STANDARD & POOR'S RATINGS SERVICES
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Supplementary Analysis:

Norfolk County

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Table Of Contents

Table Of Contents (cont.)

Supplementary Analysis:

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This report supplements our research update "Norfolk County Upgraded To 'AA-' From 'A+' On Improved Liquidity Following Sale Of Utility; Outlook Stable," published June 18, 2015. To provide the most current information, we may cite more recent data than that stated in the previous publication. These differences have been determined not to be sufficiently significant to affect the rating and our main conclusions.

Rationale

Issuer Credit Rating
AA-/Stable/--

The rating on Norfolk County, in the Province of Ontario, reflects Standard & Poor's Ratings Services' view of the county's strong liquidity profile, low debt burden, and average budgetary performance. The rating also reflects our view of the "very predictable and well-balanced" institutional framework for Canadian municipalities, very low contingent liabilities, and satisfactory financial management. We believe that constrained and average budgetary flexibility and an average economic profile with limited growth prospects partially mitigate these strengths.

Norfolk, in southern Ontario, has an average economic profile and relies mainly on manufacturing, agriculture, and tourism. We believe the county's economic growth prospects are limited compared with those of peers and reflect its weakening demographic profile. In our view, its above-average median age, modest population growth, and increasing dependent population will affect long-term labor availability and might hinder business investment. While GDP data is not available at the local level, we believe that Norfolk would generate GDP per capita below that of the province of Ontario (more than US$49,000 based on a three-year average) and below US$38,000, based on its lower income levels and lower value-added industries compared with that of peers.

We believe Canadian municipalities benefit from a very predictable and well-balanced local and regional government framework that has demonstrated a high degree of institutional stability. Although provincial governments mandate a significant proportion of municipal spending, they also provide operating fund transfers and impose fiscal restraint through legislative requirements to pass balanced operating budgets. Municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be intensive. Any operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions.

In our view, Norfolk has satisfactory financial management practices that a knowledgeable and experienced team oversees. It releases financial statements regularly, and they are independently audited with no qualifications. Norfolk also produces one-year operating tax- and rate-supported budgets and a 10-year capital plan with the corresponding funding sources. The county approves budgets annually and we believe these are detailed, are transparent, and incorporate reasonable assumptions. A formal investment policy and internal debt guidelines support prudent debt and liquidity management, in our view. The most recent municipal election resulted in a number of changes within council, including a new mayor, but we don't expect significant change in the county's strategic objectives.

In our base-case forecast, we expect Norfolk to maintain average budgetary flexibility and demonstrate modifiable revenues of more than 70% of adjusted operating revenues and capital spending of about 21% of adjusted total spending, on average, in 2012-2016. We believe the county's flexibility is constrained on the revenue side as a result of its high tax burden and lower household incomes compared with that of Ontario. Furthermore, Norfolk has limited ability to defer or cut operating expenditures, in our view and in line with domestic peers. This is because the province mandates provision of many services and its salary and benefit expenses are subject to collective agreements. Personnel costs accounted for more than 48% of adjusted operating spending in 2013. Capital spending was 17.7% of adjusted total spending in 2013 and we expect it to increase in the outlook horizon with the expanding capital plan.

Norfolk's budgetary performance, which we view as average, continued to improve in 2013. Operating balance increased to 15% of adjusted operating revenues and after-capital accounts returned to balance. However, we expect the after-capital balance to return to a deficit in the outlook horizon because of the growing capital program. In our base-case forecast, we expect operating balances to average more than 13% of adjusted operating revenues and after-capital balances to average nearly negative 6.0% of adjusted total spending in 2012-2016.

Norfolk has what we view as a low debt burden but we expect this to rise in the medium term. We estimate that the county's tax-supported debt totaled C$40 million and accounted for about 27% of adjusted operating revenues as of year-end 2014. Norfolk plans to issue more than C$60 million of debt in the next three years to fund its growing capital program, which is largely for water and wastewater treatment facilities and assessment studies. In our base-case forecast, we expect the tax-supported debt burden to reach more than 50% of adjusted operating revenues by 2016. Interest costs are low and we expect them to remain below 5% of adjusted operating revenues in the outlook horizon.

