Fitch Affirms French Department of Savoie at 'AA'; Outlook Stable

Fitch Ratings has affirmed the French department of Savoie's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'AA' with Stable Outlook and Short-Term Foreign-Currency IDR at 'F1+'.

The department of Savoie's Standalone Credit Profile (SCP) is 'aaa', reflecting a combination of risk profile assessed at 'High Midrange' and strong debt sustainability metrics assessed in the 'aaa' category under Fitch's rating case scenario. The department's Long-Term IDRs are capped by the sovereign ratings (AA/Stable).

Savoie has a population of around 0.4 million residents and is located in the Auvergne-Rhône-Alpes region, close to the Italian border. The department benefits from outstanding ski resorts, but its economy remains diversified. Its socioeconomic indicators are better than national average with an unemployment rate at 6.7% in 3Q18 (vs. 8.8% on French metropolitan average) and low poverty rate (10.4% in 2015).

KEY RATING DRIVERS

High Midrange Risk Profile

Fitch has assessed Savoie's risk profile at 'High Midrange', reflecting a 'Stronger' assessment for revenue robustness, revenue adjustability, and liabilities and liquidity key risk factors. The other attributes, relative to expenditure sustainability and adjustability, are assessed at 'Midrange'.

The department of Savoie's operating revenue is mainly made of non-cyclical tax items and stable state transfers with low counterparty risk. Property transfer duties (24% of operating revenue in 2018) represent the main source of budget volatility. Savoie's fiscal flexibility is high due to property tax rate below national average (11.03% vs. 16.34% on national average) and strong fiscal base.

The department is expected to maintain tight control over its operating expenditure. It aims to comply with prudential rules set by the French state in the Finance Programming Bill for 2018-2022, limiting its current expenditure growth to 1.2% a year on average (including inflation and some exceptions for social spending items). However, Savoie has responsibilities over cyclical expenditure items, such as social benefits (8% of operating expenditure in 2018), which are likely to significantly increase in case of economic downturn. Expenditure adjustability is moderate due to the relevant share of staff expenses (26%), social subsidies (23%) and mandatory transfers. The department could however scale down capital expenditure if necessary (17% of total expenditure in 2018).

Savoie's liabilities carry little risk. At end-2018, debt was 70% at fixed rate and 98% was considered risk-free (plain vanilla). Off-balance sheet liabilities are high, estimated at 7x the operating balance in 2018. However, 91% was related to low-risk social housing sector. The department has strong access to liquidity under various forms, including committed lines with banks rated in the 'A' category or institutional lenders.

Debt Sustainability Assessed in the 'aaa' Category
Under Fitch's rating case scenario, Savoie's debt sustainability is assessed in the 'aaa' category. This assessment reflects a payback ratio expected to remain close to 3.5x in the medium term in our rating case scenario (2018: 1.4x). It also reflects a strong debt service coverage ratio expected to remain above 3x in the coming years (Fitch's synthetic calculation) and fiscal debt burden close to 50% in 2023 (2018: 29%) in our rating case scenario.

Savoie's operating balance slightly improved to EUR101 million in 2018 from EUR96 million in 2017, reflecting sound budgetary performance. The evolution of operating balance in the coming years will mainly depend on property transfer duties and social subsidies.

The level of debt is low and has decreased since 2011. The department did not take any new loan in 2017 and 2018 and aims to stabilise its debt in the coming years. In our rating case scenario, based on conservative assumptions in case of economic downturn, Savoie's net adjusted debt is expected to increase to around EUR241 million at end-2023 from EUR139 million at end-2018 and capital expenditure to average EUR110 million per year over 2019 and 2023.

RATING DERIVATION
Savoie's SCP is 'aaa', reflecting a combination of a 'High Midrange' risk profile and strong debt sustainability metrics assessed in the 'aaa' category under Fitch's rating case scenario. The department's long-term IDRs are capped by the sovereign ratings.

KEY ASSUMPTIONS
Fitch's rating case scenario is "through-the-cycle" and incorporates a combination of revenue, cost and financial risk stresses in case of economic downturn. It is based on 2018 figures and 2019-2023 projected ratios.

The rating case scenario for Savoie factors in a drop of 20% of property transfer duties in 2020 and stabilisation between 2021 and 2023. The levy on corporate-value added tax (LCVA), which is linked to economic cycle, is assumed to grow by 1.5% per year in 2022 and 2023. On the expenditure side, social benefits are assumed to increase by 4% a year over 2019-2023.

Our rating case scenario also includes an assumption of 2.2% cost of debt and a 15 years maturity for new loans made by the department, above the current market conditions.

RATING SENSITIVITIES
Savoie's Long-Term IDRs could be downgraded if its payback ratio remains above 7.5x on a sustained basis in our rating case scenario.

A positive rating action could result from an upgrade of the sovereign, provided that the department's payback ratio remains below 6x on a sustained basis in our rating case.

KEY FINANCIAL ADJUSTMENTS
Fitch's adjusted debt includes the department's short-term and long-term debt (EUR206 million at end-2018), as well as fire brigade's debt covered by the department (EUR3 million) and its ancillary budget's debt (EUR0.1 million) included in "other Fitch classified debt".

Fitch's net adjusted debt corresponds to the difference between Fitch's adjusted debt and the cash at the end of the year viewed by Fitch as unrestricted (EUR70 million at end-2018).

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