STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Norfolk County

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

Secondary Contact:
Nineta Zetea, Toronto (1) 416-507-2508; nineta_zetea@standardandpoors.com

Table Of Contents

Table Of Contents (cont.)

Norfolk County

Major Rating Factors

Issuer Credit Rating
A/Stable/--

Strengths:

- Manageable, albeit rising, debt burden
- Satisfactory liquidity

Weaknesses:

- High capital requirements could further weaken budgetary performance
- Relatively weak and less diversified economy

Rationale

The rating on Norfolk County, in the Province of Ontario (AA-/Negative/A-1+), reflects Standard & Poor's Ratings Services' assessment of the county's manageable debt and satisfactory liquidity. High capital requirements that could further weaken budgetary performance and a relatively weaker and less diversified economy constrain our view of the ratings.

In the next two years, we expect tax-supported debt will remain manageable and not exceed 60% of operating revenues but surpass the 2011 level, which we estimate at 48%. Norfolk intends to issue new debt to finance approximately 23% of its C$137 million capital plan in 2012-2014.

We believe the county will maintain relatively strong liquidity in the near term, with free cash and liquid assets (Standard & Poor's-adjusted) of more than 150% debt service. At this level, it will be significantly lower than its historical free cash and liquid assets levels of more than 400%, because the county is drawing on reserves considerably to finance its capital expenditures.

In our view, capital pressures, in the absence of higher capital grants or operating surpluses, could negatively affect budgetary performance in the next two years. In 2010, Norfolk recorded an after-capital deficit of 17.5% of total adjusted revenues. Like most of its Canadian peers, the county has a substantial infrastructure deficiency. Its 10-year capital program is C$336 million, of which it will spend about 40% in 2012-2014. While some of these projects could be deferred, many are for core services.

The county's GDP per capita was below that of the provincial average of about C$46,000 at the end of 2011. Norfolk's economy, which we feel to be narrower than that of most peers, relies principally on agriculture, small-scale manufacturing, and tourism, which employed about 40% of the county's labor force in 2011. In our view, the recession somewhat weakened the county's economy. Unemployment was 9.3% in 2011, up from 6.8% in 2006. Social service caseloads increased sharply in 2009 and 2010, stabilizing somewhat a in 2011. In addition, the value of building permits decreased in the past four years, with 2010 being the only exception. In 2011, it was 13% lower than in 2010.

Outlook

The stable outlook reflects Standard & Poor's expectations that, in the next two years, Norfolk's debt will remain below 60% of projected operating revenues, liquidity will remain adequate, and economic growth will not deteriorate. We could lower the ratings or revise the outlook to negative if debt increases much beyond 60%, liquidity or operating performance deteriorate significantly, or the economy weakens considerably. Meaningful reduction in the debt burden or liquidity, or significant additions to the county's employment and tax bases could result in an upward revision to the outlook or ratings.

Comparative Analysis

Norfolk's immediate peer group consists of the Canadian municipality of Chatham-Kent (A/Stable/--); the Canadian counties of Lambton (A+/Stable/--) and Haldimand (A/Positive/--); and the Canadian cities of Sault-Ste.-Marie (A/Positive/--) and Thunder Bay (A+/Positive/--), all in Ontario.

Economic comparisons with peers at the local municipal level in Canada tend to come from indicators such as demographic and labor market data, as well as residential and nonresidential construction trends. For several years, Norfolk's unemployment has not differed significantly from that of its immediate group. The county has a smaller population than that of its peers.

Norfolk's financial performance is somewhat weaker than its peers: Its average operating balances (as a percentage of operating revenues) from 2008-2010 are near the bottom of the group, better only than those of Lambton and Sault-Ste.-Marie. The county's after-capital spending balances (as a percentage of total revenues) recorded the lowest deficits of the peer group for 2009 and 2010, principally because of the considerable capital plan put in place by the county.

Norfolk's debt burden (tax-supported debt as a share of consolidated operating revenues) and interest as a percentage of operating revenues are lower than the median and that of all peers except for Sault-Ste.-Marie.

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

We view the Canadian provincial-municipal intergovernmental system as being "well-balanced and predictable" 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.

