STANDARD & POOR'S
RATINGS SERVICES

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Norfolk County

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Norfolk County

Major Rating Factors

Issuer Credit Rating
A/Positive/--

Strengths:

- Strong operating surpluses
- Strong liquidity position
- Manageable debt levels

Weaknesses:

- After-capital deficits that we expect to continue
- Limited economic growth prospects

Rationale

The rating on Norfolk County, in the Province of Ontario, reflects Standard & Poor's Ratings Services' view of the county's strong operating surpluses, strong liquidity position, and moderate debt burden. We believe that after-capital deficits and limited economic growth prospects constrain the rating.

We believe Norfolk's operating surpluses are strong and we expect them to remain above 10% of adjusted operating revenues in the next two years. The county's operating performance has improved in the past three years, to 12.4% in 2011 from 8.6% in 2009, primarily due to higher provincial grants and property tax revenues. We believe that high operating balances should allow the county to finance its capital spending using more pay-as-you-go financing, mitigating debt issuance and allowing it to maintain a moderate debt level.

In our opinion, supporting Norfolk's strong liquidity position are its free cash and liquid assets (Standard & Poor's-calculated), which in 2012 covered 320% of projected debt service requirements for 2013. Although this was lower than in the previous years, we expect them to stay well above 100% of debt service during our two-year outlook horizon. We believe that the county's moderate debt issuance prospects, together with ongoing collection of tax arrears, should boost liquidity levels in the next two years. Further enhancing its liquidity position is the recent sale of Norfolk Power Inc. and the county's access to an undrawn credit facility of C$5 million.

We believe that the county's tax-supported debt remains moderate and expect it to stay below 60% of its consolidated operating revenue in the next two years. Norfolk didn't issue any debt in 2011 and 2012, but it intends to issue about C$9 million in 2013 to fund capital expenditures. Its 2013-2022 capital plan calls for C$50 million in debt issuance; however, as debt issuance occurs after the projects' completion and as some projects are being delayed, we expect lower-than-projected issuance in the next two years. In addition, as the county intends to use investment returns on the proceeds from the sale of Norfolk Power Inc. to finance capital needs, its estimated debt issuance should be lower-than-budgeted over the next decade. Norfolk's tax-supported debt was about 33% of consolidated operating revenues in 2011 and its interest-to-adjusted operating revenues ratio was 1.6%.

We expect Norfolk's after-capital balance to remain in deficit, below 10%, as it continues its sustained capital spending during the next several years. In 2011, with some capital projects delayed, the county's actual capital spending was lower than forecast. This led to a lower after-capital deficit of only 3.7% of adjusted total revenues in 2011, compared with the previous year's 17.5%.

In our opinion, a flat population growth, higher median age, and greater share of dependent population than those of the province could limit Norfolk's economic performance over the next two years, despite recent signs of recovery. In our view, Norfolk's economy is less diversified than that of some of its peers, relying largely on manufacturing, agriculture, and tourism (according to the county, manufacturing employed about 20% of the county's labor force in 2011). Although the county expects new investments and business developments which should add significant number of jobs to the local economy in the next two years, we believe this could lead to further economic concentration.

Outlook

The positive outlook reflects Standard & Poor's expectations that within the two-year outlook horizon, Norfolk will continue to generate steady operating performances, maintain reasonable debt issuance prospects and strong levels of free cash and liquid assets. We could raise the ratings if the county's operating surpluses stay strong, debt levels remain manageable, free cash and liquid assets remain well above 100% of the next 12-months debt service, and financial management continues strengthening. Conversely, we could revise the outlook to stable if after-capital deficits were to increase above 10%, and tax-supported debt to consolidated operating revenues was to be over 60%. In our opinion, a downgrade is unlikely during our outlook horizon.

Comparative Analysis

Norfolk's immediate peer group consists of the counties of Chatham-Kent, Haldimand, and Lambton; and the cities of Sault Ste. Marie and Thunder Bay, all in Ontario.

