

Norfolk County

Primary Credit Analyst:

Greg Moore, Toronto (1) 416-507-2508; gregory_moore@standardandpoors.com

Secondary Contact:

Yousaf Siddique, CFA, Toronto (1) 416-507-2559; yousaf_siddique@standardandpoors.com

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Major Rating Factors

Strengths:

- Sound operating performance
- Manageable debt
- Satisfactory liquidity

Weaknesses:

- Relatively less diversified economy than that of its peers
- Low financial flexibility
- Late financial reporting

Issuer Credit Rating

A/Stable/--

Rationale

The rating on Norfolk County, in the Province of Ontario (AA-/Stable/A-1+), reflects Standard & Poor's Ratings Services' assessment of the county's sound operating performance, manageable debt, and satisfactory liquidity. An economy that is relatively less diversified than that of many peers, low financial flexibility, and slow financial reporting constrain our rating.

Norfolk's operating performance has remained what we consider fairly robust in recent years, including a notable improvement in 2008, the most recent year of reporting. The operating surplus was about 21% of operating revenues, as opposed to an average of 14% in the prior six years. Estimates point to similar results in 2009 and 2010. The improvement is attributed to higher tax revenues and grants, and generally contained expenditure growth. Standard & Poor's expects operating performance to come under pressure due to weaker tax revenue growth and steadily rising employee wages and service costs. Nevertheless, we believe it is likely to remain healthy, and uploading some services to the province will continue to provide relief.

Norfolk's credit quality has also benefited from a debt burden that has been very low and comparable with that of more highly rated domestic and international peers. At the end of 2008, direct debt outstanding represented only 22% of operating revenue. With the planned issuance for capital expenditures, the burden will rise considerably but will likely remain below 50% of operating revenue. The county's debt servicing capacity is likely to remain adequate, in our view, with debt coverage considerably above 1x.

At the end of 2008, available cash and near-cash holdings stood at C\$37 million or 33% of operating expenditure, notably higher than the prior four years, as Norfolk built its cash balances before planned capital expenditures. With the county's significant capital expenditure in 2011, we expect liquidity to decline somewhat, although to a level that remains satisfactory for the rating.

Norfolk's economy is relatively less diversified as it depends predominately upon agriculture, small-scale manufacturing, and tourism. The economy benefits to some extent from the county's proximity to the nearby relatively stronger cities of Hamilton (AA/Stable/--) and Brantford (AA+/Stable/--), as well as Oxford County (AA-/Stable/--) that offer employment and business opportunities to residents and local companies, respectively. Toyotetsu Canada Inc., the auto parts manufacturer that feeds auto parts mainly to Toyota Canada Inc., set up a

plant in Norfolk County in 2006, which represents a significant step forward for Norfolk's economy, in terms of both growth and diversification.

The county's financial flexibility is relatively low compared with that of some peers because of high tax rates relative to household income. This reduces its ability to increase taxes, especially during an economic downturn.

Norfolk's financial reporting has significantly lagged that of rated peers in terms of timeliness. Nevertheless, the completeness of provided information has been at the level of rated peers. Standard & Poor's expects the timeliness of its financial reporting to improve.

Capital projects, debt, and liquidity

Norfolk had modest capital spending from 2006-2008, averaging about C\$20 million per year; however, to address a backlog of capital projects, spending increased to an average of about C\$45 million per year, and is expected to stay at this level until 2014. In 2015, the county budgets annual spending to return to its previous average of about C\$20 million to C\$25 million annually. With both growth and replacement needs, spending will mainly be on roads, water, wastewater, and solid waste management infrastructure.

With relatively low capital spending since the county's creation in 2001, Norfolk's debt has remained low and liquidity has improved. The county did not issue any debt from 2006-2008, although it plans on issuing a total of about C\$40 million before the end of 2012 and a further \$45 million by 2019. With the new debt load, Norfolk's debt servicing capacity is likely to remain what we view as adequate, with debt coverage considerably above 1x for the foreseeable future.

Although drawn down from a peak in 2008, liquidity has remained at satisfactory levels compared with that of its peer group. At year-end 2008, liquid assets and committed facilities comprised about one-third of annual operating expenditure. Despite Norfolk's substantial increase in capital expenditures, we expect liquidity to remain adequate.

Outlook

The stable outlook reflects Standard & Poor's expectation that Norfolk's debt will not notably exceed forecasts, liquidity will remain adequate, and operating performance will continue to be healthy. We could lower the ratings or revise the outlook to negative if debt increases much beyond expected levels, liquidity or operating performance deteriorate significantly, or the economy weakens considerably. Meaningful reduction in the debt burden or liquidity dispersal, significant additions to the county's employment and tax bases, or sustained improvement in the timeliness of financial reporting could result in an upward revision to the outlook or ratings.

Norfolk County -- Financial Statistics					
	--Year ended Dec. 31--				
(%)	2008	2007	2006	2005	2004
Operating balance/operating revenue	20.6	14.8	15.2	11.7	17.6
After capital expenditure balance/total revenue	8.5	5.1	(0.9)	(6.9)	(10.1)
Capital expenditure/total expenditure	17.9	13.5	19.6	19.0	27.0
Direct debt/operating revenue	21.8	27.2	31.4	35.7	33.9
Debt service/total revenue	2.8	3.5	3.9	3.6	4.7
Net direct debt*/operating revenue	(4.1)	11.9	7.9	13.0	18.8
Cash & committed facilities/operating expenditure	32.6	17.9	36.5	34.1	26.2

Norfolk County -- Financial Statistics (cont.)

*Direct debt less cash and equivalents.

Ratings Detail (As Of June 22, 2011)*

Norfolk County

Issuer Credit Rating	A/Stable/--
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Issuer Credit Ratings History

16-Jan-2002	A/Stable/--
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*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.

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