

CREDIT OPINION

20 December 2024

Update



RATINGS

Département de l'Eure

Domicile	France
Long Term Rating	Aa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

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)

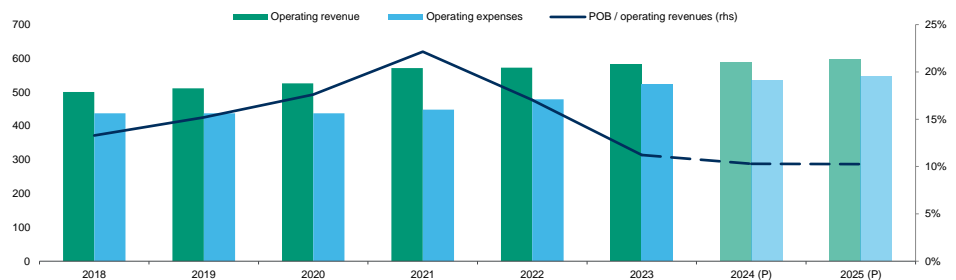
Update following rating affirmation, outlook remains negative

Summary

The credit profile of the [Département de l'Eure](#) (DDE, Aa3 negative) reflects its prudent budgetary and financial management, moderate debt levels and secure liquidity profile. Our assessment of DDE's credit quality also takes into account its operating result which we expect to remain robust in the coming years. Despite continued pressures on operating expenditure and the impact of the property market slowdown on tax receipts, we still expect the department's primary operating balance (POB) to remain close to 10% of operating revenue. We forecast DDE's direct debt to increase to just below 70% of operating revenues by 2025, which remains manageable.

Exhibit 1

DDE's operating performance will weaken but will remain robust



F - Moody's forecasts

Source: Moody's Ratings and Département de l'Eure

Credit strengths

- » Resilient financial performance
- » Moderate debt levels and 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 negative outlook stems from policy uncertainty at the sovereign level. Although RLGs do not face the same political pressures hindering fiscal consolidation that the sovereign faces, we believe that the central government's constrained fiscal flexibility could result in detrimental measures, including material cuts in revenues. Detrimental measures could

materially impact Département de l'Eure's operating results and debt trajectory, at a time when it has sizeable capital spending program and already faces pressures on its operating performance. Policy uncertainty could hinder Département de l'Eure's capacity to plan effectively. Negative pressures on France's borrowing costs, because of policy uncertainty, could also negatively impact funding conditions.

Factors that could lead to an upgrade

Given the negative outlook, a rating upgrade is unlikely. We would likely change the outlook to stable if we were to conclude that Département de l'Eure is able to navigate the current challenging environment without materially damaging its operating results and debt metrics.

Factors that could lead to a downgrade

Downward pressures on the rating could result from a detrimental financing law for 2025 for the RLG sector and issues in adapting to the resulting negative pressures with the 2025 budget. Challenges in navigating the current uncertain environment, leading to a permanently weakened financial position, including a combination of weaker operating results and higher leverage, could also exert downward pressures on the ratings.

Key indicators

Exhibit 2

Département de l'Eure

	2018	2019	2020	2021	2022	2023	2024 (P)	2025 (P)
Primary Operating Balance / Operating Revenue (%)	13.3%	15.2%	17.6%	22.1%	17.0%	11.2%	10.3%	10.3%
Capital Expenditure / Total Expenditure (%)	15.9%	17.0%	21.0%	25.5%	22.1%	19.3%	18.7%	16.6%
Self-financing ratio (%)	93.8%	97.3%	92.4%	98.0%	92.2%	74.3%	70.8%	77.3%
Direct Debt / Operating Revenue (%)	51.5%	54.3%	58.0%	55.7%	56.3%	60.5%	66.0%	69.1%
Net Direct and Indirect Debt (NDID) / Operating revenue (%)	58.8%	61.4%	63.9%	60.9%	61.2%	65.1%	70.5%	73.6%
Interest Expenses / Operating Revenue (%)	0.7%	0.8%	0.7%	0.7%	0.7%	1.0%	1.2%	1.7%
Debt Repayment / Operating Revenue (%)	4.4%	3.9%	5.3%	3.8%	3.6%	4.7%	4.1%	4.1%

E - Estimates; F - Moody's forecasts

Source: Moody's Ratings and Département de l'Eure

Detailed credit considerations

On 18 December 2024, we affirmed Département de l'Eure's ratings at Aa3/P-1, and we maintained the negative outlook. The rating affirmation followed the rating downgrade to Aa3 of the [Government of France](#) on 14 December 2024, while the outlook was changed to stable.

