S&P Global Ratings

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County of Norfolk

July 13, 2022

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This report does not constitute a rating action.

Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Supportive institutions and prudent financial management will continue to underscore Norfolk County's creditworthiness.	*We expect sizable capital spending will lead to larger after-capital deficits and more debt issuance during the forecast horizon.*
Despite the impact of the COVID-19 pandemic, Norfolk's major employers continue to provide economic stability.	Norfolk will continue to generate large positive operating results from its stable tax base as the impact of the pandemic diminishes.
Strong financial management will continue to allow the county to post healthy operating balances.	The county will finance its capital plan in part through debt issuance.
We believe the county's relationship with the Province of Ontario will remain predictable and balanced.	The county's strong liquidity position will continue to support its creditworthiness.

S&P Global Ratings' long-term issuer credit rating on Norfolk County is 'AA.' Despite challenges stemming from the county's economic profile, which reflects limited growth prospects and a less-favorable socioeconomic profile, we anticipate that Norfolk will continue to generate solid operating surpluses over the next few years. In turn, these surpluses will help to partially fund sizable capital developments. The county continues its moderate reliance upon debt financing for capital purposes, and we expect tax-supported debt will reach 45% of operating revenues in 2024. We expect Norfolk will maintain its strong liquidity position.

Outlook

The stable outlook reflects our expectation that in the next two years, Norfolk will post after-capital deficits, largely due to its expanding capital plan. We also expect the county's tax-supported debt will remain below 60% of operating revenues through 2024, and that Norfolk will preserve sufficient total free cash to more than cover upcoming debt service.

Downside scenario

We could lower the rating during the next two years if aggressive capital spending leads to after-capital deficits above 5% of adjusted total revenues, on average, and pushes Norfolk's tax-supported debt to more than 120% of operating revenues, and we expect such a scenario would persist over the forecast horizon. We view this scenario as unlikely.

Upside scenario

We could raise the rating in the next two years if budgetary performance strengthens such that after-capital balances as a portion of adjusted operating revenues are consistently positive, and if strong operating revenue performance or less reliance on debt financing led to tax-supported debt falling to less than 30% of operating revenues during the forecast horizon. However, we view this scenario as unlikely.

Rationale

The county's local economy will continue to experience limited growth prospects and a weaker socioeconomic profile relative to the national economy, while institutions will remain supportive.

We believe that Norfolk's lower income levels, less-than-favorable population dynamics, and weaker growth prospects constrain the economy. As of the most recent Canadian Census, almost 26% of the population is over the age of 65, higher than the national average of 19%. These aging demographics, spurred by the growth of local retirement communities, could negatively affect the labor pool and hinder investment in Norfolk, in our view. Although several key industries such as manufacturing and agriculture have expanded over the past year, lack of sufficient labor force supply and the existing infrastructure gap continue to affect potential growth. In addition, we consider the county's location as less favorable compared with that of peers, based on Norfolk's relative remoteness from major cities and transportation routes. Although municipal GDP data are unavailable, we estimate that Norfolk's GDP per capita is below that of Canada, which we estimate at about US$56,000, based on the county's lower income levels.

We believe management has adequate expertise in implementing policy changes. The county presents a one-year, detailed, tax-supported operating budget. It continues to produce a one-year, rate-supported operating budget, and 10-year tax- and rate-supported detailed capital plans, with corresponding funding sources. We believe that 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; debt burdens, on average, are low compared with those of global peers and growth over time has been modest.

We expect sizable capital spending will lead to larger after-capital deficits and more debt issuance during the forecast horizon.

Despite the impact of pandemic-driven lockdowns, the county generated stronger-than-usual returns during 2021, fueled by effective cost-containment measures, a stable and growing property tax base, and generous support from senior levels of government. We expect that Norfolk will generate positive operating balances, averaging 21% of adjusted operating revenues and after-capital balances averaging 5% of adjusted total revenues during the forecast period. However, following the drop-off in pandemic-driven government support, we expect some moderate weakening in after-capital balances. Over the next several years, the county expects to spend about C$262 million in capital expenditures from 2022-2025, which we estimate will lead to larger after-capital deficits starting in 2024. These are primarily spurred by water and wastewater infrastructure requirements.

We estimate debt will continue rising as Norfolk proceeds with its capital plan. We expect additional borrowings of about C$38 million in 2022-2024, bringing tax-supported debt to about 45% of operating revenues by 2024. We believe that interest payments will remain very modest, at less than 2% of operating revenues over the outlook period. At the same time, in our opinion, the county has minimal contingent liabilities. Liabilities stemming from retirement-related benefits and landfill post-closure costs equaled about 13% of consolidated operating revenues in 2021.

In our view, the county's liquidity is exceptional. In our estimate, total free cash is about C$170 million and covers about 18x estimated debt service over the next 12 months. We expect this ratio will remain above 100% during the outlook horizon. Similar to that of its domestic peers, Norfolk's access to external liquidity is satisfactory, in our view.

Norfolk County Selected Indicators

Mil. C$	2019	2020	2021	2022bc	2023bc	2024bc
Operating revenue	178	197	211	200	203	207
Operating expenditure	156	151	155	159	165	170
Operating balance	22	46	56	41	39	38
Operating balance (% of operating revenue)	12.4	23.4	26.5	20.3	18.9	18.1
Capital revenue	10	16	17	16	23	18
Capital expenditure	40	40	46	44	55	68
Balance after capital accounts	(7)	22	27	12	7	(13)
Balance after capital accounts (% of total revenue)	(3.9)	10.3	11.8	5.7	2.9	(5.6)
Debt repaid	5	7	7	7	7	7
Gross borrowings	27	21	0	18	0	21
Balance after borrowings	14	37	20	24	(1)	1
Direct debt (outstanding at year-end)	76	82	75	87	79	93
Direct debt (% of operating revenue)	42.6	41.6	35.7	43.3	39.0	44.9
Tax-supported debt (outstanding at year-end)	76	82	75	87	79	93
Tax-supported debt (% of consolidated operating revenue)	42.6	41.6	35.7	43.3	39.0	44.9
Interest (% of operating revenue)	1.1	1.3	1.1	1.0	1.2	1.1
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	46,328.7	43,258.3	51,987.9	56,006.4	58,012.8	58,081.4

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. C$--Canadian dollar. $--U.S. dollar.

Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	1
Economy	3
Financial management	3
Budgetary performance	2
Liquidity	1
Debt burden	2
Stand-alone credit profile	aa
Issuer credit rating	AA

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "**Methodology For Rating Local And Regional Governments Outside Of The U.S.**," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

Sovereign Risk Indicators, April 11, 2022. Interactive version available at http://www.spratings.com/sri.

Related Criteria

- Sector And Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Feb. 23, 2022
- 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

- Economic Outlook Canada Q3 2022: Near-Term Growth To Slow Amid Faster Rate Hikes And Surging Inflation, June 27, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022
- Institutional Framework Assessments For International Local And Regional Governments, May 18, 2022

- S&P Global Ratings Definitions, Nov. 9, 2021
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

Ratings Detail (as of July 13, 2022)*

Norfolk County	
Issuer Credit Rating	AA/Stable/--
Issuer Credit Ratings History	
01-Jun-2022	AA/Stable/--
18-Jun-2015	AA-/Stable/--
24-Jun-2014	A+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings 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.