

14 Jun 2019 | Upgrade

Fitch Upgrades Department of Puy-de-Dome to 'AA'; Outlook Stable

Link to Fitch Ratings' Report(s): [Department of Puy-de-Dome - Rating Action Report](#)

Fitch Ratings-Paris-14 June 2019: Fitch Ratings has upgraded the Department of Puy-de-Dome's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to 'AA' from 'AA-' with Stable Outlook and affirmed its Short-Term Foreign-Currency IDR at 'F1+'. The department's EUR500 million euro medium-term programme's long-term rating has been upgraded to 'AA' from 'AA-' and its short-term rating affirmed at 'F1+'. Its EUR100 million NeuCP programme rating has been affirmed at 'F1+'. The long-term issue has been upgraded to 'AA' from 'AA-'.

The upgrade reflects the department's sound budgetary performance with a net payback ratio expected to remain below 7.5x in the medium term. Puy-de-Dome's ratings reflect a combination of a sound risk profile assessed at 'High Midrange' and debt sustainability assessed in the 'aa' category under Fitch's rating case scenario. The department's Standalone Credit Profile (SCP) has been revised to 'aa' from 'aa-'. The Stable Outlook reflects Fitch's expectation that Puy-de-Dome's debt metrics will remain compatible with the ratings in the medium term.

Key Rating Drivers

The rating action reflects the following key rating drivers and their relative weights:

HIGH

'aa' Debt Sustainability

Puy-de-Dome's debt sustainability score is 'aa'. This assessment reflects a payback ratio expected to remain below 7.5x in our rating case scenario (2018e: 3.3x), a sound fiscal debt burden expected to remain below 100% (2018e: 50%) and a moderate synthetic coverage ratio slightly below 2x.

In our rating case scenario, Puy-de-Dome's net adjusted debt, which has been steadily decreasing since 2016, is expected to increase to around EUR400 million by 2023 from EUR328 million at end-2018. This will be driven by a weakening operating balance due to prudent assumptions about the growth of social benefits and property transfer duties, while the department's investment programme is expected to be contained.

LOW

"High Midrange" Risk Profile

Fitch has assessed Puy-de-Dome's risk profile at 'High Midrange', reflecting a 'Stronger' assessment for the Revenue Sustainability and Liabilities and Liquidity attributes. Revenue Adjustability and Expenditure Sustainability and Adjustability attributes are both assessed at 'Midrange'.

Puy-de-Dome's operating revenue is mostly made up of predictable and growing tax items (property tax and tax on insurance contracts) and stable transfers from the French state (AA/Stable). Property transfer duties (12% of operating revenue) are the main source of budget volatility and are stressed accordingly in Fitch's rating case scenario. Fiscal flexibility remains high. An increase in the property tax rate to the legal maximum would have increased operating revenue by 25% in 2018, more than covering any reasonable drop in other revenue items. However, the tax rate is already above the national average, limiting the affordability of additional taxation.

Puy-de-Dome's responsibilities mainly encompass social transfers to the elderly, unemployed and disabled (31% of operating spending in 2018) as well as social accommodation fees (22%) and a mandatory transfer to the fire brigade (6%). Social benefits to the unemployed (18%) are a counter-cyclical item that could increase significantly in an economic downturn. It is stressed accordingly in Fitch's rating case scenario. Puy-de-Dome maintains good control of opex but its expenditure is relatively rigid due to a high share of social subsidies transfers (31% of operating spending in 2018) and staff costs (22%). The department has limited ability to cut social transfers as the policies are decided at the national level. Puy-de-Dome's capital expenditure programme (11% of total expenditures in 2018) could offer some leeway in case of need.

Puy-de-Dome's liabilities carry little risk. At end-2018, debt was 57% fixed rate and 99% was considered risk-free. Off-balance-sheet liabilities (guarantees and other contingent liabilities) are significant, representing 7.5x the operating balance in 2018, but 92% were related to the low-risk social housing sector. The department has strong access to liquidity under various forms, such as its EUR100 million NeuCP programme, and its access to institutional lenders such as Caisse des Depots et Consignations (AA/Stable/F1+), like all French local and regional governments.

Derivation Summary

Puy-de-Dome's SCP is assessed at 'aa', reflecting the combination of a 'High Midrange' risk profile and sound debt sustainability metrics assessed in the 'aa' category under Fitch's rating case scenario. The SCP also factors in peer comparison. The IDRs are not affected by any asymmetric risk, extraordinary support from an upper tier of government or sovereign cap (France's IDR: AA/Stable). As a result, the department's IDRs are equal to its SCP.

Key Assumptions

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

Fitch's key assumptions within our rating case for the issuer include:

- one-off 20% reduction in property transfer duties in 2020
- 5% a year increase in social benefits to the unemployed
- 2.2% cost of debt and 15-year maturity for new debt

RATING SENSITIVITIES

Puy-de-Dome's long-term ratings could be downgraded if its payback ratio exceeds 7.5x on a sustained basis in our rating case scenario. A downgrade of the sovereign rating would also lead to a downgrade of the department's ratings.

Positive rating action could result from the payback ratio below 6x on a sustained basis in our rating case scenario, along with an upgrade of the sovereign.

Summary of Financial Adjustments

Fitch-adjusted debt includes the department's long and short-term direct debt (EUR356 million at end-2018) as well as the net debt of the fire brigade (EUR15.7 million at end-2018). Fitch- net adjusted debt corresponds to the difference between Fitch-adjusted debt and the cash at the end of the year considered by Fitch as unrestricted (EUR43.9 million at end-2018).

Puy-de-Dome, Department of; Long Term Issuer Default Rating; Upgrade; AA; RO:Sta

----; Short Term Issuer Default Rating; Affirmed; F1+

----; Local Currency Long Term Issuer Default Rating; Upgrade; AA; RO:Sta

----senior unsecured; Long Term Rating; Upgrade; AA

----senior unsecured; Short Term Rating; Affirmed; F1+

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Rating Criteria for International Local and Regional Governments \(pub. 09 Apr 2019\)](#)

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