The credit profile of the Département de l'Eure, as expressed in an Aa3 long term rating with negative outlook, combines its assigned Baseline Credit Assessment of aa3 and 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

Financial performance will remain robust, despite significant pressures

We forecast Département de l'Eure's primary operating balance (POB) to average 10.3% of operating revenue over 2024-25. Following a period of very strong operating performance, with POB ratios averaging 17.1% of operating revenue over 2018-22, 2023 was marked by a significant increase in operating expenses and a sharp decline in property tax transfers (around 15-20% of operating revenue). These POB levels close to 10% are slightly below pre-pandemic levels, but based on prudent assumptions.

In 2023, operating expenditure increased by an estimated 9.1%, driven by cost inflation (including energy price inflation and salary increases for civil servants decided by the central government). As a result, payroll, which represents over 20% of operating

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expenditure, increased by 8.9% in 2023. Meanwhile, operating revenue expanded by a modest 1.6%, having been impacted by a 21% decline in property tax transfers.

In 2024, further decline in property tax transfers will continue to negatively impact the operating performance of Département de l'Eure, but we expect the growth rates of operating expenditure and revenue to converge again the following years. In addition, we anticipate that the Département will seek to implement budget management initiatives. The Département has a good track record of successfully implementing cost-saving initiatives, which have limited spending growth in recent years and will continue to have a positive impact, despite the rigid nature of its operating expenditure.

Moderate debt levels and secure liquidity profile

The Département's direct debt stock stood at €352 million at the end of 2023, representing a relatively moderate share (estimated 60.5%) of its operating revenues. The ratio has increased modestly over the past five years, balancing the good performance of the Département's revenue up to 2022 with an ambitious investment plan.

Guaranteed debt, while significant, represents a low risk. In 2023, it amounted to €325 million. A significant portion (92%) is earmarked for state-subsidized social housing providers (mostly social housing associations), which represent, generally, a limited credit risk. Thus, we only include the non-social housing-related guarantees to our calculation of the Département's direct and indirect debt (NDID). In 2023, NDID stood at 65.1% of operating revenue.

The Département de l'Eure maintains ambitious investment plans for the coming years. The previous investment cycle focused on middle schools (*collèges*), and remained a key source of capital spending until 2023. The Département has a plan to allocate investment grants to residential care homes for the elderly (*EHPAD*), as well as an ambitious maintenance plan for existing assets, including roads and middle schools. As a result, capital expenditure will remain elevated over the next few years. This will in turn result in a gradual increase in debt levels, and we project NDID to reach 74% of operating revenue by 2025.

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). As of end-2023, 74% of the outstanding amount of the Département's debt (after swaps) was at a fixed rate and the remaining at variable rate. Financing sources are diversified.

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.

Prudent budgetary and financial management

The Département favours 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. Finally, the financial reporting of the Département is deemed complete and transparent.

Faced with limited budget flexibility, the Département has implemented various savings initiatives. These measures include a plan to control both operating and capital expenditure in order to cope with the real estate market slowdown, as well as initiatives to strengthen the management control of satellite entities. The Département has also stepped up efforts to contain RSA costs, through the creation of a control unit and initiatives to facilitate the relationship between employers and RSA recipients.

A diversified but small-sized economy

With close to 600,000 inhabitants, the Département de l'Eure is a medium-sized Département located in the Normandy Region. The Département's population represents around 18% of the regional population. At the same time, its proximity to the Ile-de-France is an attractive factor.

The economic structure is largely based on industry. 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.

However, the economic fabric of the Département remains relatively small at the national level. GDP per inhabitant amounted to 25,300 euros at the end of 2021, or 66% of the national average. However, recently the Département has made considerable 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. Also, DDE successfully implemented the *Tres Haut Debit* project aiming to deploy the fibre to the home network, which supports the digitalization of the territory.

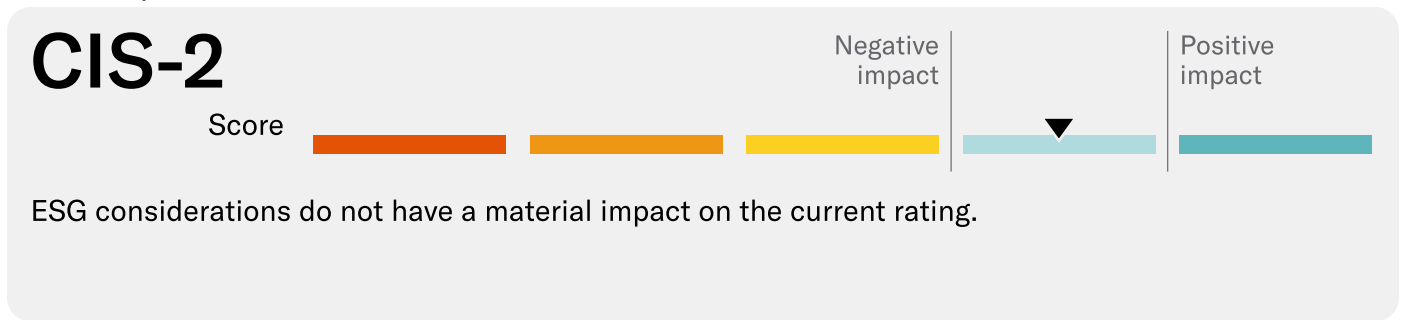
Extraordinary support considerations

The moderate level of extraordinary support from the French government accounted for in the rating reflects the various mechanisms put in place by the central government during the global financial crisis to support RLGs, as well as the supportive measures implemented in response to the coronavirus pandemic. It also reflects a handful of defaults on municipal bank loans in the 1990s.

