

CREDIT OPINION

23 November 2023

New Issue



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RATINGS

Seine-et-Marne, Departement de

Domicile	Paris, France
Long Term Rating	Aa3
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.

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Seine-et-Marne, Departement de (France)

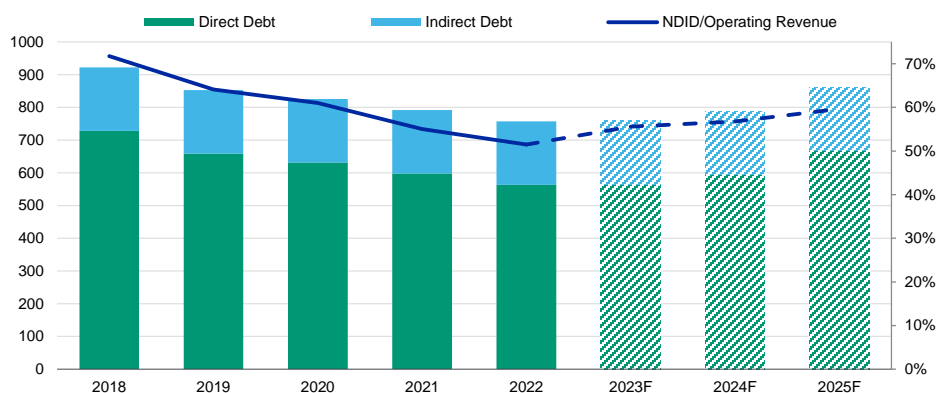
New issuer

Summary

The credit profile of [Département de Seine-et-Marne](#) (Aa3 stable/Prime-1) reflects its strong operating performance, debt deleveraging resulting in a moderate debt burden, and its very strong governance and financial management. Our assessment of Département de Seine-et-Marne also takes into consideration its limited budgetary flexibility.

Exhibit 1

A moderate debt burden, resulting from several years of debt deleveraging



F = Forecasts.

Sources: Département de Seine-et-Marne and Moody's Investors Service

Credit strengths

- » Strong operating performance, which will prove resilient
- » Debt deleveraging resulting in a moderate debt burden
- » Very strong governance and financial management

Credit challenges

- » Limited budgetary flexibility, like all French *départements*

Rating outlook

The stable rating outlook reflects our expectation that Département de Seine-et-Marne's gross operating balance will prove resilient and return to around 10% of operating revenue over the next two to three years and that its debt burden will remain moderate.

Factors that could lead to an upgrade

- » Should Département de Seine-et-Marne's debt ratios be significantly lower than we currently forecast, in combination with stronger operating performance and considerably greater financial flexibility, upward momentum on the rating could emerge.
- » Any upgrade of the sovereign bond rating could have similar implications for Département de Seine-et-Marne, although this is currently unlikely given the stable outlook on France's Aa2 rating.

Factors that could lead to a downgrade

- » The rating would face downward pressure if Département de Seine-et-Marne's fiscal position weakens, including a persistently declining gross operating balance-to-operating revenue ratio or a higher debt burden than we currently forecast. A weakening in the local government's liquidity position would also exert downward pressure on its rating.
- » A downgrade of the sovereign bond rating would most likely have negative implications for Département de Seine-et-Marne.

Key indicators

Exhibit 2

Département de Seine-et-Marne

	2018	2019	2020	2021	2022	2023F	2024F	2025F
Gross operating balance / operating revenues (%)	15.51	16.97	15.89	19.28	20.02	7.37	7.13	8.98
Capital spending / total expenditure (%)	13.70	16.10	17.96	18.73	16.62	15.11	15.69	17.03
Self-financing ratio	1.79	1.65	1.48	1.57	1.79	0.68	0.59	0.70
Financial surplus (requirement) / total revenues (%)	9.76	9.46	7.95	9.59	11.65	(5.04)	(6.84)	(5.47)
Interest expenses / operating revenues (%)	1.31	1.08	0.95	0.78	0.77	1.10	1.15	1.22
Direct debt / operating revenues (%)	56.66	49.53	46.69	41.54	38.32	41.40	42.83	46.26
Net Direct and Indirect Debt / operating revenues (%)	71.72	64.08	61.00	54.98	51.49	55.59	56.76	59.64

F = Forecasts.

