S&P Global Ratings

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Research Update:

Norfolk County 'AA' Issuer Credit Rating Affirmed; Outlook Is Stable

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Overview

- We expect Norfolk County will maintain strong budgetary results in the next two years, with surpluses after capital accounts.
- The county's healthy reserves will help moderate its reliance on debt to fund capital, which will limit the rise in debt and maintain the debt burden at slightly above 30% by 2027.
- Accordingly, S&P Global Ratings affirmed its 'AA' long-term issuer credit rating on Norfolk County.
- The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, Norfolk will continue posting strong operating margins and after-capital surpluses, and the debt burden will remain modest.

Rating Action

On June 12, 2025, S&P Global Ratings affirmed its 'AA' long-term issuer credit on the County of Norfolk in the Province of Ontario. The outlook is stable.

Outlook

The stable outlook reflects our expectation that, over the next two years, Norfolk will maintain very strong financial results supported by ongoing provincial grants. We expect it will continue to report after-capital surpluses even in the face of elevated capital investment. We also expect the county will keep the debt burden modest and maintain robust liquidity.

Downside scenario

Although we view it as unlikely in the next two years, we could take a negative rating action if the county's revenue is significantly lower than expected due to a meaningful reduction in provincial support or if increasing capital spending weakens financial performance. This could result in sustained after-capital deficits larger than 5% of total revenues and a higher debt burden of close to 60%.

Upside scenario

We could raise the rating in the next two years if Norfolk advances on its capital plan without a material increase in debt beyond our current expectations. In this scenario, we would also expect solid economic growth to support the revenue-generating capacity of the county, allowing it to maintain robust operating performance.

Rationale

Norfolk's capacity to raise taxes and rates, along with higher grants from senior levels of government, has strengthened the county's operating balances in recent years. We expect this strong performance will continue over the next two years.

Although Norfolk is undertaking a large capital plan, we do not anticipate deficits after capital accounts in the next two years; instead, we expect the county will continue to accumulate reserves for its projects while reducing projections for additional debt, thereby keeping the debt burden close to 30% in the next two years. Norfolk's strong liquidity and the highly supportive and predictable institutional framework for Canadian municipalities remain significant strengths that enhance the county's creditworthiness.

We expect agriculture and manufacturing will continue to bolster the local economy; however, a weaker socioeconomic profile remains a constraint.

We believe that Norfolk County, in southwestern Ontario, faces economic constraints due to lower income levels, less-favorable population dynamics, and weaker growth prospects.

The most recent Canadian Census in 2021 showed that almost 26% of the population is over the age of 65, higher than the national average of 19%. Despite the expansion of key industries such as manufacturing and agriculture, the county's growth potential is hampered by an insufficient workforce, primarily due to the aging population spurred by the growth of retirement communities. Furthermore, the county's location is less favorable than that of peers due to its relative remoteness from major cities and transportation routes. Moreover, considering the current situation associated with international trade disputes and recent experience weathering the effects of tariffs, our base-case assumption is that the local economic fundamentals will remain stable. For further information, see "Global Macro Update: Seismic Shift In U.S. Trade Policy Will Slow World Growth," May 1, 2025, and "Global Credit Conditions Special Update: U.S.-China Tariff De-Escalation Brings Some Temporary Relief," May 15,2025). We estimate that Norfolk's GDP per capita is below that of Canada, which we estimate at about US$54,800 in 2025.

We believe management has adequate expertise in implementing policy changes. Management presents to the county council a one-year, detailed, tax-supported operating budget; a one-year, rate-supported operating budget; and 10-year, tax- and rate-supported detailed capital plans, with corresponding funding sources. We believe debt and liquidity management is prudent, with a formal investment policy and a conservative internal debt limit.

As do other Canadian municipalities, Norfolk benefits from an extremely predictable and supportive local and regional government framework that has demonstrated high institutional stability and evidence of systemic extraordinary support in times of financial distress. Most recently through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. 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) through reserve contributions. Municipalities have demonstrated a track record of strong budget results and, therefore, debt burdens, on average, are low relative to those of global peers and growth over time has been modest.

Operating results will remain very strong, supported by consistent grant funding, while the county limits its reliance on debt despite a sizable capital plan.