Norfolk has a much smaller population than that of its peers, except for Haldimand. We believe that the county's economy is somewhat less diversified than that of most of its peers. Its budgetary flexibility is more limited than that of its peers, with own-source revenues being higher only than those of Chatham-Kent. Capital spending as a percentage of total expenditures is somewhat higher than that of its immediate peer group. Norfolk's operating performance was in the middle of the pack of peers in 2009-2011, and its after-capital deficits were higher than those of its peers. Like most Canadian municipalities, Norfolk has a strong liquidity position, although its free cash and liquid assets were below those of peers. The county's debt burden is moderate, higher than that only of Lambton and 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.

Economy

We believe Norfolk's economy is less diversified than that of some of its peers and has limited growth prospects. While the county does not provide local GDP figures, we estimate that it has a much lower average household income than that of the province, which, coupled with relatively lower value-added industries, point to a GDP per capita that is below C$35,000 (see table 1).

In 2012, Norfolk's economy started to show signs of recovery. Value of building permits increased 32% from 2011, while social service caseloads rose only 3% in 2012, compared with growth rates in excess of 10% in recent years. The county's economy has also benefited from more new investments. Of these, one of the most important is a C$2 million expansion plan for Toyotetsu Canada Inc. (an auto-parts manufacturer) which should increase capacity production 50% and add a significant number of jobs to the local economy in the next two years. Nevertheless, we believe this could lead to further economic concentration (according to the county, manufacturing employed about 20% of its labor force in 2011). As well, in our opinion, a flat population growth, higher median age, and dependent population than those of the province could limit economic performance in the near and medium terms.

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	
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 Continues To Develop

Norfolk has improved the release timing for its audited financial statements in the past several years, and this is now in line with that of its peers. We view the financial statements as reasonably comprehensive and transparent. Financial statements are independently audited with no qualifications. On the operating side, the county budgets only for the current budget year and does not provide a medium-term outlook. Operating budget information, however, is detailed and comprehensive. The county produces a 10-year capital plan, including funding. We believe that debt and liquidity management remain prudent.

Adequate Budgetary Flexibility

In our opinion, Norfolk's budgetary flexibility is moderate. The county's modifiable revenues accounted for 74% of adjusted operating revenues in 2011. At this level, although they are higher than the previous-five year average, they remain somewhat lower than those of its similarly rated peers. The county gets its revenues primarily from property taxes (46% in 2011), and user charges (28% in 2011; see chart 1). Its capital spending was 21% of total expenditures, significantly lower than the previous year's 29%, but slightly higher than the five-year average of 20%. Norfolk's largest operating expenses relate to social services, protection, and transportation, totaling about 48% (see chart 2).

