

## CREDIT OPINION

19 October 2020

 Rate this Research

### RATINGS

#### Rennes, Ville de

Domicile	Rennes, 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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## Ville de Rennes (France)

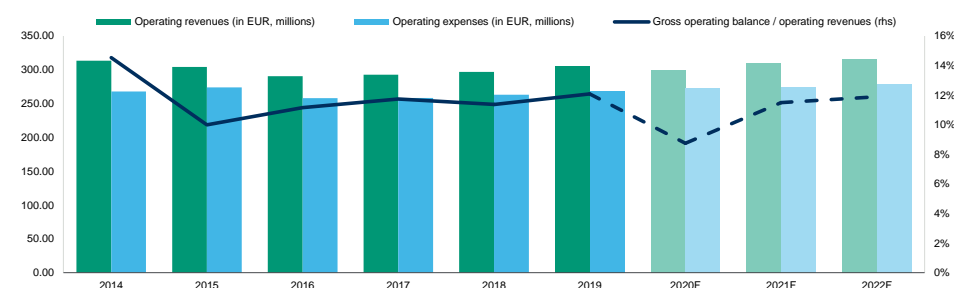
### Update to credit analysis

#### Summary

The credit profile of [Ville de Rennes](#) (Aa3 stable) reflects the city's strong financial performance supported by its sound financial management and governance. Considering the pressure stemming from the current coronavirus crisis, we expect Ville de Rennes to post a gross operating balance surplus of around 11% of operating revenue on average in the coming three years. The city's creditworthiness is also supported by its secure liquidity position and moderate debt levels, which are set to increase to around 85% of operating revenue by 2022. The credit profile also reflects our assessment of a moderate likelihood that the [Government of France](#) (Aa2 stable) would provide support in case of acute liquidity stress.

Exhibit 1

#### Despite the 2020 dip due to the coronavirus crisis, Ville de Rennes will maintain stable financial results



F - Forecasts

Source: Ville de Rennes, Moody's Investors Service

#### Credit Strengths

- » Good financial performance providing shock absorption capacity against coronavirus-induced pressure
- » Low debt levels to grow moderately over the next three years
- » Sound financial management and governance
- » Secure liquidity position

#### Credit Challenges

- » A dynamic but small economic base

## Rating Outlook

The outlook is stable, reflecting our expectation of continued strong fiscal results, maintenance of a secure liquidity profile along with a moderate debt burden.

## Factors that Could Lead to an Upgrade

- » Should Rennes' fiscal results outperform significantly our base case scenario with better-than-expected operating results coupled with declining debt ratios, this would exert upward pressure on the rating
- » A strengthening of France's credit profile resulting in an upgrade of the sovereign rating would apply upward pressure on the city's rating.

## Factors that Could Lead to a Downgrade

- » A less resilient fiscal performance, leading to lower-than-expected GOB surpluses or much higher debt levels, would exert downward pressure on the rating.
- » A downgrade of France's sovereign rating indicating a weaker systemic environment would likely lead to a downgrade of the city's ratings.

## Key Indicators

Exhibit 2

### Ville de Rennes

	2015	2016	2017	2018	2019	2020F	2021F
Gross operating balance / operating revenues (%)	9.99	11.16	11.74	11.37	12.07	8.75	11.50
Capital spending / total expenditure (%)	21.32	23.06	19.69	20.26	23.17	20.21	20.12
Self-financing ratio	114.56	101.51	69.55	81.15	94.62	84.80	98.52
Financing surplus (requirement) / of total revenues	3.01	0.35	-6.38	-3.97	-9.14	-3.17	-0.30
Interest expenses / operating revenues (%)	1.22	1.29	1.09	1.07	1.09	1.07	1.06
Intergovernmental revenues / operating revenues (%)	27.32	26.20	26.16	26.13	26.06	26.21	24.19
Direct debt / operating revenues (%)	51.45	51.22	53.84	60.13	68.85	79.50	85.15
Net Direct and Indirect debt / operating revenues (%)	56.41	53.81	57.80	61.48	71.19	80.83	86.44

F = forecasts

Source: Ville de Rennes, Moody's Investors Service

## Detailed credit considerations

The credit profile of Ville de Rennes (VR), 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