The risk stemming from contingent liabilities has declined following the Norfolk Power sale and we now view it as very low. The county has no other government-related entities. It has standard future employee benefits and obligations and landfill postclosure costs that totaled about 15.2% of 2013 adjusted operating revenues.

Liquidity

Norfolk benefits from a strong liquidity position, in our view. Its free cash and liquid assets (Standard & Poor's-adjusted) stood at about C$88 million at year-end 2014, up from C$32 million the year before because of inclusion of C$67.8 million in proceeds from the Norfolk Power sale. We believe that the county's liquidity profile is constrained in the two-year outlook horizon because of large funding needs stemming from its capital commitments. We expect free cash and liquid assets to total about C$76 million in 2015 and cover more than 13x of the estimated debt service for the year.

In line with that of peers, Norfolk's access to external liquidity is satisfactory, in our view.

Outlook

The stable outlook reflects Standard & Poor's expectations that, within the two-year outlook horizon, Norfolk will continue to produce average budgetary performance, with strong operating balances and moderate after-capital deficits; and maintain a strong liquidity position, with free cash and liquid assets of more than 100% of the next 12 months' debt service. We also expect tax-supported debt to remain below 60% of consolidated operating revenues. A negative rating action could occur if the county undertakes aggressive debt issuance, resulting in the tax-supported debt burden of more than 60% of consolidated operating revenues, and budgetary performance deteriorates, leading to weaker operating results and after-capital balances exceeding negative 10% of adjusted total spending, on average. Although unlikely in the next two years, we could revise the outlook to positive if a reduction in scope of capital commitments results in decreased pressure on cash and investments balances and there was sustained growth and diversification of the economy.

Ontario Municipalities Benefit From A Very Predictable And Well-Balanced Institutional Framework

We view the Canadian provincial-municipal intergovernmental system as being very predictable and well-balanced because of its maturity and stability, low-to-moderate degree of mismatching of revenues and expenditures, moderate levels of transparency and accountability, and strong likelihood of extraordinary support from provincial governments.

Provincial-municipal relationships have proven to be more dynamic than the federal-provincial one, largely because the municipal governments are established through provincial statute and not the constitution. Historically, the provinces have taken a more active role in municipal affairs than the federal government in provincial matters. Although there have been long periods of relative stability, provincially imposed large-scale changes to municipal revenue powers and expenditure responsibilities have occurred.

Provinces mandate a significant proportion of municipal spending and, through legislation, require municipalities to pass balanced operating budgets (although they also provide operating fund transfers). Nevertheless, municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be intensive for some. Many have been limited in their ability to renew their infrastructure, roads, water, and wastewater, due to constraints on fee and property tax increases. Property taxes are the primary source of own-source revenues for Canadian municipalities, followed by fees and transfers from both the provincial and federal governments. Chief expenditure categories of Canadian municipalities are transportation services, which include roads and transit; environmental services, which include water distribution and treatment and wastewater collection; protection services such as fire and police; and recreation and cultural services. Small and rural municipalities generally receive higher provincial transfers, for both operating and capital programs, compared with those of their more urban counterparts, but there are no formal equalization schemes.

We believe financial information is quite timely. National accounting standards are strong and improving, in our view, although adoption can vary somewhat. Statutes require audited statements. While there are no national standards that apply to budgeting practices, a five-year capital budgeting process is usually the minimum. In addition, only current-year budgeting is required generally for operations.

The provinces have an established history assisting their distressed municipalities through grants.

Average Economic Profile

Norfolk is a rural municipality in southern Ontario. The county's economy has traditionally centered on manufacturing and agriculture, while the tourism sector, wine tourism in particular, continues to expand. In our view, muted growth prospects continue to constrain local economy. Although GDP data is not available at the local level, we believe that Norfolk would generate GDP per capita below that of Ontario and below US$38,000, based on its lower income levels and lower value-added industries compared with that of peers. Ontario had GDP per capita of more than US$49,000, based on a three-year average, as per our criteria.

