

## CREDIT OPINION

11 August 2023

Update

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### RATINGS

#### Bordeaux 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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# Bordeaux Metropole (France)

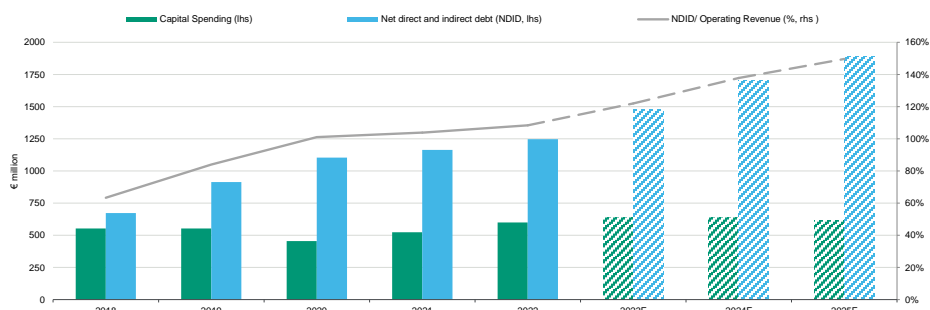
## Update to credit analysis

### Summary

The credit profile of [Bordeaux Metropole](#) (Aa3 stable/ Prime-1) reflects its strong operating performance - gross operating balance will average 18% over 2023-2025 - supported by its strong dynamic and attractive economy. The ratings also account for our expectation of a significant increase in the intermunicipality's debt burden because of large capital spending. Strong governance and moderate interest burden allow the intermunicipality to carry a high debt burden without weakening its credit rating profile.

Exhibit 1

### Debt will increase because of large capital spending



F = forecast. Data based on the consolidated budgets (core budget, public transportation budget and waste management budget).

Source: Bordeaux Metropole, Moody's Investors Service

### Credit strengths

- » A strong operating performance, providing shock absorption capacity
- » A strong, dynamic and attractive economy
- » Strong governance and financial management

### Credit challenges

- » Debt burden will increase significantly because of large capital spending
- » Sizeable contingent liabilities pose low risks

## Rating outlook

The stable rating outlook reflects our expectations that Bordeaux Metropole's operating performance will remain strong over the next two to three years and its debt burden manageable, albeit growing; it also reflects our view that Bordeaux Metropole's strong governance will help navigate an uncertain and challenging economic and financial environment, as well as the [Government of France's](#) (Aa2 stable) stable outlook.

## Factors that could lead to an upgrade

A significantly lower debt burden than we currently expect would likely put upward pressure on Bordeaux Metropole's ratings. An upgrade of France's sovereign bond rating would also have positive implications for the intermunicipality's ratings.

## Factors that could lead to a downgrade

The ratings would come under negative pressure if the intermunicipality's gross operating balance (GOB) falls below our expectations or if its debt burden were to increase more rapidly than our current projections. A weakening of France's creditworthiness would also likely have negative implications for the intermunicipality's ratings.

## Key indicators

Exhibit 2

### Bordeaux Metropole

	2018	2019	2020	2021	2022	2023F	2024F	2025F
Gross operating balance / operating revenue (%)	24.5%	26.8%	22.9%	24.6%	24.1%	18.5%	17.8%	18.4%
Capital spending / total expenditure (%)	40.8%	41.0%	35.1%	38.2%	40.7%	39.3%	38.7%	37.5%
Self-financing ratio	72.9%	85.1%	83.8%	85.4%	79.0%	64.4%	62.3%	68.0%
Financing surplus (requirement) / total revenues (%)	-12.4%	-6.5%	-6.0%	-5.9%	-9.4%	-16.3%	-17.1%	-13.6%
Interest expenses / operating revenues (%)	1.6%	1.5%	1.5%	1.5%	1.5%	1.8%	2.5%	3.2%
Direct debt / operating revenues (%)	63.3%	80.6%	97.2%	99.0%	103.7%	117.5%	133.5%	145.4%
Net Direct and Indirect debt / operating revenues (%)	63.3%	84.0%	101.1%	103.8%	108.4%	122.0%	137.8%	149.6%

F = forecast. Data based on the consolidated budgets (core budget, public transportation budget and waste management budget).