Sources: Département de Seine-et-Marne and Moody's Investors Service

Detailed credit considerations

On 27 October 2023, we assigned Aa3 long-term and Prime-1 (P-1) short-term issuer ratings to Département de Seine-et-Marne, as well as an aa3 Baseline Credit Assessment (BCA); outlook is stable. We also assigned (P)Aa3 local and foreign-currency debt ratings to Département de Seine-et-Marne's €1 billion Euro Medium-term Notes (EMTN) programme and Prime-1 local- and foreign-currency debt ratings to its €250 million Negotiable European Commercial Paper (NEU CP) programme.

The credit profile of Département de Seine-et-Marne, as expressed in its Aa3 rating, combines a BCA of aa3 and a moderate likelihood of extraordinary support from the [Government of France](#) (Aa2 stable) in the event that the entity faces acute liquidity stress.

Baseline credit assessment

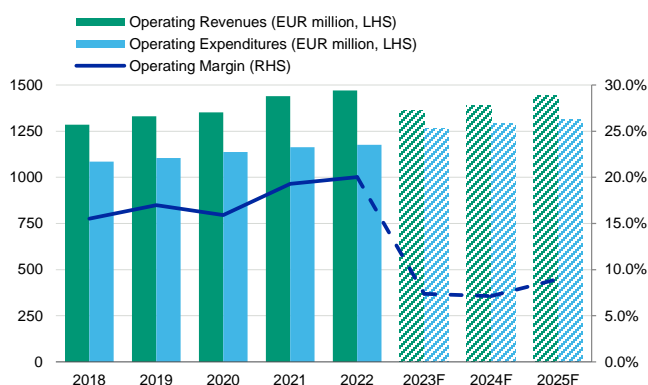
Strong operating performance, which will prove resilient

By 2025, we expect Département de Seine-et-Marne's gross operating balance (GOB) to prove resilient and recover to around 10% of operating revenue after a decrease to around 7% in 2023-24. Following a period of very strong operating performance (over 2018-22, GOB ratios averaged 18%), 2023 is marked by a sharp decline in operating revenue and a significant increase in operating expenses. Operating revenue will decrease by 7.2%, as a result of a 30% drop in property transfer tax proceeds, representing 18% of operating revenue expected in 2023 (against 23% at the end of 2022). At the same time, operating expenditure will increase by 7.5%, driven by cost inflation (including energy price inflation and salary increases for civil servants decided by the central government) and a voluntary increase in personnel. As a result, payroll, which represents 20% of operating expenditure, will increase by 8% in 2023.

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

Exhibit 3

Operating performance will prove resilient and remain strong ...

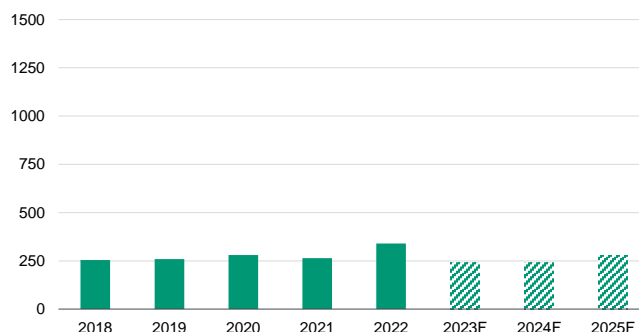


F = Forecasts.

Sources: Département de Seine-et-Marne and Moody's Investors Service

Exhibit 4

... while being negatively affected by the drop in property transfer tax proceeds



F = Forecasts.

Sources: Département de Seine-et-Marne and Moody's Investors Service

Going forward, we expect the growth rates of operating expenditure and revenue to converge. Growing by 2% each year in 2024-25, operating expenditure will move more in line with consumer price inflation, which normalises in our baseline scenario, but also in line with the *département's* strong track record of effective control of operating expenditure. This control is demonstrated by the adherence to the agreement signed with the central government to limit the annual growth of operating expenditure to 2% in the pre-pandemic years of 2018-20. On the operating revenue side, we expect increases of 1.8% and 4.1% in 2024 and 2025, respectively. Because we expect a limited correction in housing prices, property transfer tax proceeds will stabilise in 2024 at €240 million before recovering to around €275 million in 2025. At the same time, economic growth will support other tax revenue, including value-added tax (VAT) proceeds that represent around one-third of operating revenue.

