings plan.

Since February 2016 the Département has created an RSA control unit which, according to the entity, has saved more than 1 million euros in 3 years. Similarly, technological resources aimed at improving public services and reducing expenditures have been adopted. Also, the *Job27* web platform has been launched, which aims to facilitate the relationship between employers and RSA recipients in Eure and which should lower future RSA expenses for the Département.

An institutional framework limiting Départements' budgetary flexibility

Like those of a large number of French Départements, the budget structure of the Département de l'Eure is characterized by limited fiscal autonomy and rigidity of operating expenses. Since its operating revenues are more exposed to the economic cycle than those of other French local authorities, it has limited room for maneuver.

In terms of operating revenue, the property tax on built properties (22% of operating revenue) is the only tax revenue over which the Département de l'Eure has authority to raise rates. However, given its current rate (20.24%, which is higher than the 19.61% départemental average for 2018) and the upward trend in national taxation between 2012 and 2017, the executive does not want use this leverage, which has remained unchanged since 2015. Regarding expenditure, Départemental social competencies lead to significant rigidity in operating expenses. Thus, adding personnel costs, the RSA, the APA and the other expenses relating to social action, the "constrained" expenses of the Département of the Eure accounted for more than 54.8% of its actual operating expenses at the end of 2018.

A diversified but small-sized economy

With 610,152 inhabitants, the Département de l'Eure is a medium-sized Département located in the Normandy Region. The départemental population represents around 18% of the regional population, with an annual growth of 0.6% over the 1990-2018 period, the French average being 0.5%. At the same time, its proximity to the Ile-de-France is an attractive factor.

The economic structure is largely based on industry (24% of employees), the Département de l'Eure being the 7th most significant industrial département of France. However, the industrial sectors are relatively diversified, the agri-food industry being represented alongside the pharmaceutical and aerospace industries. We also note the presence in the area of major research laboratories in connection with the Cosmetic Valley competitiveness cluster - the world's leading resource center for perfume and cosmetics. The unemployment rate of 8.8% in the last quarter of 2018 (2017: 9.1%) is slightly higher than the national average (8.5%).

However, the economic fabric of the Département remains relatively small at the national level. Départemental GDP per inhabitant amounted to 22,960 euros at the end of 2016, or 69% of the national average, and despite the Département's efforts to improve its attractiveness, particularly through investments in middle schools, the support plan for local businesses and the construction of the "Seine à Vélo" bicycle route, the size of the Départemental economy remains relatively minor at the national level.

Extraordinary support considerations

We consider the Département de l'Eure to have a moderate level of extraordinary support from the [French government \(Aa2 positive\)](#), reflecting the various mechanisms put in place by the central government during the global financial crisis to support the RLG sector.

Such mechanisms include interventions of the Caisse des Depots (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 towards greater accountability for regional and local governments.

Rating methodology and scorecard factors

The assigned baseline credit assessment (BCA) of aa3 is close to the scorecard-indicated BCA. The matrix-generated BCA of a1 reflects (1) an idiosyncratic risk 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.

For details about our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#), published in January 2018.

Exhibit 6

Département de l'Eure

Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Scorecard						
Factor 1: Economic Fundamentals				6.6	20%	1.32
Economic strength	9	69.4	70%			
Economic volatility	1		30%			
Factor 2: Institutional Framework				3	20%	0.6
Legislative background	1		50%			
Financial flexibility	5		50%			
Factor 3: Financial Performance and Debt Profile				2.5	30%	0.75
Gross operating balance / operating revenues (%)	1	12.3	12.50%			
Interest payments / operating revenues (%)	1	0.8	12.50%			
Liquidity	5		25%			
Net direct and indirect debt / operating revenues (%)	3	58.8	25%			
Short-term direct debt / total direct debt (%)	1	8.5	25%			
Factor 4: Governance and Management - MAX				1	30%	0.3
Risk controls and financial management	1					
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						2.97(3)
Systemic Risk Assessment						Aa2
Suggested BCA						a1

Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
DEPARTEMENT DE L'EURE	
Outlook	Positive
Issuer Rating	Aa3
Senior Unsecured MTN -Dom Curr	(P)Aa3
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

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