MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
19 October 2020

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RATINGS

Rennes Metropole

Domicile	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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Rennes Metropole (France)

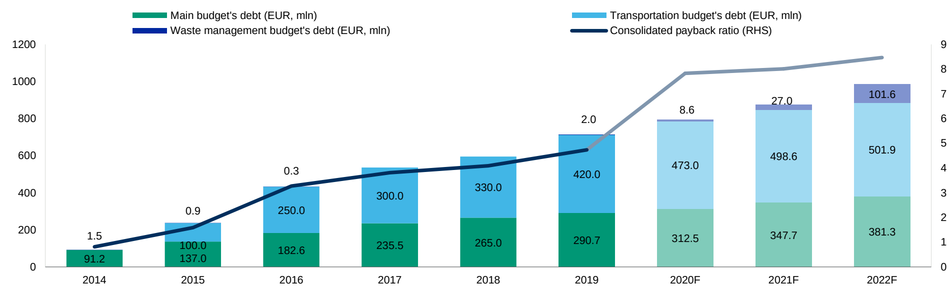
Update to credit analysis

Summary

The credit profile of Rennes Metropole (RM, Aa3 stable) reflects its strong and stable operating performance, secure liquidity profile as well as a sound financial management and governance which provide buffers against coronavirus-related fiscal pressures. We expect Rennes Metropole to post a gross operating balance surplus of around 15% of operating revenue on average in the coming three years. Our assessment also accounts for the increasing direct debt levels, which will reach around 110% of its operating revenues by 2022 up from 92% at YE2019, due to an important ongoing capital spending programme. However, debt affordability will remain strong.

Exhibit 1

Steady increase in Rennes Métropole's (RM) consolidated debt levels



E - Estimated, F - Forecast. Consolidated payback ratio, as measured by consolidated direct debt (main budget, transportation budget and waste management budget) divided by consolidated gross operating balance.
Source: Rennes Métropole, Moody's Investors Service

Credit strengths

» Strong operating performance providing buffers against the coronavirus-induced pressure

» Secure liquidity profile

» Sound financial management and governance

Credit challenges

» Increasing debt levels due to an important capital spending programme

» Dynamic but small economic base

Rating outlook

The stable outlook reflects our expectation that RM, supported by the central government ongoing measures, will maintain strong GOBs and its debt burden will remain manageable despite the coronavirus-induced economic strain.

Factors that could lead to an upgrade

» Should RM outperform our base case scenario and post better-than-expected operating results and debt ratios, this would exert upward pressure on the rating.

» An upgrade of the sovereign rating stemming from a strengthening of France's credit profile (Government of France, Aa2 stable) would most likely have positive implications on the ratings of RM.

Factors that could lead to a downgrade

» Should RM's results differ negatively from current forecasts, posting lower-than-expected GOB levels and/or a debt-to-gross operating balance ratio exceeding 8 years would exert downward pressure on the rating.

» Any downgrade of France's sovereign rating, indicating a weaker systemic environment, would likely have negative rating implications for RM.

Key indicators

Exhibit 2
Rennes Métropole

	2015	2016	2017	2018	2019	2020F	2021F
Gross operating balance / operating revenues (%)	24.87	15.82	15.56	16.33	19.48	16.16	13.60
Capital spending / total expenditure (%)	38.17	33.15	31.94	32.52	38.83	30.43	40.05
Self-financing ratio	72.75	67.70	65.80	84.43	76.90	59.80	61.60
Financing surplus (requirement) / of total revenues (%)	-11.64	-11.99	-12.26	-5.07	-8.88	-13.95	-15.36
Interest expenses / operating revenues (%)	0.78	0.90	0.83	0.94	0.90	0.84	0.82
Intergovernmental revenues / operating revenues (%)	21.18	18.84	19.81	19.27	18.19	18.88	17.90
Direct debt / operating revenues (%)	46.95	61.21	74.24	82.78	85.88	94.80	106.59
Net Direct and Indirect debt / operating revenues (%)	48.00	65.49	76.41	87.82	92.21	99.65	111.49