Due largely to the grants received from the provincial government to address the county's socioeconomic needs, we expect Norfolk will achieve very strong operating performance, with balances averaging 28% of operating revenues during 2023-2027. We believe that the ongoing provincial funding has allowed the county to redirect operating surpluses, spurred by increases in property tax revenues and rates, into reserves designated for future projects. However, we believe that continued increases in the property tax rate and water rates could be challenging to implement as residents struggle with affordability.

Continued investment in capital will be critical for promoting growth and maintaining assets in good repair, in our view. We will monitor capital expenditures as the county draws on its reserves to fund these necessary capital projects. We expect average surpluses after capital expenditures will be about 6.7% of total revenue in 2025-2027. The primary capital projects focus on water and wastewater services, as well as environmental infrastructure, including roads and rehabilitation or reconstruction programs. The capital plan totals C$1.1 billion over the next 10 years, of which 52% will be funded by reserves and 29% by debt.

As Norfolk moves forward with its capital plan, we estimate that debt will reach 34% of operating revenues by 2027. We believe that the combination of the use of reserves and provincial grants will allow the county to manage its debt burden and reduce its reliance on additional debt issuance. We expect additional borrowing of about C$35 million in 2025-2027. We also believe interest payments will remain modest, averaging 1% of operating revenues during the outlook period. In our opinion, the county has minimal contingent liabilities, stemming largely from retirement-related benefits and landfill post-closure costs.

In our view, the county's liquidity is exceptional. We estimate total free cash is about C$225 million and covers about 26x the estimated debt service over the next 12 months. We expect this ratio will remain above 100% during the outlook horizon. Similar to that of domestic peers, Norfolk's access to external liquidity is satisfactory, in our view.

Key Statistics

Table 1

Norfolk County -selected indicators

(Mil. C$)	2021	2022	2023	2024bc	2025bc	2026bc	2027bc
Selected indicators							
Operating revenues	211	227	241	262	260	266	271
Operating expenditures	155	174	169	183	190	196	202
Operating balance	56	54	71	80	71	70	70
Operating balance (% of operating revenues)	27	24	30	30	27	26	26
Capital revenues	17	21	16	10	42	36	13
Capital expenditures	46	48	56	60	90	71	80
Balance after capital accounts	27	27	31	29	22	35	3
Balance after capital accounts (% of total revenues)	12	11	12	11	7	12	1
Debt repaid	7	7	7	7	7	6	6
Gross borrowings	0	16	7	0	7	0	28
Balance after borrowings	20	37	31	22	22	29	24
Direct debt (outstanding at year-end)	75	85	85	78	77	71	93
Direct debt (% of operating revenues)	36	37	35	30	30	27	34
Tax-supported debt (outstanding at year-end)	75	85	85	78	77	71	93
Tax-supported debt (% of consolidated operating revenues)	36	37	35	30	30	27	34
Interest (% of operating revenues)	1	1	1	1	1	1	1
Local GDP per capita (single units)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
National GDP per capita (single units)	66,313	73,221	73,192	74,332	76,770	79,444	81,805

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' 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. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

Norfolk County--ratings score snapshot

Key rating factors	Scores
Institutional framework	1
Economy	3

Table 2

Norfolk County--ratings score snapshot (cont.)

Key rating factors	Scores
Financial management	3
Budgetary perfomance	1
Liquidity	1
Debt burden	1
Stand-alone credit profile	aa
Issuer credit rating	AA

Key Sovereign Statistics

- Sovereign Risk Indicators, April 10, 2025. An interactive version is available at http://www.spratings.com/sriSovereign Risk Indicators, April 10, 2025. An interactive version is available at http://www.spratings.com/sri

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Canadian Municipalities Are Well Positioned To Weather Temporary Trade Disruption, June 2, 2025
- Global Credit Conditions Special Update: U.S.-China Tariff De-Escalation Brings Some Temporary Relief, May 15, 2025
- Global Macro Update: Seismic Shift In U.S. Trade Policy Will Slow World Growth, May 1, 2025
- Subnational Government Outlook 2025: Canadian LRG Revenues Will Play Catchup To Meet Higher Operating Costs And Stabilize Debt Growth, Jan. 16, 2025
- S&P Global Ratings Definitions, Dec. 2, 2024
- Risk Indicators For Canadian Local And Regional Governments: Strong Fiscal Management Is Key To Withstand Population Pressures, Sept. 19, 2024
- Institutional Framework Assessment: Canadian Municipalities Employ Flexibilities Within Fiscal Framework To Temper Cost Pressures, April 2, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Norfolk County	
Issuer Credit Rating	AA/Stable/--