

France
Update

City of Strasbourg

Ratings

Foreign Currency	
Long-Term Rating	AA+
Short-Term Rating	F1+
Local Currency	
Long-Term Rating	AA+

Outlooks

Foreign-Currency Long-Term Rating	Stable
Local-Currency Long-Term Rating	Stable

Financial Data

City of Strasbourg		
	31 Dec 09	31 Dec 08
Operating revenue (EURm)	344.9	335.6
Debt (EURm)	142.8	124.2
Op. balance/ op. revenue (%)	11.14	12.96
Debt service/current revenue (%)	4.22	4.60
Debt/cur. balance(yrs)	4.05	3.14
Operating balance/ interest paid (x)	8.93	8.37
Cap. expenditure/ total expenditure (%)	19.23	20.82
Surplus (deficit) before debt variation/total rev. (exc. new debt; %)	-4.74	-5.23
Current balance/ capital expenditure (%)	45.94	48.58

Analysts

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Related Research

Applicable Criteria

- *International Local and Regional Governments Rating Criteria* (March 2010)
- *Tax-Supported Rating Criteria* (December 2009)

Other Research

- *Business Tax Abolition: Potentially Adverse Impact on French LRGs* (May 2009)
- *Institutional Framework for French Subnationals* (February 2008)

Rating Rationale

- The ratings on the City of Strasbourg reflect a still sound operating margin, moderate debt, and good economic fundamentals, with a large contribution by the public sector to the local labour market. The ratings also take into account good financial reporting and planning tools, and active management of debt.
- Budgetary performance continued to suffer in 2009, even though the operating margin is still above 10%. In a context of flat growth of operating revenue, operating expenditure, principally personnel costs, grew far above inflation in 2008 and in 2009. The city expects the simplification of its internal organisation to help constrain this growth in the medium term.
- Direct debt remains moderate, although it rose in 2009 to reach EUR142m, which represents a debt payback ratio of 3.5 years. In 2009, primarily due to the pressure of some operating expenditure and the decision to maintain the same terms of payment to suppliers, the city's use of lines of credit has been more active than in previous years.
- Due to national reforms of local taxes, French cities have lost some tax leeway and gradually some access to their former tax base. Nevertheless, the city still has room to increase tax proceeds even though they now represent about 10% of operating revenue. In addition, taxes are collected by the central government. This means that the city depends on the collection performance of the state. Transfers from the state in 2009 totalled EUR135m, 39% of current revenue.
- Strasbourg is located in a wealthy region that has a heterogeneous socioeconomic profile. Economic fundamentals are solid but unemployment, at 9.3% in Q309, is, as in many large urban centres, above the national average.
- Indirect risk is low, with the liabilities of the city's majority-owned companies mostly related to social housing, a strongly supervised sector in France. In addition, those companies reported profit in 2008, and unpaid rents are relatively modest (2.6% in 2008 for Habitation Moderne). The city also participates in a gas providing company with financial debt at EUR31m.

Key Rating Drivers

- Failure to adjust operating expenditure to maintain the operating margin above 10% in the medium term will put some pressure on the ratings. Debt to current balance is expected to gradually suffer in the medium term, and Fitch will monitor in particular the city's ability to reschedule some capital expenditure.
- A positive rating action is unlikely in the context of declining operating margins.

Profile

Strasbourg is the capital of both the Alsace Region and the Department of Bas Rhin. With about 276,063 inhabitants, it is the seventh-largest city in France. It is the seat of prominent European institutions such as the European Parliament, the Council of Europe and the European Court of Human Rights. The city is part of the Urban Community of Strasbourg: it has therefore handed over some of its capital-intensive responsibilities but remains in charge of primary education and childcare. Almost uniquely in France, both institutions share the same staff.