Norfolk's existing industries are stable. Toyotetsu Canada Inc., an auto-parts manufacturer, is one of the county's major employers and has recently completed its third-phase expansion. There has been increased demand for medical care in Norfolk in recent years and we expect more medical centers to open. Fanshawe College plans to revise its programs to focus on health care, personal care, and training for local manufacturing, in order to meet the needs of the local population and employers.

In our view, the county's demographic profile points to constrained growth in the long term. Its population was 63,175 in 2011, up 2.8% from 2006, of which 19.3% was 65 and over. This is compared with Ontario's average of 15%. The median age has increased to 46.1 from 43.4 in the five-year period, compared with the provincial average of 40.4 in 2011. The county is becoming increasingly popular as a retirement residence. We believe that these trends would result in a reduced labor pool and might hinder business investment. In addition, we view its location as less favorable compared with that of peers, based on its relative remoteness from major cities and transport routes.

The unemployment rate varies through the year, having risen to 9.7% in April 2015 from 7.5% in December 2014. The underlying trends are less favorable for Norfolk's long-term prospects. The labor force continues to shrink, either due to retirement or people exiting because of an inability to find work. Monthly caseloads continue rising as well, averaging 1,425 cases in 2014 compared with 1,408 the year before. In the past 10 years, average monthly caseloads have increased 52%.

Building activity was slightly weaker in 2014, but the county expects it to pick up in 2015. Building permits totaled C$88.1 million for the year, down from C$97.8 million in 2013.

Satisfactory Financial Management

We believe Norfolk has satisfactory financial management and a knowledgeable and experienced management team. The county releases detailed financial statements on a timely basis and these are independently audited with no qualifications. It also produces annual tax- and rate-supported budgets and a 10-year capital plan with the corresponding funding sources. On the operating side, Norfolk only budgets for the current year and does not produce long-term projections. Information in the budgets is comprehensive, is transparent, and reflects realistic and well-documented assumptions, in our view. Norfolk has a formal investment policy and an internal debt limit, while a formal policy around the proceeds from the Norfolk Power sale remains in progress. We view its debt and liquidity management practices as prudent.

The municipal election in 2014 resulted in a new mayor, Charlie Luke, and two new councilors of eight. We believe the current council's strategic objectives will remain largely in line with those of the previous council.

Operating Pressures Constrain Average Budgetary Flexibility

Norfolk has average budgetary flexibility with a history of healthy modifiable revenues, averaging more than 70% of adjusted operating revenues. Property taxes and user fees and service charges are the main sources of own-source revenues, accounting for 46% and 21% of adjusted operating revenues, respectively, in 2013. In our view, limited ability to raise own-source revenues and leeway to cut spending constrain its budgetary flexibility. In our base-case scenario, we expect modifiable revenues to average 75% of adjusted operating revenues and capital expenditures to average 21% of adjusted total spending in 2012-2016. We assume lower capital spending compared to budget to reflect the multiyear nature of the projects.

We believe the county's flexibility is constrained on the revenue side as a result of lower incomes of the population compared with peers and above-average tax burden. Municipal sources suggest that Norfolk has a comparatively high total municipal tax burden of 5.2% relative to income. We believe this could limit the magnitude of approved annual tax increases to meet the needs of the local population. Taxes increased 2.3% in the current budget, following more modest increases in the past three years of 1.4%, on average.

Similar to other Ontario municipalities, Norfolk is also constrained on the spending side, because many of its services are provincially mandated and multiyear collective agreements cover all employees. The county's largest operating expenses are social welfare, protection, and transportation services, which together accounted for 58% of adjusted operating spending in 2013. Salaries and wages alone represented 48% of spending for the year. A number of contracts will expire in 2015, which we expect will continue to put pressure on the balances in the outlook horizon.

Growing capital plan

Norfolk's 2015 capital budget totals C$50.3 million and consists largely of replacement projects related to roads, bridges, and wastewater operations. The 10-year capital plan totals C$424 million and is funded largely by reserves (80%), debt (15%), and the capital levy (2.5%). Budgeted capital spending spikes in 2017 to more than C$70 million, when the centralized wastewater treatment plant project enters the plan. This project also includes the construction of feeder mains and connections totaling more than C$40 million, which will occur once plant construction is underway.