Economic Profile

Norfolk is a single-tier municipality on Lake Erie, in southwestern Ontario. According to the 2011 Census, the county's population was 63,175, increasing only 1% from the previous Census in 2006. This was significantly below the provincial growth rate of 5.6%. Along with the slow population growth, Norfolk has lower average household income than Ontario and a higher median age and dependent population.

Norfolk's GDP per capita was below the provincial average of about C$46,000 at the end of 2011. The county's economy, which we feel to be narrower than that of most peers, relies principally on agriculture, small-scale manufacturing, and tourism; the three sectors employed about 40% of the county's labor force in 2011. However, it benefits to some extent from the county's proximity to the nearby stronger cities of Hamilton (AA/Stable/--) and Brantford (AA+/Stable/--) that offer employment and business opportunities to residents and local companies.

In our view, the recession has somewhat weakened Norfolk's economy. The county's unemployment rate was 9.3% in 2011, up from 6.8% in 2006. This is higher than the provincial unemployment rate of 8.4% in 2011. Social service caseloads increased sharply in 2009 and 2010 and stabilized in 2011. The value of building permits decreased in the past four years (except for 2010). In 2011, it was 13% lower than in 2010.

Table 1

Norfolk County--Economic Statistics				
Population summary*	**Total population**	**% aged 14 years or younger**	**% aged 65 years or older**	**Median age**
	63,175	15.3	19.3	46.1

Table 1

Norfolk County--Economic Statistics (cont.)					
Economic statistics (% change)	**2011**	**2010**	**2009**	**2008**	**2007**
Population*	0.2	0.2	0.2	0.2	0.2
Unemployment rate (%)	9.3	N.A.	N.A.	N.A.	N.A.
Assessment base growth§	7.2	6.5	7.4	(0.3)	3.6

*Annualized 2011 census results. §Includes both unit growth and market value changes. N.A.--Not available.

Financial Management

Norfolk's release of audited financial statements has been significantly delayed in the past; however, this has improved. In our opinion, the county's financial statements are reasonably comprehensive and transparent. In 2009, Norfolk adopted revised Public Sector Accounting Standards, and 2009 financial statements restated certain items from the previous year. The items relate to recognition of all nonfinancial assets, including tangible capital assets, prepaid expenses, and inventory of supplies as assets in the financial statements. In addition, revenue from contributed assets and amortization of tangible capital assets were recorded in the consolidated statement of operations. The county's operating and capital budgets are limited to one year, but it does prepare 10-year project-based capital plans.

Budgetary Flexibility

In our view, Norfolk's budgetary 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 economic downturns. Modifiable revenue was 75% of operating revenue in 2010. The county gets its operating revenues primarily from sources under its control such as property taxes (48%) and user fees and services charges (29%) (see charts 1 and 2). Capital expenditures accounted for about 29% of 2010 total expenditures, which is higher than the five-year average. We expect capex to account for 25%-32% of total expenditures in the next two years, because Norfolk plans to focus on replacing and upgrading its infrastructure.

