

**CREDIT OPINION**

4 November 2024

Update



**RATINGS**

**Seine-et-Marne, Département de**

Domicile	Paris, 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.

**Contacts**

**Matthieu Collette** +33.1.5330.1040  
VP-Senior Analyst  
matthieu.collette@moodys.com

**Agathe Segard** +33.15.330.1031  
Ratings Associate  
agathe.segard@moodys.com

**Sebastien Hay** +34.91.768.8222  
Associate Managing Director  
sebastien.hay@moodys.com

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**Seine-et-Marne, Département de (France)**

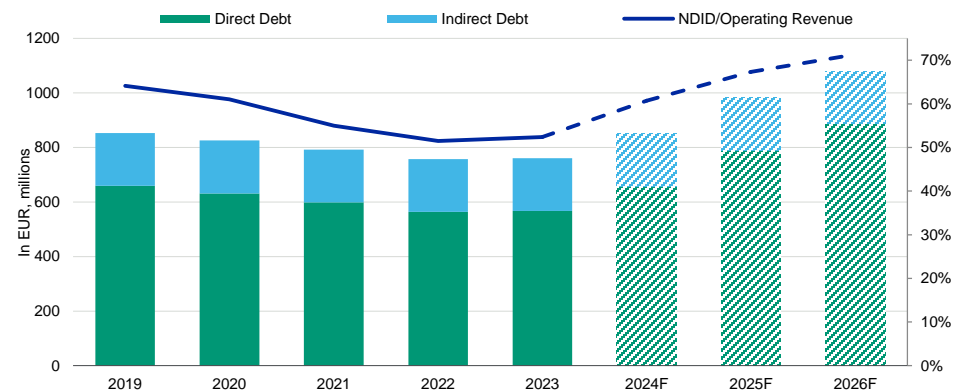
Update following outlook change to negative

**Summary**

The credit profile of [Département de Seine-et-Marne](#) (Aa3 negative/Prime-1) reflects its solid operating performance, 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 debt burden which remains moderate, despite a forecasted increase after several years of debt deleveraging**



F: forecast

Source: Département de Seine-et-Marne, Moody's Ratings

**Credit strengths**

- » Solid operating performance, which will prove resilient
- » A moderate debt burden
- » Very strong governance and financial management

**Credit challenges**

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

**Rating outlook**

The negative outlook reflects the deterioration of public finances in France, which increases the risks of funding cuts as part of the fiscal consolidation measures decided by the central government. Heightened policy uncertainty at the sovereign level increases the risks of unexpected, adverse measures being announced during the budget process or beyond. The combination of fiscal pressures and increased policy uncertainty could weigh on the

operating environment. This could complicate budget planning and negatively impact borrowing costs.

### Factors that could lead to an upgrade

- » Given the negative outlook, an upgrade of the rating is unlikely. However, one or a combination of the following could result in changing the outlook to stable: (i) France's outlook is changed to stable; (ii) Département de Seine-et-Marne is able to adapt to fiscal consolidation measures thus maintaining its financial performance.

### Factors that could lead to a downgrade

- » The ratings could be downgraded as a result of one or a combination of the following: (i) a sovereign bond rating downgrade, (ii) challenges in adapting to fiscal consolidation measures leading to a permanently weakened financial position.

### Key indicators

Exhibit 2

#### Departement de Seine-et-Marne

	2019	2020	2021	2022	2023	2024F	2025F	2026F
Primary operating balance / operating revenues (%)	18.1%	16.9%	20.1%	20.8%	11.1%	6.7%	9.3%	10.5%
Capital spending/total expenditure (%)	16.1%	18.0%	18.7%	16.6%	18.5%	18.5%	18.2%	17.8%
Self-financing ratio	1.65	1.48	1.57	1.79	0.72	0.49	0.61	0.67
Direct debt / operating revenues (%)	49.5%	46.7%	41.5%	38.3%	39.1%	46.9%	54.1%	58.5%
Net Direct and Indirect Debt / operating revenue (%)	64.1%	61.0%	55.0%	51.5%	46.3%	54.4%	61.3%	65.5%
Interest expenses / operating revenues (%)	1.1%	1.0%	0.8%	0.8%	1.1%	1.3%	1.4%	1.7%
Debt repayment / operating revenue (%)	6.0%	5.2%	4.9%	4.8%	5.1%	5.3%	5.6%	5.8%

F: forecasts

Source: Département de Seine-et-Marne, Moody's Ratings

### Detailed credit considerations

On 29 October 2024, we changed Département de Seine-et-Marne's outlook to negative from stable and affirmed the Aa3/Prime-1 ratings. The outlook change followed the change in outlook to negative from stable of the Government of France on 25 October 2024, while the Aa2 sovereign bond rating was affirmed.