Capital spending was 17.7% of adjusted total spending in 2013 and we expect this ratio to average more than 23% through 2016. We believe that capital works will remain a pressure on reserve levels because there are a number of infrastructure renewal projects that the county has approved but not started and will require funding in the next two years. While the wastewater treatment plant enters the picture just beyond the outlook horizon, we believe that, given the project's large size, the associated costs will likely be spread over a number of years and ground work might not begin until 2020.

Average Budgetary Performance Amid Higher Expected After-Capital Deficits

To improve comparability across local and regional governments globally, Standard & Poor's adjusts the published figures of all municipalities to reflect their budgetary balances on a cash basis. This includes adjusting for major accruals; restating capital spending to a cash basis by removing the influence of capital amortization and net income of certain government business enterprises; and adjusting for one-time revenues.

Norfolk demonstrates average budgetary performance, in our view. We believe operating balances are strong and largely in line with other counties we rate. After-capital balances have been in a deficit, on average, since the recession and we expect them to increase in the medium term to reflect the county's growing capital plan. In our base-case scenario, we expect operating balance to average more than 13% of adjusted operating revenues and after-capital balance to average nearly negative 6% of adjusted total revenues in 2012-2016.

Operating balances have improved for the fifth consecutive year and stood at 15% of adjusted operating revenues in 2013. Following a number of years of low tax increases, council approved a 2.3% increase in the 2015 budget. However, we expect operating revenues to rise more slowly in 2015 because of ongoing cuts to the Ontario Municipal Partnership Fund grants and the elimination of revenues from dividends after the Norfolk Power sale. Coupled with operating pressures, in particular those related to personnel costs, we expect operating balances to slip in the next two years but remain above 10% of adjusted operating revenues.

After-capital accounts achieved a balanced position as a proportion of adjusted total spending in 2013, following four years of modest deficits stemming from elevated capital spending. We believe this improvement to be short-lived and that capital spending will ramp up during the outlook horizon.

A Strong Liquidity Profile

Norfolk's strong liquidity position bolsters the rating, in our view. At year-end 2014, its free cash and liquid assets (Standard & Poor's-adjusted) were about C$88 million, up from C$32 million the year before. The increase represents inclusion of the C$67.8 million in proceeds from the Norfolk Power sale. We believe that the county's liquidity profile is constrained during the outlook horizon because of large funding needs stemming from its capital commitments. In our base-case forecast, liquid cash and investments average C$76 million in 2015 and cover more than 13x of the estimated debt service for the year.

Norfolk intends to put the proceeds of C$67.8 million, net of debt, in an endowment fund. While the principal on the proceeds is internally restricted, it can be accessed with council approval if needed. Management also indicated that investment revenues on the proceeds will go toward capital replacement projects. The details of the formal policy for the fund remain in progress.

In line with that of peers, Norfolk's access to external liquidity is satisfactory, in our view.

Low-But-Growing Debt Burden

Norfolk's debt burden is what we view as low, totaling C$43.9 million in 2013 or 29.7% of consolidated operating revenues. The county didn't issue debt in 2014 and we estimate this ratio to be about 27% at year-end 2014. Norfolk does not issue debt regularly and tax-supported debt has represented about 30% of consolidated operating revenues, on average, in the past decade. However, the capital plan has a number of large projects coming on stream in the next few years, which are partially debt-financed, and the county expects to issue debt annually through 2017. In our base-case forecast, we expect Norfolk to issue more than C$60 million of debt in the next three years, which will push its debt burden to about 50% of consolidated operating revenues in 2016. Much of the borrowing relates to water and wastewater treatment facilities and assessment studies. Although project deferral and completion could shift the timing of issuance, we view the rapidly growing debt level as a credit concern.