Debt deleveraging resulting in a moderate debt burden

At 60% of operating revenue at the end of 2025, the Département de Seine-et-Marne's net direct and indirect debt (NDID) metric will remain moderate while increasing. Département de Seine-et-Marne has been deleveraging debt over several years, and since 2015, it has halved its direct debt, amounting to €561 million at the end of 2022 and representing 38% of operating revenue. Taking into account debt issued by and guarantees to non-self-supporting entities, the NDID metric measured €757 million or 51% of operating revenue in 2022. Going forward, the slight increase in the debt burden will be driven by the increase to around €670 million of the Département de Seine-et-Marne's direct debt at the end of 2025, as a result of a gradual increase in capital spending. Indeed, the executive targets to spend €300 million each year (against €234 million in 2022) by the end of the current mandate in March 2028.

Not included in the NDID metrics are contingent liabilities that we estimate pose limited risk. Département de Seine-et-Marne's loan guarantees to social housing providers (SHPs) amounted to €515 million as of year-end 2022, including guarantees to [1001 Vies Habitat](#) (A1 stable) and [Vilogia](#) (A2 negative). Loan guarantees to SHPs represented 91% of its direct debt and 35% of its operating revenue at year-end 2022. We consider the debt of central government-subsidized SHPs to be self-supporting, with revenue generation sufficient to cover debt service. The *département* also has one of the most efficient monitoring of SHP credit strength among the French entities we rate. Nevertheless, because the industry is currently under pressure, we will continue to closely monitor any developments affecting the SHPs whose debt is guaranteed by Département de Seine-et-Marne.

Very strong governance and financial management

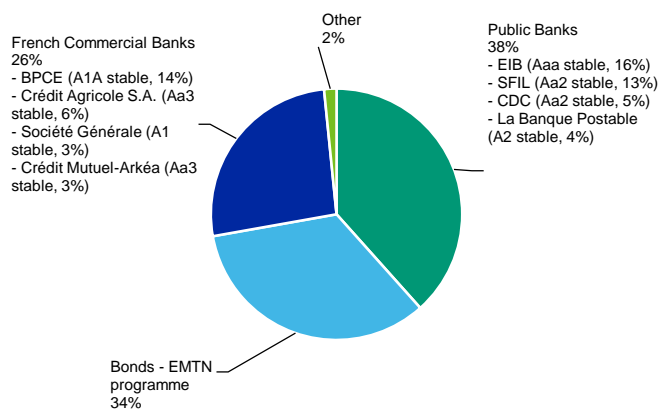
Département de Seine-et-Marne demonstrates very strong governance practices. It has resulted in a track record of high GOB levels and debt deleveraging over several years, providing shock-absorption capacity. The *département* has a transparent and well-defined financial strategy, including a focus on the debt-to-GOB ratio, and the executive is strongly committed to preserving its financial health.

Département de Seine-et-Marne's very strong financial management shows in prudent budgetary practices, sophisticated multi-year planning that includes scenario and sensitivity analysis, and very strong liquidity and debt management. The local government's debt is highly diversified, demonstrating a very good access to external financing. As of year-end 2022, the secured funding of public banks ([European Investment Bank](#) [Aaa stable, 16%], [Caisse Des Depots et Consignations](#) [Aa2 stable, 5%], [SFIL](#) [Aa2 stable, 13%] and [La Banque Postale](#) [A2 stable, 4%]) represented 38% of outstanding debt, in addition to highly rated French commercial banks (including [Crédit Agricole S.A.](#) [Aa3 stable, 6%], [BPCE Group](#) [A1 stable, 14%], [Crédit Mutuel Arkéa](#) [Aa3 stable, 3%] and [Société Générale](#) [A1 stable, 3%]). The remainder consisted of bond issuances (34%); the *département* is an experienced issuer in the financial markets, benefiting from the €1 billion EMTN programme launched in 2012 and the NEU CP programme launched in 2007. The intermunicipality also has a smooth debt amortisation profile, while 92.5% of its total outstanding debt as of year-end 2022 was at a fixed rate or standard variable rate.