ESG considerations

Departement de l'Eure's ESG credit impact score is CIS-2

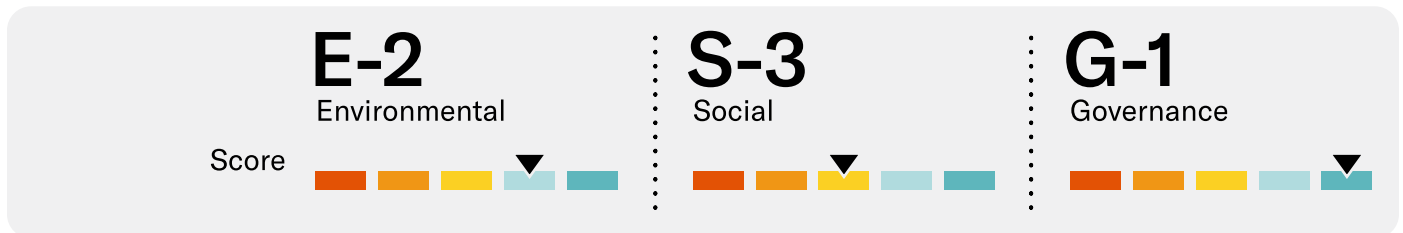
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Departement de l'Eure's ESG considerations do not have a material impact on the current rating. Its ESG Credit Impact Score (**CIS-2**) reflects low exposure to environmental risk, moderate exposure to social risks and strong governance practices and in general strong capacity to respond to shocks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Departement de l'Eure's exposure to environmental risks is low across all categories (**E-2**).

Social

Departement de l'Eure has moderate exposure to social risks (**S-3**), reflecting the large share of its operating expenses linked to social spending, an ageing population and outmigration flows. Social considerations also affect investments for building or refurbishing middle schools. Departement de l'Eure's territory benefits from good housing availability, high education standards, high quality of health & safety and high-quality access to basic services.

Governance

Departement de l'Eure's very strong governance is captured by a positive G issuer profile score (**G-1**). Departement de l'Eure's governance is sound, with prudent budgetary practices and financial management. Departement de l'Eure also benefits from a strong institutional framework that limits however its financial flexibility.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned baseline credit assessment (BCA) of aa3 is in line with the BCA Scorecard-Indicated Outcome.

For details about our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#), published in May 2024.

Exhibit 5

Departement de l'Eure Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					25%	1.71
Regional Income [1]	5.41	44037.78	15%	0.81		
Economic Growth	12.00	ba	5%	0.60		
Economic Diversification	6.00	a	5%	0.30		
Factor 2: Institutional Framework and Governance					30%	1.35
Institutional Framework	6.00	a	15%	0.90		
Governance	3.00	aa	15%	0.45		
Factor 3: Financial Performance					20%	1.33
Operating Margin [2]	7.04	11.22%	10%	0.70		
Liquidity Ratio [3]	9.61	11.48%	5%	0.48		
Ease of Access to Funding	3.00	aa	5%	0.15		
Factor 4: Leverage					25%	0.97
Debt Burden [4]	4.81	65.14%	15%	0.72		
Interest Burden [5]	2.44	0.97%	10%	0.24		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						(5.36) a1
Idiosyncratic Notching						0.0
Preliminary BCA SIO After Idiosyncratic Notching						(5.36) a1
Sovereign Rating Threshold						Aa3
Operating Environment Notching						1.0
BCA Scorecard-Indicated Outcome						(4.36) aa3
Assigned BCA						aa3

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars

[2] Primary Operating Balance / Operating Revenue

[3] Cash and Cash Equivalents / Operating Revenue

[4] Net Direct and Indirect Debt / Operating Revenue

[5] Interest Payments / Operating Revenue

Source: Moody's Ratings; Fiscal 2023.

Ratings

Exhibit 6

Category	Moody's Rating
DEPARTEMENT DE L'EURE	
Outlook	Negative
Baseline Credit Assessment	aa3
Issuer Rating	Aa3
Senior Unsecured MTN -Dom Curr	(P)Aa3
Commercial Paper -Dom Curr	P-1

Source: Moody's Ratings

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