E - Estimated; F - Forecasts
Source: Rennes Métropole, Moody's Investors Service

Detailed credit considerations

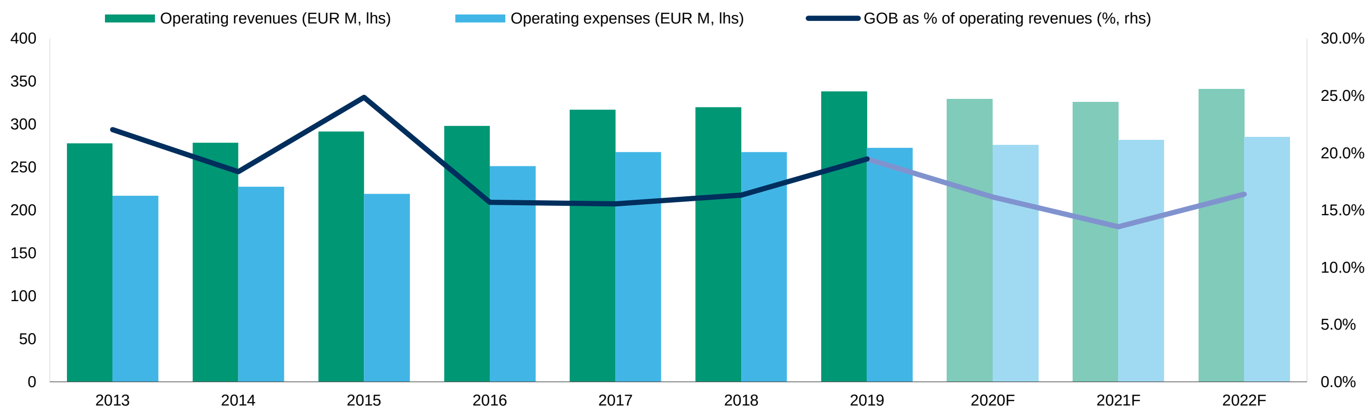
The credit profile of Rennes Metropole (RM), as expressed in an Aa3 long term rating with stable outlook combines (1) a baseline credit assessment (BCA) of aa3 and (2) a moderate likelihood of extraordinary support from the French national government in the event that the city faced acute liquidity stress.

Baseline credit assessment

Strong operating performance providing buffers against the coronavirus-induced pressure

We expect Rennes Metropole to continue posting good operating performance, with GOB at an average of 15% of revenue over 2020-21 period, despite the impact of the coronavirus pandemic. Its strong fundamentals, the ongoing support measures from the central government and its very good access to liquidity, allows it to face pressure resulting from the pandemic which in our view will be primarily contained to 2020 -2021 without material long-term credit implications. RM estimates the combined operating impact impact of the coronavirus, before mitigants, at around EUR4 million in 2020 and EUR11 million in 2021 (around 1.3% and respectively 3.4% of annual operating revenue), given lower revenues driven primarily by lower taxes and fees and additional costs incurred for service delivery in response to the pandemic. However, the metropole's largest hit responsibility remains local transportation, managed through an additional budget. The issuer estimates a loss in taxes and tariffs of around decrease of around EUR15.5M in 2020. The metropole will primarily rely on expense mitigation efforts. Also, the remaining fiscal pressure will be addressed by the central government ongoing additional funds. In particular, one of the supporting measures announced by the Central Government (Aa2 stable) is the “safeguard clause” by which it guarantees the 2020 tax revenue at the level of the average 2017-19 period.

Exhibit 3
Continued strong operating results, despite the coronavirus crisis



E - Estimated; F - Forecast
Source: Rennes Métropole, Moody's Investors Service

RM has maintained a strong operating performance in recent years with a gross operating balance averaging 18.6% of its operating revenues over 2013-2019 period, thanks to a tight control of operating expenditure (1.6% year-on-year increase between 2018-2019). The issuer developed fine arbitrations on personnel costs (including the creation of a 'job committee' to ensure the relevance of any job replacement or opening etc.), a sound control of operating expenses and the prudent forecast of envelops for unexpected expenses.