Interest costs are what we consider low, at 1.2% of adjusted operating revenues in 2013, and we expect this ratio to increase with the rising debt burden but remain below 5% of adjusted operating revenues during the outlook horizon. Unfunded pension obligations are not significant, accounting for less than 1% of adjusted operating revenues.

Contingent Liabilities Profile Improves To Very Low

Norfolk has standard future employee benefits and obligations and landfill postclosure costs that totaled about 15.2% of 2013 adjusted operating revenues. We view these as not significant for the rating and low risk.

With the Norfolk Power sale completion, the county has no other government-related entities, which greatly reduces its exposure to contingent liabilities and improves its overall credit profile in our view.

Key Statistics

Table 1

Norfolk County -- Economic Statistics					
	--Fiscal year ended Dec. 31--				
	2009	**2010**	**2011**	**2012**	**2013**
Population	62,929	63,052	63,175	63,175	63,175
Population growth (%)	0.2	0.2	0.2	0.0	0.0

Note: The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include Statistics Canada.

Table 2

Norfolk County -- Financial Statistics						
	--Fiscal year ended Dec. 31--					
(Mil. C$)	**2011**	**2012**	**2013**	**2014bc**	**2015bc**	**2016bc**
Operating revenues	140	144	148	149	150	154
Operating expenditures	122	124	126	128	131	134

Table 2

Norfolk County -- Financial Statistics (cont.)						
Operating balance	17	20	22	20	19	20
Operating balance (% of operating revenues)	12.4	14.1	15.0	13.6	12.6	13.1
Capital revenues	10	2	5	7	7	8
Capital expenditures	33	27	27	40	40	41
Balance after capital accounts	(6)	(5)	0	(12)	(14)	(13)
Balance after capital accounts (% of total revenues)	(3.7)	(3.4)	0.0	(7.9)	(8.9)	(8.2)
Debt repaid	4	8	4	4	4	4
Balance after debt repayment and onlending	(9)	(13)	(4)	(16)	(18)	(18)
Balance after debt repayment and onlending (% of total revenues)	(6.1)	(8.6)	(2.5)	(10.3)	(11.4)	(10.9)
Gross borrowings	0	3	6	0	14	32
Balance after borrowings	(9)	(9)	2	(16)	(4)	14
Operating revenue growth (%)	4.7	3.4	2.3	0.6	0.9	2.9
Operating expenditure growth (%)	3.3	1.4	1.2	2.3	2.1	2.3
Modifiable revenues (% of operating revenues)	74.1	73.4	73.5	75.2	77.3	77.8
Capital expenditures (% of total expenditures)	21.3	17.9	17.7	23.7	23.5	23.5
Direct debt (outstanding at year-end)	46	42	44	40	50	78
Direct debt (% of operating revenues)	32.8	28.8	29.7	26.9	33.5	50.4
Tax-supported debt (% of consolidated operating revenues)	32.8	28.8	29.7	26.9	33.5	50.4
Interest (% of operating revenues)	1.6	1.5	1.2	1.2	1.1	1.3
Debt service (% of operating revenues)	4.2	6.7	3.9	3.8	3.8	4.1

Note: The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. Base case reflects Standard & Poor's expectations of the most likely scenario. Downside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with an upgrade. bc -- Base case.

Ratings Score Snapshot

Table 3

Norfolk County -- Ratings Score Snapshot	
Key rating factors	**Assessment**
Institutional Framework	Very predictable and well-balanced
Economy	Average
Financial Management	Satisfactory
Budgetary Flexibility	Average
Budgetary Performance	Average
Liquidity	Strong
Debt Burden	Low
Contingent Liabilities	Very low

Note: Standard & Poor's ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of Standard & Poor's "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the foreign currency rating on the government.

Key Sovereign Statistics

Sovereign Risk Indicators, March 31, 2015. Interactive version available at http://www/spratings.com/sri

Related Criteria And Research

Related Criteria

Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014

Ratings Detail (As Of June 26, 2015)	
Norfolk County	
Issuer Credit Rating	AA-/Stable/--
Issuer Credit Ratings History	
18-Jun-2015	AA-/Stable/--
24-Jun-2014	A+/Stable/--
04-Jun-2013	A/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.