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

#### Baseline credit assessment

##### Solid operating performance, which will prove resilient

Over 2025-26, we expect Département de Seine-et-Marne's primary operating balance (POB) to prove resilient and recover to around 10% of operating revenue after a decrease to 6.7% in 2024. Following a period of very strong operating performance (over 2019-22, POB ratios averaged 19%), 2024 will be marked, as was 2023, by a decline in operating revenue - driven by the decrease in property transfer tax proceeds (-28% in 2023 and -23% in 2024). Going forward, we expect property transfer tax proceeds to slightly recover to around €225 million in 2025, against €190 million in 2024. 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.

After being negatively impacted by cost inflation (including energy price inflation and salary increases for civil servants decided by the central government) and a voluntary increase in personnel in 2023, we expect operating expenditures will move more in line with consumer price inflation from 2024 onwards, which normalises in our baseline scenario. In line with the *département's* strong track

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record, we expect the local government to implement measures to ensure effective control of operating expenditure. We thus expect operating expenditures (excluding interest expenses) to increase by a yearly 2% on average over 2024-26, against 11% in 2023.

Our forecasts do not incorporate the revenue measures planned by the central government in the draft financing law for 2025 <sup>1</sup> because discussions are ongoing in a hung parliament, making it difficult to pass legislation. Once adopted, we will effectively incorporate the resulting measures in our assessment.

### Debt burden which remains moderate while increasing

At 65% of operating revenue at the end of 2026, 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 €567 million at the end of 2023 and representing 39% of operating revenue. Taking into account debt issued by and guarantees to non-self-supporting entities, the NDID metric measured €672 million or 46% of operating revenue in 2023. Going forward, the increase in the debt burden will be driven by the increase to around €886 million of the Département de Seine-et-Marne's direct debt at the end of 2026, as a result of a gradual increase in capital spending while POB decreases. Indeed, the executive targets to spend €300 million each year (€296 million in 2023 against €234 million in 2022) by the end of the current mandate in March 2028. We also expect debt to remain strongly affordable while interest burden will slightly increase - over 2024-26, interest expenses will average a yearly 1.5% of operating revenues against 1.1% in 2023.

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 €488 million as of year-end 2023, including guarantees to [1001 Vies Habitat](#) (A1 negative) and [Vilogia](#) (A2 negative). Loan guarantees to SHPs represented 86% of its direct debt and 34% of its operating revenue at year-end 2023. 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.

### Very strong governance and financial management

Département de Seine-et-Marne demonstrates very strong governance practices. It has resulted in a track record of solid POB 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-gross operating balance 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 2023, the secured funding of public banks ([European Investment Bank](#) [Aaa stable, 23%], [Caisse Des Depots et Consignations](#) [Aa2 negative, 10%], [SFIL](#) [Aa2 negative, 11%] and [La Banque Postale](#) [A2 stable, 1.4%]) represented 46% of outstanding debt, in addition to highly rated French commercial banks (including [Crédit Agricole S.A.](#) [Aa3 negative, 4%], [BPCE Group](#) [A1 stable, 15%], [BNP Paribas](#) [Aa3 negative, 3%], [Crédit Mutuel Arkéa](#) [Aa3 negative, 2%] and [Société Générale](#) [A1 negative, 2%]). The remainder consisted of bond issuances (27%); the *département* is an experienced issuer in the financial markets, benefiting from the €1 billion EMTN programme launched in 2012 and a NEU CP programme launched in 2007. The local government also has a smooth debt amortisation profile, while 95% of its total outstanding debt as of year-end 2023 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 solid liquidity position is 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 in 2023. While this ratio will decrease in 2024, with a forecasted average monthly cash on hand standing at 1.5x debt annuity, the Département's liquidity position remains strong relative to peers. In addition, short-term available committed facilities will remain stable, amounting to 1.1x debt annuity.

### 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**

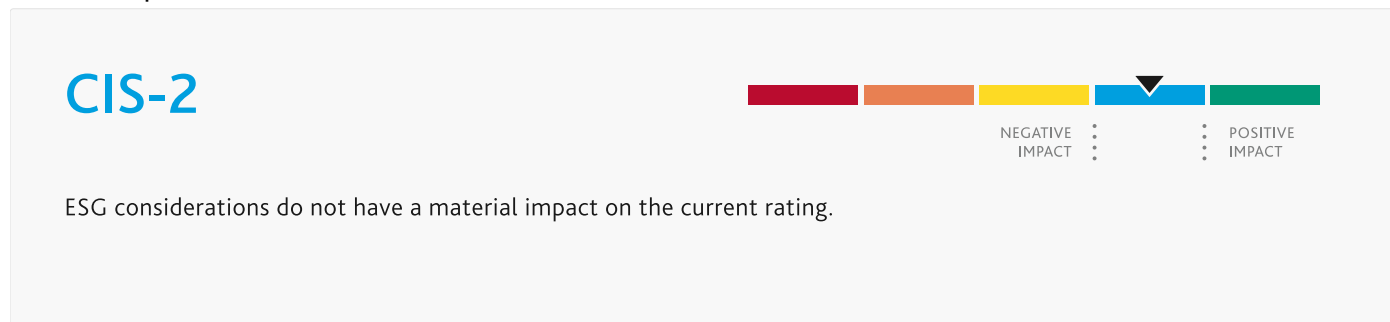
The moderate level of extraordinary support from the central government reflects the various mechanisms put in place during the global financial crisis to support RLGs, as well as the supportive measures implemented in response to the pandemic. It also reflects a handful of defaults on municipal bank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