RM's strong track record of fiscal performance was also supported by its dynamic tax bases. Direct tax revenues grew by a compound annual growth rate (CAGR) of 2.4% during 2014-19 and we expect these revenues to carry on growing albeit at a CAGR of 1.9% during 2019-23, the slowdown being due mainly to the pandemics. We note that RM has developed a successful local housing policy, which preserves the tax bases growth. This was supported by a stable political framework and well-established relations with its city-members ensuring continuity in the financial strategy. The current local housing plan (PLH), which spans for 5 years (2015-20) and could be extended for two more years, aims the delivery of 4,000 new homes per year on average. RM has successfully exceeded this target for the previous years, since 2015 it has built in average 4,700 dwellings per year (2015-2019).

We estimate that RM has some leeway on its operating results as the modifiable taxes will account for 47% of operating revenues in average over the 2019-22 period. However, we understand that the current legislature intends to maintain the tax rates stable for the remaining part of the legislature.

In 2018, RM was granted by law a new competence (GEMAPI, Gestion des milieux aquatiques et la prévention des inondations[1]) : the responsibility for flood prevention to intercommunalities. RM decided not to levy the associated tax, as, following cost evaluations, it estimated that its strong GOB will absorb the associated costs.

Secure liquidity profile
RM presents a sound and secure liquidity profile, supported by the predictability and regularity of cash flows, especially the central government transfers and tax revenues collection. At year-end 2019, its cash balance reached EUR149M.

We expect that RM will continued to have access to a EUR50M liquidity line over the coming 10 months. We note that the receipt of the remaining €90 million of the Rennes Métropole's EIB loan to finance the transports budget enabled the entity not to use its EUR100 M Neu-CP (commercial paper) programme. In 2020, Rennes Métropole decreased the use of its NEU-CP programme, by issuing only 10 million EUR at 2-months maturity for the collective sanitization budget (against an pre-coronavirus forecast of 4 month), in the interim of the disbursement of a 10 million EUR loan in November 2020. Given its sound liquidity profile and the reduced use of its short term debt issuance programme, we expect that Rennes Metropole will cover at any time its outstanding commercial paper.

Sound financial management and governance

RM is characterised by strong governance and management. Budgetary management is guided by prudent principles, comprising over-budgeting of current expenditure and under-budgeting of current revenue, thus accruing larger-than-expected balances. The entity's debt and liquidity management is cost-effective. These fiscal management measures are supported by comprehensive, transparent and timely financial reporting.

RM is efficiently managing the transition during the "metropolisation" process and related institutional developments since 2015 when it assumed some new responsibilities previously carried out by its city-members. Furthermore, Moody's considers that RM's prudent financial governance is evidenced by the implementation of the public strategy "Service public 2020" centralising the administration services for the metropole and its main city – Ville de Rennes (Aa3 stable) which will support the tight control of expenditure growth going forward.

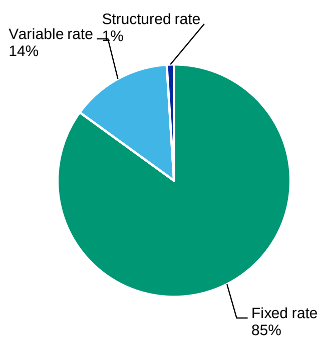
We deem RM to have a prudent debt structure and debt management. At YE2019, RM had 85% of its direct debt at fixed rates for an overall interest rate costs of 1.4% down from 2.3% in 2015. Moreover, more than half of its outstanding debt (54%) was granted by EIB (European Investment Bank, Aaa stable), characterised by very favourable interest rates and long maturities. RM's debt repayments are evenly spread in terms of maturity, which is why the metropole's debt service costs represent a slowly increasing portion of its operating revenues between 2019 and 2023 (9.9% in average). Although, the debt structure presents some structured products (2 loans in water sanitation budget), the associated risk is limited as the loans represent EUR0.4 M or less than 0.1% of total debt outstanding.

