County of Norfolk

June 14, 2023

This report does not constitute a rating action.

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Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
Supportive institutions and prudent financial management will continue to underscore Norfolk County's creditworthiness.	Sizable capital spending related to water supply and infrastructure projects will lead to larger after-capital deficits and more debt issuance.
The manufacturing and agribusiness sectors will continue to provide economic stability, despite some obstacles related to Norfolk's less-favorable socioeconomic profile.	Norfolk will continue to generate large positive operating results from its stable tax base.
We believe the county's relationship with the Province of Ontario will remain predictable and balanced.	A strong liquidity position will continue to support the county's creditworthiness.

S&P Global Ratings' long-term issuer credit rating on Norfolk County is 'AA'. The county has sound financial management and planning practices, which we believe allow it to contain debt at healthy levels in the face of significant capital needs. As it proceeds with its increasing capital plan, we expect that Norfolk will post after-capital deficits, which we expect it will finance with a combination of accumulated reserves and debt. We project that the debt burden will be 53% of operating margins in 2025 and consider that there is room for further debt accumulation at the current rating level. We view the county's exceptional liquidity position as a key credit strength.

Norfolk has a weaker demographic profile than that of its peers, which tempers our view of its economy.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that, in the next two years, Norfolk will maintain overall sound financial results but post after-capital deficits, due to its extensive capital plan. We also expect the county will keep debt below 60% of operating revenues and maintain a robust liquidity position to more than cover upcoming debt service.

Downside scenario

In the next two years, we could lower the ratings if the county's revenue is materially lower than expected or aggressive capital spending weakens the budgetary performance, resulting in after-capital deficits above 5% of total revenues on a sustained basis and additional tax-supported debt of more than 120% of operating revenues persisting over the forecast horizon.

Upside scenario

We could raise the ratings in the next two years if Norfolk demonstrated budgetary performances strengths such that after-capital balances as a portion of adjusted operating revenues are consistently positive, and if 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 local economy is bolstered by the manufacturing and agricultural sectors; however, the county has a weaker socioeconomic profile relative to the national economy.

Although Norfolk continues to make efforts to expand its population, we believe that its lower income levels, less-than-favorable population dynamics, and weaker growth prospects constrain the economy. As of the most recent Canadian Census 2021 almost 26% of the population is over the age of 65, higher than the national average of 19%. The aging population, spurred by the growth of local retirement communities, could negatively affect the labor pool. Key industries such as manufacturing and agriculture have expanded; however, in our view, the lack of sufficient labor force continue to hamper potential growth. In addition, we consider the county's location as less favorable than 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$54,700.

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 that debt and liquidity management is prudent, with a formal investment policy, which is in the process of being changed to a more efficient 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; however, sizable capital plans will lead to after-capital deficits and more debt issuance during and beyond the forecast horizon.

Despite deficits after-capital accounts that will lead to debt accumulation during and beyond the forecast period, we believe that debt will remain below 120% of revenue. Stronger-than-usual returns during 2020-2022 were fueled by effective cost-containment measures, growing property tax revenues mainly due to a steady base and increasing rates, and significant support from senior levels of government for social services, health care, and social housing, which we expect will continue despite some uncertainty regarding the size of the grants.

However, after-capital balances will weaken due to water supply and infrastructure projects that were deferred during the pandemic. Norfolk’s capital plan budgets C$530 million from 2023-2027, which will be financed mostly with C$289 million in debt and C$207 million from reserves.

We estimate debt will continue rising as Norfolk proceeds with its capital plan. We expect additional borrowing of about C$69 million in 2022-2025, bringing tax-supported debt to about 53% of operating revenues by 2025. We believe that interest payments will remain very modest, at less than 5% 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 12% of consolidated operating revenues in 2022.

In our view, the county's liquidity is exceptional. In our estimate, total free cash is about C$167 million and covers about 19x 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$	2020	2021	2022bc	2023bc	2024bc	2025bc
Operating revenue	197	211	228	211	214	217
Operating expenditure	151	155	171	174	176	178
Operating balance	46	56	57	37	38	39
Operating balance (% of operating revenue)	23.4	26.5	24.9	17.7	17.9	18.2
Capital revenue	16	17	27	18	14	10
Capital expenditure	40	46	50	65	68	70

Norfolk County Selected Indicators

Balance after capital accounts	22	27	34	(10)	(15)	(21)
Balance after capital accounts (% of total revenue)	10.3	11.8	13.3	(4.5)	(6.8)	(9.1)
Debt repaid	7	7	7	7	7	7
Gross borrowings	21	0	16	8	10	35
Balance after borrowings	37	20	44	(10)	(13)	7
Direct debt (outstanding at year-end)	82	75	85	86	88	115
Direct debt (% of operating revenue)	41.6	35.7	37.3	40.6	41.0	53.2
Tax-supported debt (outstanding at year-end)	82	75	85	86	88	115
Tax-supported debt (% of consolidated operating revenue)	41.6	35.7	37.3	40.6	41.0	53.2
Interest (% of operating revenue)	1.3	1.1	0.9	1.2	1.2	1.3
Local GDP per capita ($)	--	--	--	--	--	--
National GDP per capita ($)	43,349.7	52,358.6	54,966.5	54,764.1	56,363.5	59,299.6

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 10, 2023. Interactive version 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 Criteria, Feb. 16, 2011

Related Research

- Economic Outlook Canada Q2 2023: A Dip Is Expected, Though Resilience Persists, March 27, 2023
- Sector and Industry Variables | Criteria | Governments | Sovereigns: Sovereign Rating Methodology, March 24, 2023

- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022
- Institutional Framework Assessment: Canadian Municipalities, June 1, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021

Ratings Detail (as of June 14, 2023)*

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.