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Appendix A

Strasbourg, City Of

(EURm)	Actual				
	31 Dec 2005	31 Dec 2006	31 Dec 2007	31 Dec 2008	31 Dec 2009
Taxes	131.1	133.6	138.6	139.8	143.0
Transfers received	142.1	154.8	152.0	153.1	153.5
Fees, Fines and other Operating revenue	58.4	53.6	42.6	42.7	48.1
Operating Revenue	331.6	342.0	333.2	335.6	344.6
Operating expenditure	-289.8	-287.3	-282.6	-292.1	-306.2
Operating Balance	41.8	54.7	50.6	43.5	38.4
Financial revenue	1.3	1.3	1.5	1.0	1.0
Interest paid	-6.1	-8.0	-5.1	-5.2	-4.3
Current Balance	37.0	48.0	47.0	39.3	35.1
Capital revenue	34.4	187.3	38.9	22.8	23.8
Capital expenditure	-76.2	-209.0	-87.7	-80.9	-76.4
<i>Capital Balance</i>	-41.8	-21.7	-48.8	-58.1	-52.6
Surplus (Deficit) before Debt Variation	-4.8	26.3	-1.8	-18.8	-17.5
New borrowing	30.0	0.1	0.0	0.0	20.0
Debt repayment	-14.9	-30.1	-19.7	-10.3	-10.3
<i>Net Debt Movement</i>	<i>15.1</i>	<i>-30.0</i>	<i>-19.7</i>	<i>-10.3</i>	<i>9.7</i>
Overall results	10.3	-3.7	-21.5	-29.1	-7.8
Debt					
Short-term	0.0	0.0	0.0	11.5	20.5
Long-term	172.3	141.9	122.2	112.0	121.7
Direct debt	172.3	141.9	122.2	123.5	142.2
+ Other Fitch classified debt - Pre-financing	1.8	1.7	1.6	0.7	0.6
Direct risk	174.1	143.6	123.8	124.2	142.8
- Cash, Liquid Deposits, Sinking Fund	45.2	40.7	17.3	0.5	1.2
Net direct risk	128.9	102.9	106.5	123.7	141.6
Guarantees and other Contingent Liabilities	36.0	25.4	24.1	21.8	21.2
Net Indirect debt (Public Sector Entities exc. gteed amount)	108.2	123.8	n.a.	178.7	n.a.
Net overall risk	273.1	252.1	130.6	324.2	162.8
Memo for direct debt:					
% in foreign currency	0.0	0.0	0.0	0.0	0.0
% issued debt	0.0	0.0	0.0	0.0	0.0
% fixed interest rate debt	n.a.	n.a.	n.a.	n.a.	26.2

Source: Strasbourg, City Of

Appendix B

Strasbourg, City Of

	Actual				
	31 Dec 2005	31 Dec 2006	31 Dec 2007	31 Dec 2008	31 Dec 2009
Fiscal Performance Ratios					
Operating balance/Operating revenue (%)	12.61	15.99	15.19	12.96	11.14
Current balance/Current revenue ^a (%)	11.11	13.98	14.04	11.68	10.16
Surplus (Deficit) before debt variation/Total revenue ^b (%)	-1.31	4.96	-0.48	-5.23	-4.74
Overall results/Total revenue (%)	2.8	-0.7	-5.75	-8.1	-2.11
Operating revenue growth (annual % change)	n.a.	3.14	-2.57	0.72	2.68
Operating expenditure growth (annual % change)	n.a.	-0.86	-1.64	3.36	4.83
Current balance growth (annual % change)	n.a.	29.73	-2.08	-16.38	-10.69
Debt Ratios					
Direct debt growth (annual % change)	n.a.	-17.64	-13.88	1.06	15.14
Interest paid/Operating revenue (%)	1.84	2.34	1.53	1.55	1.25
Operating balance/Interest paid (x)	6.85	6.84	9.92	8.37	8.93
Direct Debt servicing/Current revenue (%)	6.31	11.1	7.41	4.6	4.22
Direct Debt servicing/Operating balance (%)	50.24	69.65	49.01	35.63	38.02
Direct debt/Current revenue (%)	51.76	41.33	36.51	36.69	41.15
Direct risk/Current revenue (%)	52.3	41.83	36.99	36.9	41.32
Direct debt/Current balance (yrs)	4.66	2.96	2.6	3.14	4.05
Net overall risk/Current revenue (%)	82.04	73.43	39.02	96.32	47.11
Direct risk/Current balance (yrs)	4.71	2.99	2.63	3.16	4.07
Direct Debt/GDP (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Direct Debt per capita (local currency)	645	531	458	454	521
Revenue Ratios					
Operating revenue/Budget operating revenue (%)	99.58	103.51	102.93	101.24	102.16
Tax revenue/Operating revenue (%)	39.54	39.06	41.6	41.66	41.5
Modifiable tax revenue/Total tax revenue	89.09	89.82	88.46	89.56	90
Current transfers received/Operating revenue (%)	42.85	45.26	45.62	45.62	44.54
Operating revenue/Total revenue ^a (%)	90.28	64.46	89.19	93.38	93.29
Total revenue ^a per capita (local currency)	1,376	1,987	1,399	1,321	1,353
Expenditure Ratios (%)					
Operating expenditure/Budget operating expenditure	93.06	97.42	98.19	96.59	98.33
Staff expenditure/Operating expenditure	57.18	59.31	61.5	60.53	60.06
Current transfer made/Operating expenditure	13.6	13.75	16.49	16.33	13.06
Capital expenditure/Budget capital expenditure	n.a.	205.71	76.66	77.34	90.52
Capital expenditure/Total expenditure	19.69	39.11	22.2	20.82	19.23
Capital expenditure/Local GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Total expenditure per capita (local currency)	1,449	2,002	1,480	1,428	1,455
Capital expenditure financing (%)					
Current balance/Capital expenditure	48.56	22.97	53.59	48.58	45.94
Capital revenue/Capital expenditure	45.14	89.62	44.36	28.18	31.15
Net debt movement/Capital expenditure	19.82	-14.35	-22.46	-12.73	12.7

a includes financial revenue

b excluding new borrowing

Source: Strasbourg, City Of