RM also follows closely its existing guaranteed debt, by having regular follow-ups with its main counterparts and monitoring their financial health. It controls its risk using the Loi Galland ratio (the total debt repayment of local government's debt and the debt repayment of the guaranteed debt cannot exceed 50% of the local government's operating revenue). These debt repayments represent 10.7% of 2020 projected operating revenues, or 28.3% when including the social housing guarantees, which are not included by the law.

Exhibit 4

Prudent debt stucture

Total outstanding direct debt YE2019 (all budgets)

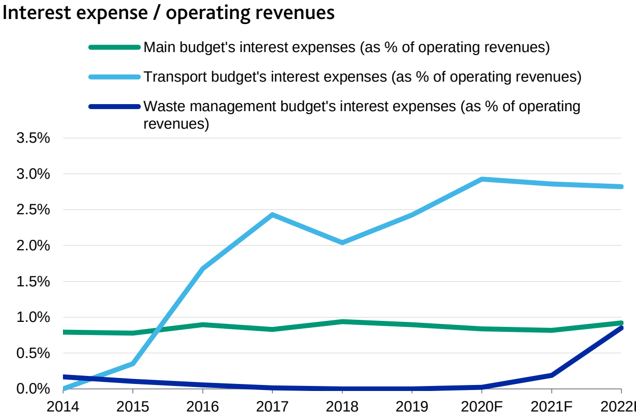


Source: Rennes Metropole, Moody's Investors Service

Exhibit 5

A low interest burden

Interest expense / operating revenues



E - Estimate; F - Forecast

Source: Rennes Métropole, Moody's Investors Service

Increasing debt levels due to a large capital spending programme

As at YE2019, RM's direct debt stock increased to EUR291M or 86% of its operating revenues up from EUR265M or 83% in 2018. However, when compared with other French Metropoles, RM outperforms its peers, its debt per capita, EUR529, is below the average of the 21 French metropoles EUR827 (excluding the metropole of Paris).

The guaranteed debt is high at EUR1,339M at YE2019 (395% of operating revenue). However, as the guarantees benefit mainly the social housing entities, which are highly regulated and bear limited risks in Moody's view, we do not include this debt in the calculation of our net direct and indirect debt ratio.

Although, the ongoing pandemics and the lockdown period in the first months of 2020 slowed down the fixed capital investments, projects reassumed and we expect the capital expenditure to remain high at EUR140M per year during the 2019-23 period up from EUR130M per year in 2015-18. The projects are part of the multi-year capital spending programme adopted in 2015. As a result the direct debt will steadily increase to EUR381.3M or 112% of operating revenues in 2022. The payback ratio, as measured by direct debt on GOB will increase to 6.8 years by 2022 according to RM's projections, up from an estimated 5 years in 2019.

Additionally, RM participates in the financing of a second metro line, started in 2014 for a delivery scheduled in 2020. The total cost of the project is estimated at EUR1.2bn (at 2010 economic conditions) and RM aims to self-finance 60% of the second metro line, including the subsidies granted by EU, central government and other tiers of local governments. The remaining financing needs will be covered with new debt carried in the Transportation Budget of RM. Besides, RM will take on additional debt on the Waste Management budget, currently without any debt, as it needs to renovate its main waste management plant. RM plans on taking new debt starting in 2021, with a peak in 2023. As a result, the consolidated debt levels (main budget, transportation budget and waste management budget) will increase to EUR984M in 2022 up from EUR712M as at YE2019. This will represent 170% of the consolidated operating revenues with a payback ratio of 8.5 years by 2022, as opposed to 125% of consolidated operating revenue and 4.7 years in 2019.

Dynamic but small economic base

In line with all regional and local governments in France, the metropole's economy is hit by the current pandemic and we expect the recovery pace to be in line with the national trend. However, the economic base of the metropolitan area is well diversified, characterised by a large services sector with a still significant industrial base, namely car-manufacturing sector that has undergone significant restructuring in the last decade. The food-processing industry as well as telecoms and network companies are well established in the area. It is also supported by a dynamic construction sector that is spurred by Rennes Metropole's urban policy. The favourable local socioeconomic indicators, relative to its national and international peers, lead to an unemployment rate that is systematically lower than national levels (6.7% vs 8.7% as at second quarter 2018).