Source: Bordeaux Metropole, Moody's Investors Service

## Detailed credit considerations

The credit profile of Bordeaux Metropole, as expressed in its Aa3 rating, combines a baseline credit assessment (BCA) of aa3 and a moderate likelihood of extraordinary support from the central government in the event that the entity faced acute liquidity stress.

### Baseline Credit Assessment

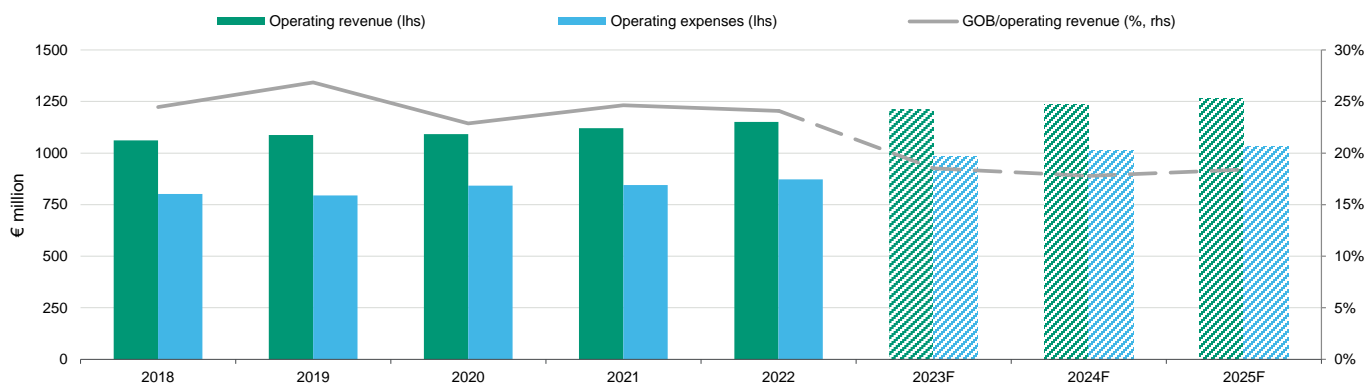
#### A strong operating performance, providing shock absorption capacity

We expect Bordeaux Metropole's gross operating balance (GOB) to average 18% of operating revenue (including the intermunicipality's core, public transportation and waste management budgets) over 2023-25, down from 24% in 2020-22. While such a GOB-to-operating revenue ratio is high compared with that of the local governments we rate similarly, the decrease we expect is mainly due to the combination of higher energy prices, higher operating expenditures related to transportation services and higher personnel expenditures following the increase in the salary index for civil servants decided by the central government as well as a catching-up effect in recruitments. We thus expect a large increase in operating expenditure in 2023 (+12.9%) before normalizing in 2024-25, in line with Bordeaux Metropole track record of controlling operating expenditures - over 2018-20, the intermunicipality successfully adhered to the 1.35% annual growth limit set by the central government.

Concurrently, we expect operating revenues to grow at a 3.2% average annual rate over 2023-25 in our baseline scenario, supported by growth in tax revenues that largely move with and provide a natural hedge against price inflation - including mobility tax and national value added tax (VAT) proceeds which will each account for nearly 20% of consolidated operating revenues in 2023. We also expect transfers from the central government to remain flat. While not immune against recession risks, Bordeaux Metropole's strong operating performance provides shock absorption capacity.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Exhibit 3

**Bordeaux Metropole's GOB will remain strong, averaging 18% of operating revenue over 2023-25**

F = forecast. Data based on the consolidated budgets (core budget, public transportation budget and waste management budget).