In addition to its very good access to external financing, Département de Seine-et-Marne's very strong liquidity position is also supported by a sound and secure internal liquidity profile, driven by predictable and regular cash flows, in line with other French regional and local governments (RLGs). As a result, cash on hand averaged monthly at 2.6x debt annuity over 2021-23, while short-term available committed facilities represented 1.2x debt annuity.

Exhibit 5

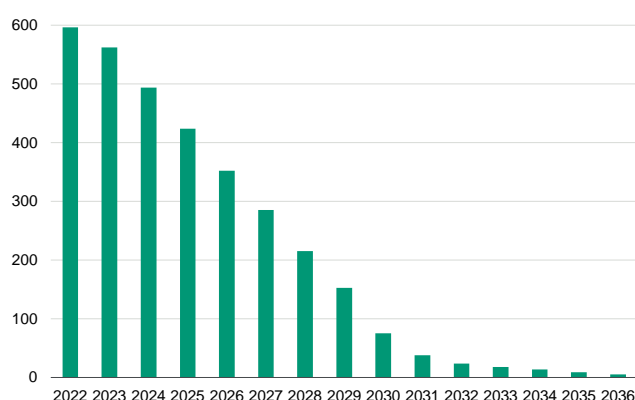
Highly diversified debt ...



Sources: Département de Seine-et-Marne and Moody's Investors Service

Exhibit 6

... with a straightforward amortisation profile



Sources: Département de Seine-et-Marne and Moody's Investors Service

Limited budgetary flexibility, like all French *départements*

Like all French *départements*, Département de Seine-et-Marne's flexibility on operating expenditure and revenue is limited. This has been compounded by the housing tax reform implemented from 2018 onwards, resulting in no tax rate-setting power, while the *département's* tax revenue represents around 80% of its operating revenue. Since 2021, the land tax, which accounted for 27% of operating revenue, has been replaced with a share of national VAT proceeds, with no rate-setting power. French *départements* also have little control on operating expenses because of their core responsibility in managing social benefits. Half of Département de Seine-et-Marne's operating expenditure is thus made of mandatory transfers that are driven by socio-demographic factors.

At the same time, the local government has the ability to adjust capital spending if needed. Over the past several years, we assess that around 50% of capital spending has been recurring and incompressible. As a result, there is some flexibility on some of the remaining 50%, as projects can be delayed, resized, postponed or canceled.

Extraordinary support considerations

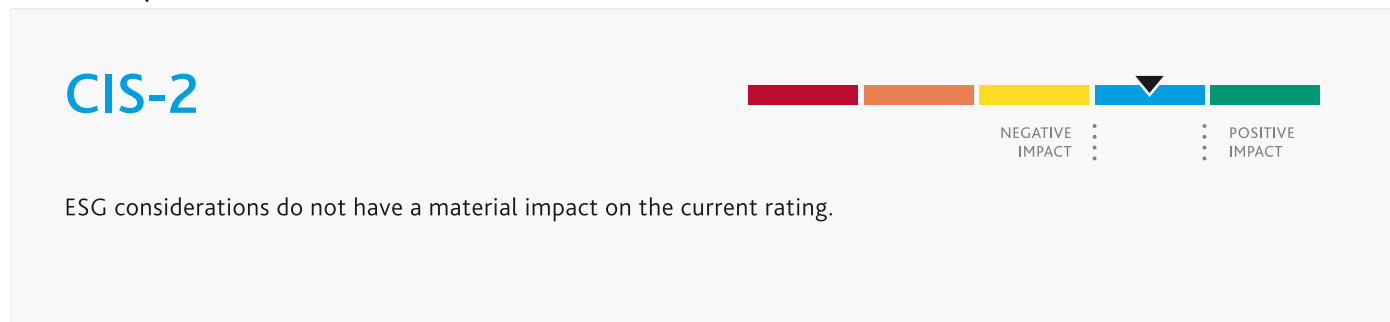
The moderate level of extraordinary support from the central government reflects the various mechanisms put in place during the global financial crisis to support RLGs, as well as the supportive measures implemented in response to the pandemic. It also reflects a handful of defaults on municipal bank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

ESG considerations

Seine-et-Marne, Departement de's ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score