#### Good financial performance providing shock absorption capacity against coronavirus-induced pressure

The coronavirus outbreak and the associated deterioration in the economic outlook is resulting in tax revenue decline and additional costs for the city to face the service delivery in response to the pandemic. However given the city's revenue structure and the central government ongoing support measures, we expect the impact to be contained vastly in 2020-21 period. In our base case scenario, Rennes' gross operating balance (GOB) will dip to EUR26 m (or 8.7% of its operating revenue) in 2020 down from EUR37M (or 12%) in 2019. In line with the expected national economic recovery, the city's revenue growth will resume in 2021 while operating expenditure will remain controlled. Therefore, the GOB-to-operating revenue ratio will gradually recover, in our forecasts to 11.5% in FY21.

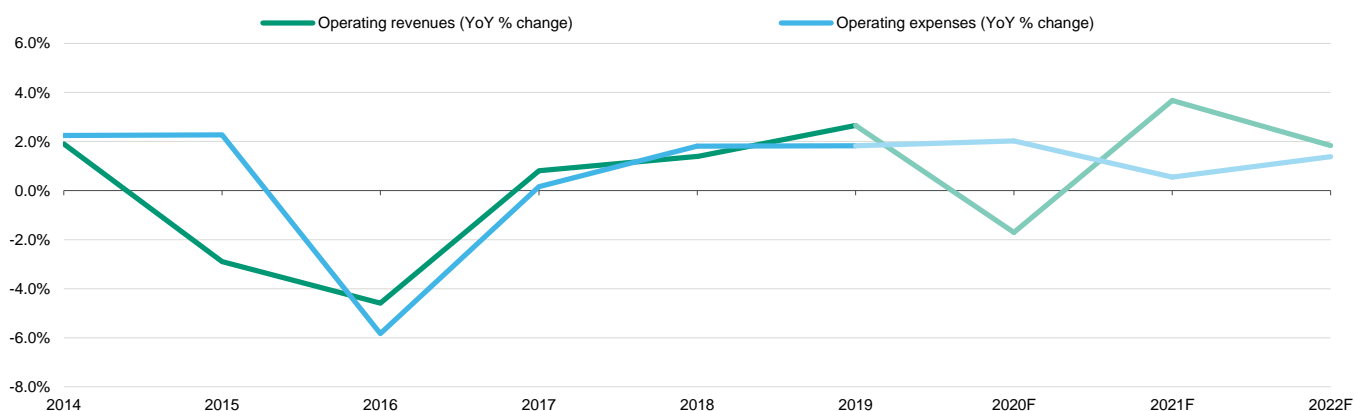
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For 2020-22, GOB levels will also provide self-financing capacity to implement the city's investment programme without significantly increasing debt levels. We note that the fixed capital investment needs have diminished since 2015 due to the transfer of road maintenance capital expenditure to Rennes Metropole. During 2012-2014 the city spent on average EUR80 million per year on capital expenditure, in part due to road maintenance. Going forward, we expect the city to spend on average EUR69 million for 2020-22.

Rennes's strong track record of fiscal performance (average GOB of EUR36 million and GOB-to-operating revenues of 11.7% during 2014-19) was based on a very dynamic tax base which we think is going to continue to grow going forward although at a slower pace, given the lowdown caused by the ongoing pandemics. Direct tax revenues are composed by housing (24% of operating revenues) and property taxes (23% of operating revenues), which benefit from the positive demographic developments on Rennes' territory.