Sources: Bordeaux Metropole, Moody's Investors Service

**A strong, dynamic and attractive economy**

Bordeaux Metropole is a French metropole, created by the MAPTAM (Modernisation de l'Action Publique Territoriale et d'Affirmation des Metropoles) law on 1 January 2015. As an intermunicipality, Bordeaux Metropole brings together 28 municipalities and 819,604 inhabitants, including the City of Bordeaux with 259,809 inhabitants. As the biggest urban area in Region Nouvelle-Aquitaine, its economy is attractive to people and businesses, with much faster population growth than France (+1.2% annually over 2014-20 against +0.3% for France). Gross domestic product (GDP) per capita is similar to the French average (€37,200 compared with €36,700 in 2021). Other socioeconomic indicators, including employment figures, are also similar to those of France — during the last quarter of 2022, the unemployment rate was 6.4% in the Departement de la Gironde where Bordeaux Metropole is located, compared with the 6.9% for France. The metropole's economy is well diversified and benefits from high disposable income per capita compared with its international peers. Bordeaux Metropole's strong socioeconomic profile thus supports its credit profile, mainly through its tax base.

**Strong governance and financial management**

Bordeaux Metropole's strong governance and financial management are reflected in its transparent and well-defined financial strategy, with a clear focus on preserving its financial health to facilitate investments — with a commitment to comply with a debt deleveraging ratio (debt-to-GOB ratio) target of below 10 years under the 2021-26 mandate (against 4 years as of year-end 2022). Strong governance has resulted in a track record of very strong GOB ratios over the past years (25% on average over 2017-22) and will help, in our view, the intermunicipality navigate an uncertain and challenging economic and financial environment.

Bordeaux Metropole's strong financial management is evidenced in its prudent budgetary practices, sophisticated multiyear financial planning, and sound debt and liquidity management. Of its total outstanding debt as of year-end 2022, 91% was at fixed rate and 6% at standard variable rates (mainly Euribor-indexed), and the remaining 3% consisted of non-risky structured loans. The intermunicipality also has a smooth debt amortisation profile, and its debt is safely split across multiple lenders. As of year-end 2022, the secured funding of public development banks ([Agence France Locale](#) [Aa3 stable], [Caisse des Depots et Consignations](#) [Aa2 stable], [European Investment Bank](#) [Aaa stable] and [SFIL](#) [Aa2 stable]) represented 60% of outstanding debt, while the remainder was split between highly rated French banks (including [Credit Mutuel Arkea](#) [Aa3 stable, 9%] and [BPCI Group](#) [6%]) and foreign banks (including [Sumitomo Mitsui Banking Corporation](#) [A1 stable, 8%]). Bordeaux Metropole also launched a €1 billion EMTN (Euro Medium Term Notes) programme in 2023. The intermunicipality's robust liquidity is supported by strong internal liquidity stemming from predictable and regular cash flows, in line with other French regional and local governments (RLGs). Although we expect cash reserves to diminish because Bordeaux Metropole is entering a large capital spending plan, as of July 2023, the metropole had on average €186 million in cash, covering more than 1.7x debt annuity.

Despite the housing tax reform and the resulting inability to raise this tax rate, Bordeaux Metropole has some revenue flexibility, including rate setting power on the corporate property Tax (CFE - Cotisation foncière des entreprises) which accounted for 10% of consolidated operating revenues in 2022, as well as the aquatic environment management and flood control (GEMAPI - Gestion des Milieux Aquatiques et Prevention des Inondations) tax. Bordeaux Metropole could implement the GEMAPI tax at a maximum amount