Chart 1

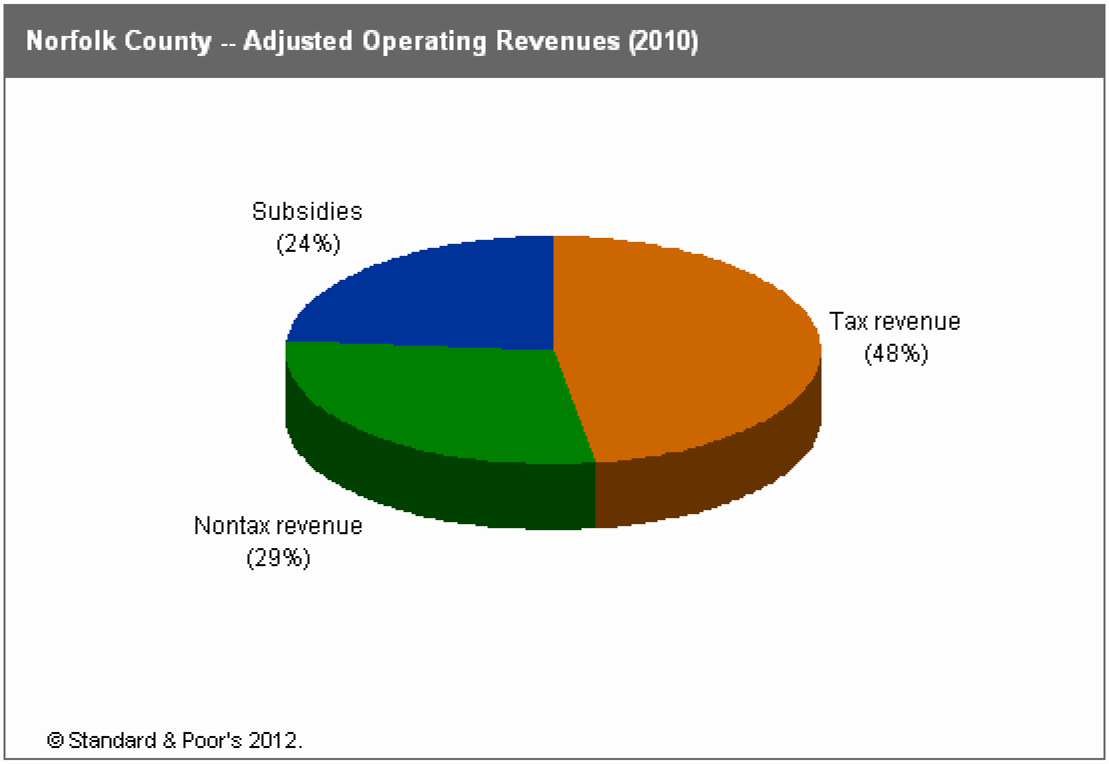
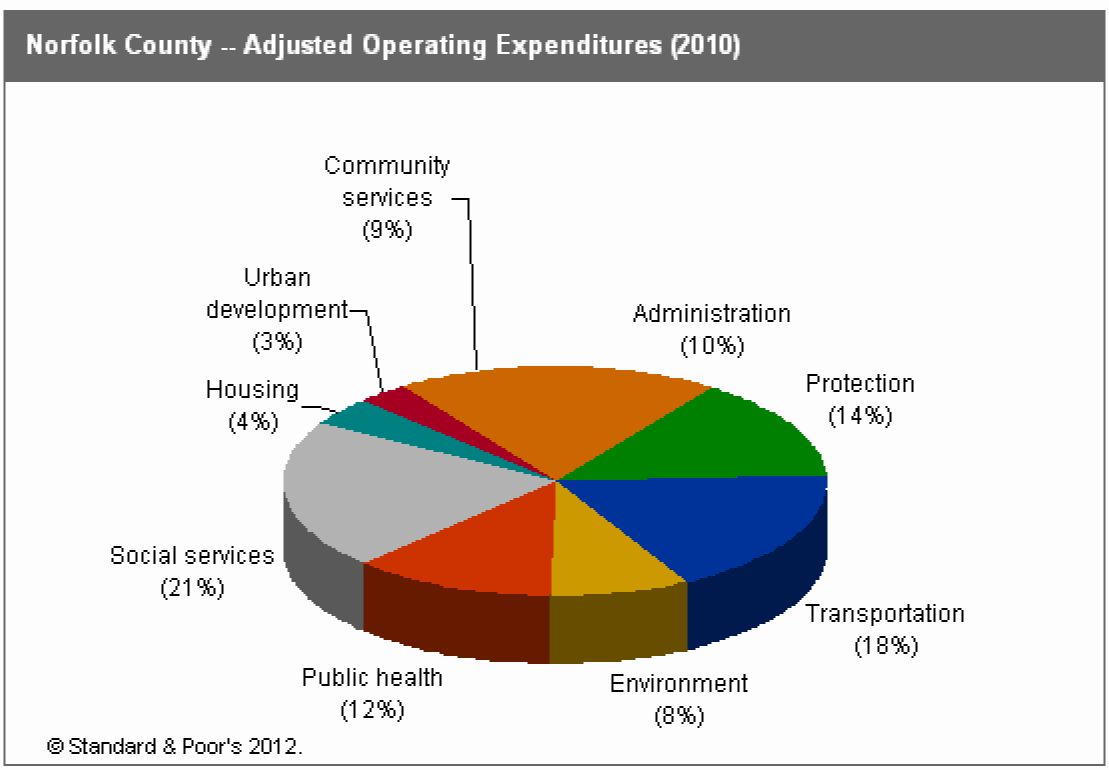