Exhibit 3

### Ville de Rennes will continue limiting its operating expenditure growth thanks to its sound management



E - Estimate; F - Forecast

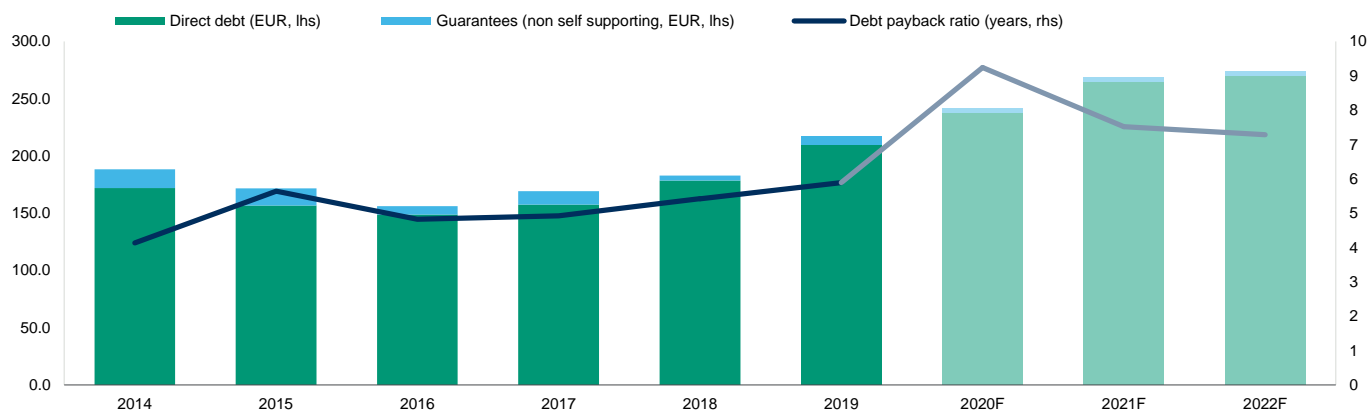
Source: Ville de Rennes, Moody's Investors Service

### Low debt levels to grow moderately over the next three years

Ville de Rennes' direct debt level reached EUR210 million in 2019, representing only 68% of operating revenues, moderately increasing from EUR178 million in 2018 (60% of operating revenues). Despite this increase, Rennes' debt ratios remain low compared to national peers (99.7% in 2018 for the rated French municipal and intermunicipal sector entities). We expect Rennes' direct debt to gradually increase, reaching EUR270M in 2022 or 85% of its operating revenue. This is mainly due to the city's ongoing capital expenditure plan. The city's forecasts include stable financing needs of around EUR45 million annually until 2022.

The city's net direct and indirect debt (NDID), which includes guarantees granted to non-self-supporting entities, remained relatively low at EUR220 million or 71% of operating revenues at YE2019, and is closely monitored by the city.

Exhibit 4

**Debt burden will peak in 2020 due to the coronavirus-induced pressure on revenue**

E - Estimated; F - Forecast

Source: Ville de Rennes, Moody's Investors Service

Ville de Rennes' debt management is prudent, with no exposure to structured debt products and a conservative repayment schedule (the maximum annual repayment, in 2021 and 2022, will consume around 6.5% of operating revenues). 86% of Rennes' debt carries a fixed rate, and the average interest rate was 1.54% in 2019, it has consistently decreased from the average interest rate of 2.9% in 2012.

**Sound financial management and governance**

The city of Rennes has a sound track record of financial and debt management, in particular during the transition period of 2015-16, when it was transferring responsibilities and developing a service pooling strategy with Rennes Metropole. Compensations between the city and Rennes Metropole and resource allocation were properly calibrated to preserve both institutions' financial health.