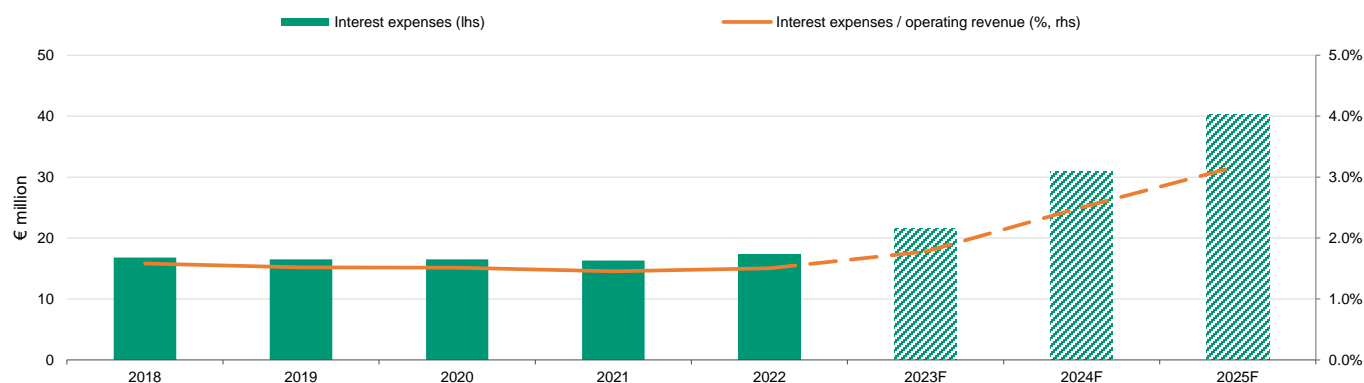
of 40 euros per capita which would result in a total additional €32 million in tax revenues (representing 2.8% of operating revenues in 2022). Flexibility in spending is more limited because Bordeaux Metropole is committed to providing more services to people, leading to more investments. Nevertheless, the capital spending plan is somewhat flexible as some material expenditures are not yet earmarked and Bordeaux Metropole has a review clause to this effect.

#### Debt burden will increase significantly because of a large multiyear fixed capital investment plan

Bordeaux Metropole's new executive elected in 2020 is committed to increasing its fixed capital investments, including in public transportation and mobility. We thus expect the intermunicipality to maintain consistent capital spending, amounting €3 billion over 2023-27 (or 115% of capital spending over 2017-21), split among its core budget (79%), public transportation budget (19%) and waste management budget (2%). While around one-third of these expenses will be funded by subsidies and other capital revenue (including FCTVA - Fonds de Compensation pour la Taxe sur la Valeur Ajoutée), new borrowings will also increase significantly to €316 million annually over the period from €130 million in 2021. We thus expect Bordeaux Metropole's net direct and indirect debt (NDID) to reach €1.9 billion by year-end 2025, increasing the intermunicipality's debt burden (NDID-to-operating revenue ratio) to 150% in 2025 from 103% in 2021. As of year-end 2022, the intermunicipality's NDID comprised €1.2 billion of direct debt, mainly split between its core budget (€624 million) and public transportation budget (€569 million), and €59 million of indirect debt, which comprises non-self-supporting guarantees and debts of entities owned by the intermunicipality. Despite this relatively high debt burden, interest burden will remain moderate (3.2% of operating revenue by 2025 versus 1.5% in 2021), supported by reliable access to diversified funding sources at moderate costs.

Exhibit 4

#### Interest burden will remain moderate while interest expenses are increasing



F = forecast. Data based on the consolidated budgets (core budget, public transportation budget and waste management budget).

Sources: Bordeaux Metropole, Moody's Investors Service

#### Sizeable contingent liabilities pose low risks

Not included in the NDID metrics are sizeable contingent liabilities that pose low risks. Bordeaux Metropole's loan guarantees amounted to €3.7 billion as of year-end 2022, representing 326% of consolidated operating revenue. These guarantees are almost exclusively granted to central government-subsidised social housing providers (SHPs, 99% of total guarantees) — including [Villogia](#) (A2 negative) and [Clairsienne](#) (A2 negative) — as a core responsibility of the intermunicipality on its territory. SHPs' debt is self-supporting, with revenue generation sufficient to cover debt service, and their credit strength is carefully monitored by various public entities, including Caisse de Garantie du Logement Locatif Social (CGLLS) and [Caisse des Depots et Consignations](#) (CDC, Aa2 stable). The metropole also has one of the most efficient monitoring of SHP credit strength among the French entities we rate, with a consistent track record of no guarantee calls.