The attractiveness of Rennes' urban area is based on good infrastructures, a relatively large university population and moderate housing prices that foster demographic dynamism. Additionally, since 2017, the city benefits from a new high-speed train (TGV) connection to Paris, reducing the journey time to 1 hour 30 minutes. Its attractiveness was also reinforced by the successful opening of a new convention center, in the renovated Couvent des Jacobins. However, despite its dynamism, the economic base remains relatively small as Rennes Metropole ranks 13th in terms in terms of population among the 21 French Metropoles and as Rennes' GDP per capita (approximated to the one of the Departement d'Ille-et-Vilaine: EUR33k at YE2016) remains inferior to the French average (EUR34k at the end of YE2016).

The metropole and the city are proactively launching initiatives on 5 key sectors, already implemented in Rennes to reinforce Rennes' dynamism : the vehicule-mobility sector, the 4.0 industries, the alimentation sector, the creative and cultural industries and finally the civil and military cyber security sector.

Extraordinary support considerations

We consider Rennes Metrople to have a moderate level of extraordinary support from the French government (Aa2 stable), 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 stable) 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.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Rennes Metropole

We take account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Rennes Metropole, the materiality of ESG considerations to the credit profile is as follows:

Environmental considerations are not material to Rennes Metropole's credit profile. The main exposure is related to the risk of flooding. However, in case of an extreme event, the central government would intervene. Therefore, most of the financial burden of adapting to increased flood risk will not fall on individual local authorities (please refer to Regional & Local Governments - France: Higher flooding frequency adversely affects revenue and expenditure).

Social considerations are material to Rennes Metropole's credit profile. Demographic dynamics explain the investment needs of Rennes Metropole to reinforce economic attractiveness. Socially driven policies and socioeconomic issues can affect the city's credit profiles, which are responsible for funding demand-led services, such as providing social housing. We also regard the coronavirus pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety. For RM, the shock transmits mainly through lower tax revenue and an increase in operating expenses.

Governance considerations are material to Rennes Metropole's credit profile as captured by our methodology. We assess Rennes Metropole's governance as sound (a score of 1 for factor 4: Governance and Management), as illustrated by its prudent budgetary and financial management.

Further details are provided in the “Detailed credit considerations” section above. Our approach to ESG factors is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

Rating methodology and scorecard factors

The assigned baseline credit assessment (BCA) of aa3 is in line with the scorecard-indicated BCA of aa3. The matrix-generated BCA of aa3 reflects (1) an idiosyncratic risk score of 2 (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.

For details about our rating approach, please refer to Regional and Local Governments, January 2018.

Exhibit 6

Rennes Métropole

2019 data

Rating Factors						
Rennes Metropole						
Baseline Credit Assessment	**Score**	**Value**	**Sub-factor Weighting**	**Sub-factor Total**	**Factor Weighting**	**Total**
Scorecard						
Factor 1: Economic Fundamentals						
Economic strength	5	99.80	70%	3.8	20%	0.76
Economic volatility	1		30%			
Factor 2: Institutional Framework						
Legislative background	1		50%	2	20%	0.40
Financial flexibility	3		50%			
Factor 3: Financial Performance and Debt Profile						
Gross operating balance / operating revenues (%)	1	18.03	12.5%	3	30%	0.90
Interest payments / operating revenues (%)	1	0.89	12.5%			
Liquidity	5		25%			
Net direct and indirect debt / operating revenues (%)	5	92.20	25%			
Short-term direct debt / total direct debt (%)	1	8.90	25%			
Factor 4: Governance and Management - MAX						
Risk controls and financial management	1			1	30%	0.30
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						**2.36(2)**
Systemic Risk Assessment						**Aa2**
Suggested BCA						**aa3**

Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
RENNES METROPOLE	
Outlook	Stable
Issuer Rating	Aa3
Commercial Paper	P-1

Source: Moody's Investors Service

Endnotes

1 See Regional & Local Governments — France. Higher flooding frequency adversely affects revenue and expenditure

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