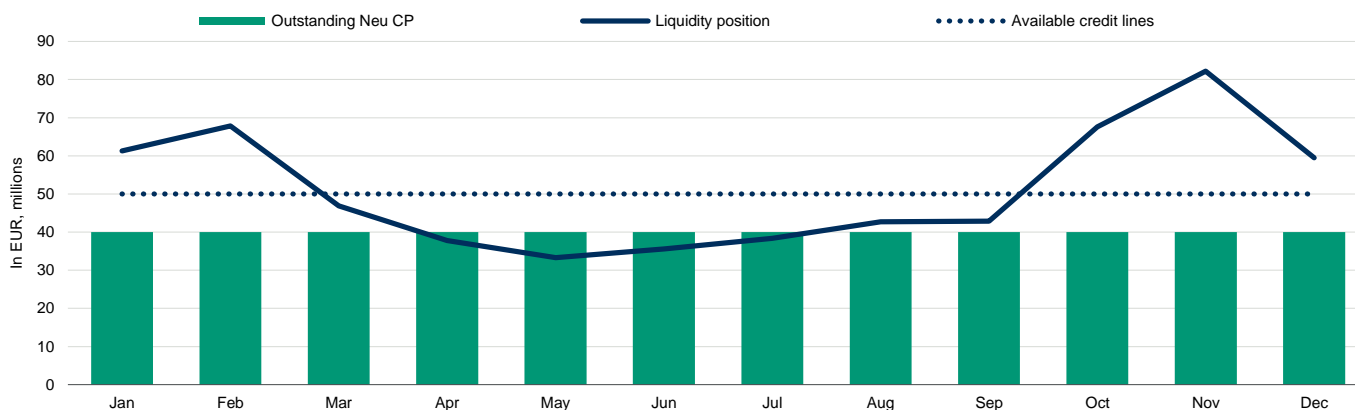
Efficient management coordination between both administrations has been key to managing the transition in a seamless manner. The coordination of both entities' highest representatives, the Mayor of the city of Rennes and the President of Rennes Metropole, has been strong. The city and the metropole's administrations are highly integrated as part of a continuous process of pooling the public services for both entities. Several departments are common to the city of Rennes and Rennes Metropole such as the Direction Generale des Services (head of administration) and the finance department. The public strategy 'Service public 2020' should bring further administrative efficiencies and will facilitate the control of expenditure growth going forward.

**Secure liquidity position**

The city of Rennes presents a sound and secure liquidity profile, characterised by predictable and regular cash flow, particularly central government transfers and tax revenue. In 2018, the city had an average cash position of EUR15 million. It benefits from negative rates on its EUR50 million NEU CP (commercial paper) programme. It currently only uses the program for issuances up to EUR40 million, which we deem adequate given its EUR50 million credit line.

In 2020, we expect the use of its Neu CP programme to remain below EUR40 million.

Exhibit 5

**Ville de Rennes will maintain a good liquidity position in 2020**

Source: Ville de Rennes, Moody's Investors Service

**A dynamic but small economic base**

In line with all regional and local governments in France, the city'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, of which city of Rennes is the center, is well diversified, providing some additional shock-absorption capacity. It is characterized 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 of population among the 21 French Metropoles and as Rennes' GDP per capita (approximated to the one of the Departement d'Ille-et-Vilaine (unrated) : 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 Ville de Rennes 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 the City of Rennes**

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 the City of Rennes, the materiality of ESG considerations to the credit profile is as follows:

Environmental considerations are not material to the City of Rennes' 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 the City of Rennes' credit profile. Demographic dynamics explain the investment needs of the City of Rennes 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.

Governance considerations are material to the City of Rennes' credit profile as captured by our methodology. We assess the City of Rennes' 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 Rating Methodology: [Regional and Local Governments](#), 16 January 2018.

Exhibit 6

### Ville de Rennes

2019 data

Rating Factors						
Rennes, Ville de						
Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Scorecard						
<b>Factor 1: Economic Fundamentals</b>						
Economic strength	5	99.80	70%	3.8	20%	0.76
Economic volatility	1		30%			
<b>Factor 2: Institutional Framework</b>						
Legislative background	1		50%	2	20%	0.40
Financial flexibility	3		50%			
<b>Factor 3: Financial Performance and Debt Profile</b>						
Gross operating balance / operating revenues (%)	1	11.84	12.5%	2.75	30%	0.83
Interest payments / operating revenues (%)	3	1.10	12.5%			
Liquidity	5		25%			
Net direct and indirect debt / operating revenues (%)	5	71.19	25%			
Short-term direct debt / total direct debt (%)	1	4.20	25%			
<b>Factor 4: Governance and Management - MAX</b>						
Risk controls and financial management	1			1	30%	0.30
Investment and debt management	1					
Transparency and disclosure	1					
<b>Idiosyncratic Risk Assessment</b>						<b>2.44(2)</b>
<b>Systemic Risk Assessment</b>						<b>Aa2</b>
<b>Suggested BCA</b>						<b>aa3</b>

Source: Moody's Investors Service

## Ratings

Exhibit 7

Category	Moody's Rating
<b>RENNES, VILLE DE</b>	
Outlook	Stable
Issuer Rating	Aa3
Senior Unsecured MTN	(P)Aa3
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

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