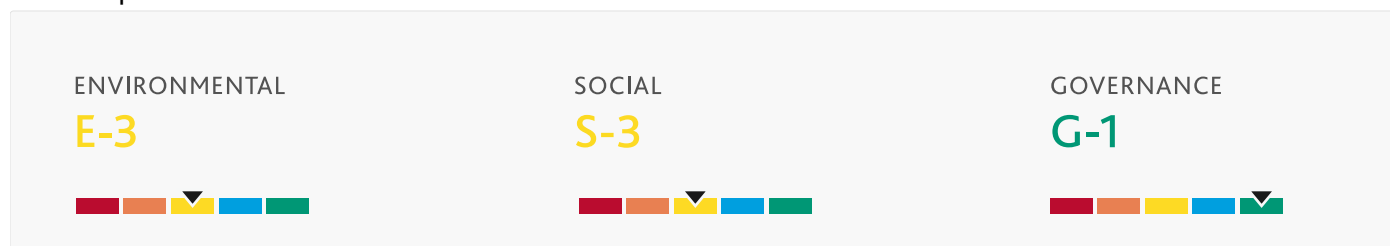


Source: Moody's Investors Service

Département de Seine-et-Marne's Environmental, Social, Governance (ESG) Credit Impact Score is neutral to low (**CIS-2**), reflecting moderately negative exposure to environmental and social risks, mitigated by very strong governance practices, as well as strong resilience to shocks thanks to its intrinsic financial strength, strong liquidity and external support (including central government support in case of major natural disaster).

Exhibit 8

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Département de Seine-et-Marne's environmental issuer profile score is **E-3**, principally reflecting its exposure to flooding and drought. Its risk exposure from other environmental categories monitored by Moody's is low.

Social

Département de Seine-et-Marne's social issuer profile score is **S-3**. As with France, the ageing population of the local government is a longer-term challenge, balanced at the local level by a growing population thanks to natural change. Due to Département de Seine-et-Marne's core responsibility in managing social benefits, the importance of social spending in its budget weighs on its social profile score. Département de Seine-et-Marne benefits from high-quality education, good housing availability, high quality of health & safety and very high-quality access to basic services.

Governance

Département de Seine-et-Marne's very strong governance profile supports its rating, as exemplified by its prudent budgetary practices, planning and financial management. The local government also benefits from a strong institutional framework that limits, however, its financial flexibility. This is captured by a positive G issuer profile score (**G-1**).

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 BCA of aa3 is close the suggested BCA of a1. The scorecard-indicated BCA reflects (1) an Idiosyncratic Risk score of 3 (presented below) on a scale of 1 to 9, where 1 represents the strongest relative credit quality and 9 the weakest; and (2) a Systemic Risk score of Aa2, as reflected in France's Aa2 stable sovereign bond rating.

The principal methodology used to rate Département de Seine-et-Marne is the [Regional and Local Governments](#) rating methodology, published in January 2018.

Exhibit 9

Seine-et-Marne, Departement de Regional and local governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				5.20	20%	1.04
Economic Strength [1]	7	80.83%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				4	20%	0.80
Legislative Background	1		50%			
Financial Flexibility	7		50%			
Factor 3: Financial Position				2	30%	0.60
Operating Margin [2]	1	19.22%	12.5%			
Interest Burden [3]	1	0.80%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	3	51.49%	25%			
Debt Structure [5]	3	12.61%	25%			
Factor 4: Governance and Management				1	30%	0.30
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						2.74 (3)
Systemic Risk Assessment						Aa2
Suggested BCA						a1
Assigned BCA						aa3

[1] Local GDP per capita as a percentage of national GDP per capita.

[2] Gross operating balance/operating revenue.

[3] Interest payments/operating revenue.

[4] Net direct and indirect debt/operating revenue.

[5] Short-term direct debt/total direct debt.

Source: Moody's Investors Service; Fiscal 2022.

Ratings

Exhibit 10

Category	Moody's Rating
SEINE-ET-MARNE, DEPARTEMENT DE	
Outlook	Stable
Baseline Credit Assessment	aa3
Issuer Rating	Aa3
Senior Unsecured MTN	(P)Aa3
Commercial Paper –Dom Curr	P-1

Source: Moody's Investors Service

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