Chart 1

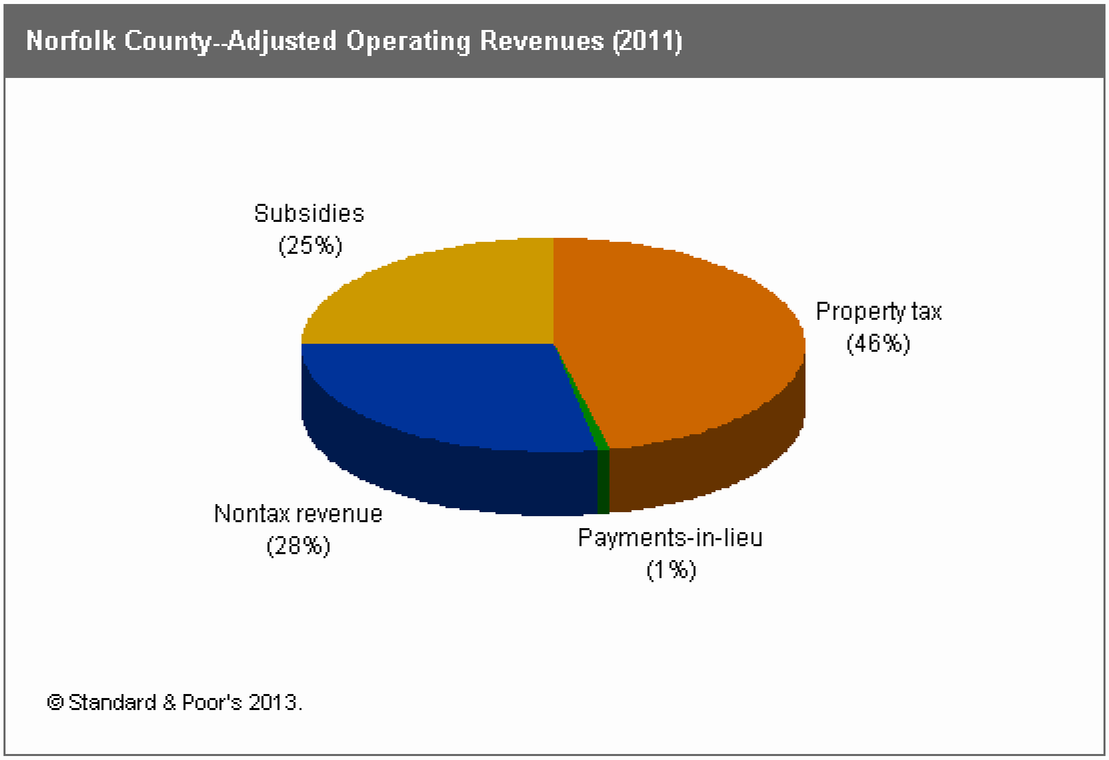
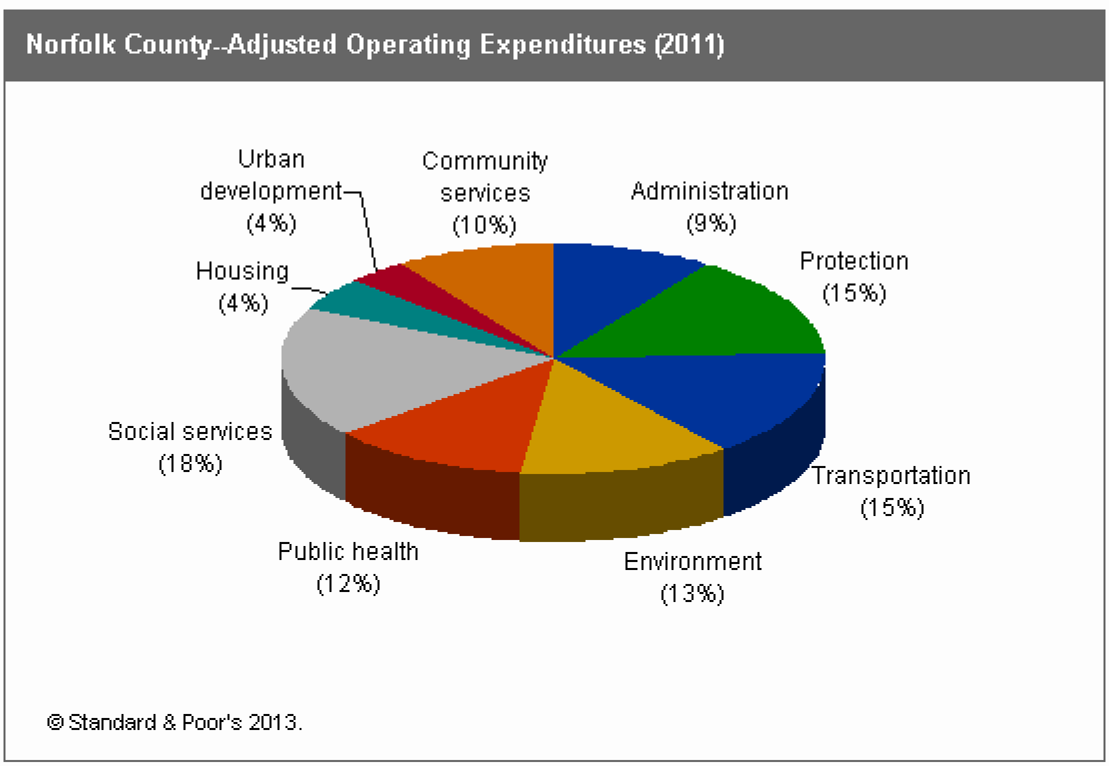


Chart 2



Similar to other Ontario municipalities, Norfolk's main constraint is on the spending side, because many of its services are provincially mandated and multiyear collective agreements cover all employees. In our opinion, the county's budgetary flexibility is also fairly limited given its high tax rates relative to household income as this reduces its ability to increase taxes, especially during economic downturns.