## ESG considerations

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

Exhibit 3

#### ESG credit impact score

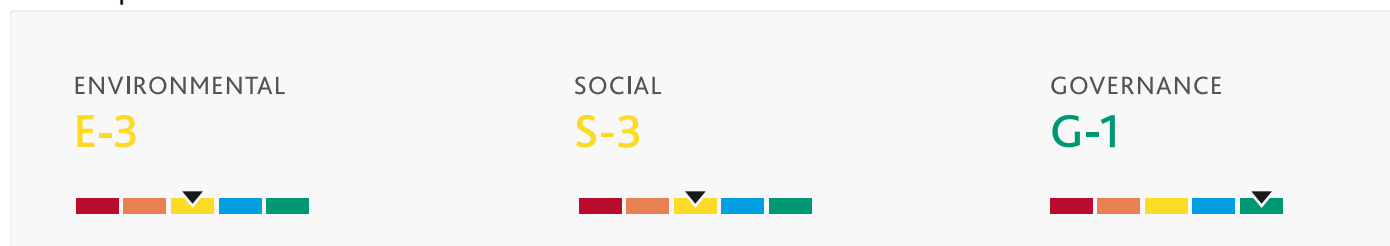


Source: Moody's Ratings

Département de Seine-et-Marne's Environmental, Social, Governance (ESG) Credit Impact Score (**CIS-2**) reflects 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 4

#### ESG issuer profile scores



Source: Moody's Ratings

### 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 we monitor 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 in line with the BCA scorecard-indicated outcome.

The principal methodology used to rate Département de Seine-et-Marne is the [Regional and Local Governments](#) rating methodology, published in May 2024

Exhibit 5

### Seine-et-Marne, Departement de Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
<b>Factor 1: Economy</b>					<b>25%</b>	<b>1.30</b>
Regional Income [1]	4.64	47378.58	15%	0.70		
Economic Growth	9.00	baa	5%	0.45		
Economic Diversification	3.00	aa	5%	0.15		
<b>Factor 2: Institutional Framework and Governance</b>					<b>30%</b>	<b>1.35</b>
Institutional Framework	6.00	a	15%	0.90		
Governance	3.00	aa	15%	0.45		
<b>Factor 3: Financial Performance</b>					<b>20%</b>	<b>1.39</b>
Operating Margin [2]	7.10	11.08%	10%	0.71		
Liquidity Ratio [3]	10.51	9.98%	5%	0.53		
Ease of Access to Funding	3.00	aa	5%	0.15		
<b>Factor 4: Leverage</b>					<b>25%</b>	<b>0.86</b>
Debt Burden [4]	3.47	46.30%	15%	0.52		
Interest Burden [5]	3.41	1.14%	10%	0.34		
<b>Preliminary BCA Scorecard-Indicated Outcome (SIO)</b>						<b>(4.89) a1</b>
<b>Idiosyncratic Notching</b>						<b>0.0</b>
<b>Preliminary BCA SIO After Idiosyncratic Notching</b>						<b>(4.89) a1</b>
<b>Sovereign Rating Threshold</b>						<b>Aa2</b>
<b>Operating Environment Notching</b>						<b>1.0</b>
<b>BCA Scorecard-Indicated Outcome</b>						<b>(3.89) aa3</b>
<b>Assigned BCA</b>						<b>aa3</b>

[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
<b>SEINE-ET-MARNE, DEPARTEMENT DE</b>	
Outlook	Negative
Baseline Credit Assessment	aa3
Issuer Rating	Aa3
Senior Unsecured -Dom Curr	Aa3
Commercial Paper -Dom Curr	P-1

Source: Moody's Ratings

## Endnotes

- 1 Regional and Local Governments – France: Central government measures will lower RLG revenue €6.5 billion in 2025, 11 October 2024; [https://www.moody.com/research/doc--PBC\\_1425923](https://www.moody.com/research/doc--PBC_1425923)

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