#### Extraordinary support considerations

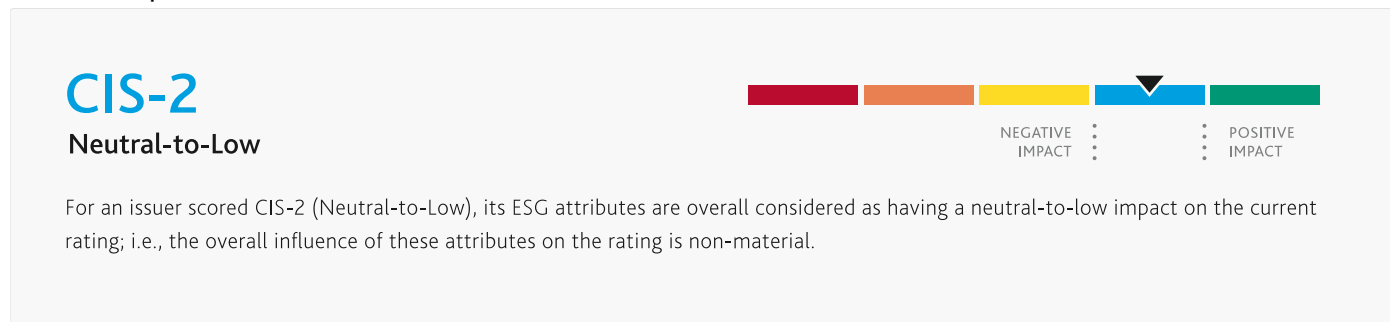
The extraordinary support that the central government is likely to provide to Bordeaux Metropole is moderate, reflecting the various mechanisms put in place by the central government during the global financial crisis to support all layers of RLGs, as well as the coronavirus relief measures. It also reflects a handful of defaults on municipal bank loans in the 1990s.

## ESG considerations

### Bordeaux Metropole's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 5

#### ESG Credit Impact Score



Source: Moody's Investors Service

Bordeaux Metropole's ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting low exposure to environmental and social risks, very strong governance as well as resilience to shocks thanks to its intrinsic fiscal strength and external support (incl. central government support in case of major natural disaster).

Exhibit 6

#### ESG Issuer Profile Scores



Source: Moody's Investors Service

### Environmental

Bordeaux Metropole's exposure to environmental risks is generally low across most categories. The one exception which we consider to be moderately negative relates to water stress and sea level rise. Its overall E issuer profile score is therefore neutral to low (**E-2**).

### Social

Bordeaux Metropole's social issuer profile score is neutral to low (**S-2**), reflecting high-quality education, good housing availability, high quality of health & safety and very high-quality access to basic services. As for France, population ageing is a longer-term challenge, balanced at the metropolitan level by the attractiveness of the territory and strong demographic growth.

### Governance

Bordeaux Metropole's very strong governance profile supports its ratings, as exemplified by prudent budgetary practices and planning, its budgetary flexibility and its financial management. 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.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our report "[Regional and Local Governments – International: Credit impact of ESG factors limited in advanced economy RLGs, negative in emerging markets](#)" and our cross-sector methodology [General Principles for Assessing Environmental, Social and Governance Risks Methodology](#).

## Rating methodology and scorecard factors

The assigned BCA of aa3 is in line with the suggested BCA of aa3. The matrix-generated BCA 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.

The principal methodology used to rate Bordeaux Metropole is the [Regional and Local Governments](#) rating methodology, published in January 2018.

Exhibit 7

### Bordeaux Metropole Regional and Local Governments

Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
<b>Scorecard</b>						
<b>Factor 1: Economic Fundamentals</b>						
Economic strength	5	100.29	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	24.39	12.5%	3.3	30%	0.98
Interest payments / operating revenues (%)	3	1.12	12.5%			
Liquidity	5		25%			
Net direct and indirect debt / operating revenues (%)	5	78.72	25%			
Short-term direct debt / total direct debt (%)	1	7.18	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 (main budget, audited accounts for fiscal year 2022)

## Ratings

Exhibit 8

Category	Moody's Rating
<b>BORDEAUX METROPOLE</b>	
Outlook	Stable
Issuer Rating	Aa3
Senior Unsecured MTN -Dom Curr	(P)Aa3
ST Issuer Rating	P-1

Source: Moody's Investors Service

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