In 2013, Norfolk announced the sale of Norfolk Power Inc. to Hydro One Inc. for C$66 million (after debt repayment). County council intends to place the proceeds in an endowment fund and use the investment income (of about C$3 million annually and estimated to exceed the previous annual dividend) to partially finance projected capital needs. We believe this should help the county's budgetary flexibility and limit debt issuance.

Norfolk's 2013-2022 capital plan amounts to C$326 million, of which it will invest 70% to replace capital assets (principally infrastructure, water and wastewater) and 22% for growth-related investments (such as a C$11.6 million expansion project of the Waterford wastewater treatment facility). Funding sources primarily include reserves and reserve funds (77%) and debt (16%). The 2013 capital budget includes C$48 million in spending, but with some of the growth-related projects being delayed, we expect lower after-capital deficits and lower-than-budgeted debt issuance in the next two years.

Budgetary Performance

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's budgetary performance remains adequate, in our view. Its operating performance has improved to 12.4% in 2011 from 8.6% in 2009, primarily due to higher provincial grants and property tax revenues (see table 2).

Table 2

Norfolk County--Financial Statistics*

(%)	2011	2010	2009	2008	2007
Capital expenditure/total expenditure	21.3	28.7	17.8	17.9	13.5
Modifiable revenue/operating revenue	74.1	74.9	74.9	65.8	73.2
Operating balance/operating revenue	12.4	11.2	8.6	20.6	14.8
After-capital balance/total revenue	(3.7)	(17.5)	(7.0)	8.5	5.1
Free cash and liquid assets/debt service	179.1	554.2	705.1	920.0	447.4
Tax-supported debt/consolidated operating revenue	32.8	37.1	21.7	21.8	27.2
Interest/operating revenue	1.6	1.2	1.3	1.3	1.6

*Standard & Poor's-adjusted.

The county has experienced some volatility in its balance after-capital accounts due to intensive building activity in recent years. As a result, after several years of after-capital surpluses, it recorded deficits from 2009-2011. However, with the delay of some projects in 2011, Norfolk's capital spending was lower than expected. The result was a lower after-capital deficit of only 3.7% of adjusted total revenues in 2011, compared with the previous year's 17.5%. Although we expect the county's operating balance to stay above 10% in the next two years, we believe its after-capital balance will remain in deficit as it continues its sustained capital spending during the next several years.

Strong Liquidity Position

In our opinion, Norfolk's strong liquidity position is supported by its free cash and liquid assets (Standard & Poor's-calculated), which in 2012, covered 320% of projected debt service requirements for 2013. Although this was lower than in the previous years, we expect them to stay above 100% of debt service during our outlook horizon. We believe that the county's moderate debt issuance prospects, together with ongoing collection of tax arrears should boost liquidity levels in the next two years. Further enhancing its liquidity is the sale of Norfolk Power Inc. and the county's access to an undrawn credit facility of C$5 million.

Moderate Debt Levels

We believe that the county's tax-supported debt is moderate and expect it will remain below 60% of its consolidated operating revenue in the next two years. The county didn't issue any debt in 2011 and 2012, but it intends to issue about C$9 million in 2013 to fund capital expenditures. Its 2013-2022 capital plan calls for C$50 million in debt; however, as debt issuance occurs after the projects' completion and as some projects are being delayed, we expect lower-than-projected debt issuance in the next two years. In addition, as the county intends to use investment returns on the proceeds from the sale of Norfolk Power Inc. to finance capital needs, its estimated debt issuance should be lower-than-budgeted during the next decade. Its tax-supported debt was about 33% of consolidated operating revenues in 2011 and its interest-to-adjusted operating revenues ratio was 1.6%.

Contingent liabilities

The county has standard future employee benefits and obligations and landfill postclosure costs that totaled about 14% of 2011 adjusted operating revenue. The 2011 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 June 10, 2013)	
Norfolk County	
Issuer Credit Rating	A/Positive/--
Issuer Credit Ratings History	
04-Jun-2013	A/Positive/--
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.