Chart 2



Like all Ontario municipalities, the county has limited flexibility to cut expenditures, because many of its services are provincially mandated. It had a modest capital spending until 2009, averaging about C$20 million per year. Starting 2010, spending increased to about C$48 million and we expect it to average about C$42 million per year from 2012-2016. Starting 2017, Norfolk estimates that annual spending will decrease to an average of about C$25 million annually. With both growth and replacement needs, capital expenditures for the next 10 years (approximately C$336 million) will mainly be on roads, water, wastewater, and solid waste management infrastructure. The financing sources include primarily reserves and reserves funds (77%) and debt (17%).

Table 2

Norfolk County--Financial Statistics*					
(%)	**2010**	**2009**	**2008**	**2007**	**2006**
Capital expenditure/total expenditure	28.7	17.8	17.9	13.5	19.6
Modifiable revenue/operating revenue	74.9	74.9	65.8	73.2	74.0
Operating balance/operating revenue	11.2	8.6	20.6	14.8	15.2
After capital balance/total revenue	(17.5)	(7.0)	8.5	5.1	(0.9)
Free cash and liquid assets/debt service	490.8	730.8	920.0	447.4	608.2
Tax-supported debt/consolidated operating revenue	37.1	21.7	21.8	27.2	31.4
Interest/operating revenue	1.2	1.3	1.3	1.6	1.9

*Standard & Poor's-adjusted.

Budgetary Performance Constrained By Ambitious Capital Plans

Beginning 2009, all Ontario municipalities were required to adopt full accrual accounting and reporting of tangible assets. 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.

In our view, Norfolk's operating performance was moderate, with an operating surplus of about 11.2% of 2010 operating revenues (Standard & Poor's-calculated). Although it considerably increased from 8.6% in the previous year, it remained lower than the five-year average of 14.1%. This was primarily due to a decrease in provincial grants in 2009 and 2010, which were partly offset by cost cutting initiatives. Standard & Poor's believes that a high operating balance (of typically more than 5% of operating revenues) indicates that a municipality generates self-financing capacity that it can use to partially fund its capital investments. As expected, after-capital results were not as strong in 2010, reflecting a deficit of 17.5% of total revenues. Due to its significant capital plan, we expect that the county's after-capital balances will face stress in the next two years.

Liquidity To Weaken In The Medium Term

Liquidity levels remained healthy in 2010, despite increasing capital spending. Norfolk's free cash and cash equivalents (Standard & Poor's-calculated) were C$35 million, or about 31% of operating expenditures. At this level, it equaled

491% of projected debt service requirements for 2011. With the county's significant capital expenditure, we estimate that liquidity will decline somewhat in the next two years, although to a level that remains satisfactory for the rating.

Debt Levels To Rise But Remain Manageable

At the end of 2010, Norfolk's tax-supported debt was C$49 million, up from C$29 million in 2009, as the county issued C$23 million of new debt to finance its significant capital projects. Tax-supported debt and interest represented 37.1% and 1.2% of 2010 operating revenues, respectively. Based on its 2012 capital plan, we expect to see Norfolk's debt considerably rising in the next 10 years. During this period, the county intends to issue C$56 million, of which C$32 million by 2014. Nevertheless, we estimate that its tax-supported debt to operating revenues should not exceed 60% during our two-year rating horizon.

Moderate Contingent Liabilities

We believe Norfolk does not have significant off-balance-sheet or contingent liabilities. Liabilities related to postemployment benefits and landfill closure costs at the end of fiscal 2010 were equal to about 15% of operating revenues for the year. The 2010 financial statements do not disclose any material unfunded obligations.

Related Criteria And Research

Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

Ratings Detail (As Of July 13, 2012)	
Norfolk County	
Issuer Credit Rating	A/Stable/--
Issuer Credit Ratings History	
16-Jan-2002	A/Stable/--

*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.