

1    Q.    Please provide the most current copies of all credit rating reports for Newfoundland  
2           and Labrador Hydro, Nalcor, and the Government of Newfoundland and Labrador.

3

4

5    A.    Newfoundland and Labrador Hydro is rated by the Dominion Bond Rating Service  
6           (“DBRS”) as a flow-through of the rating of the Province of Newfoundland and  
7           Labrador. The August 2014 DBRS report, as referenced on Page 3.35 of Hydro's  
8           Amended Application, is the most current one available.

9

10          Nalcor does not have a credit rating at this time.

11

12          Current ratings of the Province (as of March 23, 2015) are as follows:

- 13                •    Standard and Poor’s – A+/Stable/A- 1+ (see NP-NLH-323 Attachment 1)
- 14                •    DBRS – A/Stable/R-1 Low (See NP-NLH-323 Attachment 2)

## Province of Newfoundland and Labrador 'A+' Ratings Affirmed On Strong Financial Management And Adequate Liquidity

Publication date: 30-Jan-2015 16:21:50 EST

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[View Analyst Contact Information](#)

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### OVERVIEW

- We are affirming our 'A+' long-term issuer credit and senior unsecured debt ratings on the Province of Newfoundland and Labrador.
- We are also affirming our 'A+' senior unsecured debt ratings on Newfoundland and Labrador Hydro.
- The affirmation reflects our favorable view of the province's strong economy and financial management, adequate liquidity, and average budgetary flexibility, as well as the very predictable and well-balanced institutional framework for Canadian provinces.
- The stable outlook reflects our expectations that, in the next two years, Newfoundland's liquidity will remain strong despite some potential drawdowns, its economy will continue to generate high GDP per capita, its budgetary performances will improve when oil prices recover, and its tax-supported debt burden will not rise above 120% of projected operating revenues.

### RATING ACTION

On Jan. 30, 2015, Standard & Poor's Ratings Services affirmed its 'A+' long-term issuer credit and senior unsecured debt ratings on the Province of Newfoundland and Labrador. The outlook is stable. At the same time, Standard Poor's affirmed its 'A+' senior unsecured debt and 'A-1+' short-term ratings on Newfoundland and Labrador Hydro (NLH), both of which are based on the province's guarantee.

### RATIONALE

The ratings reflect Standard & Poor's view of Newfoundland's strong economy and financial management and very predictable and well-balanced institutional framework for Canadian provinces. The ratings also reflect the province's weak budgetary performance, high contingent liabilities, and very high debt burden. Newfoundland's average budgetary flexibility and adequate liquidity levels are neutral to the ratings.

We believe Canada's provincial-federal institutional framework is very predictable and well-balanced. Newfoundland receives significant transfers from the federal government through Canada Health Transfer and Canada Social Transfer payments. Total transfers (operating and capital) represented C\$1.0 billion in fiscal 2014 (year ended March 31), or about 14% of operating revenues.

The province's financial management is strong, in our view. Notes and schedules provide detailed information about all government activities. Newfoundland issues summary financial statements that include agencies, boards, and commissions. It reports government business enterprises on a modified equity basis but the financial statements include abbreviated financial information. The independent auditor-general audits financial statements. The province provides detailed line-by-line financial information in its budget for the current budget year only. Newfoundland follows several strategies to manage the volatility that comes from its exposure to the oil industry. It has allocated large budgetary windfalls, which arose when royalties surged, to lower debt, stockpile reserves, and improve tax competitiveness. The province has also generally used what we consider to be conservative underlying budget assumptions.

Newfoundland benefits from a wealthy economy that we consider to be strong. The province's nominal GDP per capita, which we estimate at about US\$63,400 in 2014 (based on a three-year average), is above the national average. Despite Newfoundland's high GDP per capita, we view the provincial economy as average under our criteria, due to the economy's large exposure to the oil and mining industries. Real and nominal GDP jumped 7.2% and 10.7%, respectively, in 2013 as the provincial economy rebounded strongly from scheduled maintenance shutdowns in the oil sector in 2012. The unemployment rate rose in 2014 to 11.9% from 11.6% a year earlier, and employment fell by 1.7%. The province forecasts that real GDP declined by 2.0% in 2014 but expects growth of 1.7% in 2015.

In our view, Newfoundland has average budgetary flexibility. Modifiable revenues represented about 87% of adjusted operating revenues in fiscal 2014. The main modifiable revenues are taxes (personal and corporate income and sales), and dividends from government business enterprise. We expect modifiable revenues to remain above 80% of adjusted operating revenues in the next two years. Capital spending accounted for about 15% of total expenditure in 2014. Under our base-case scenario, we estimate that modifiable revenues and capital spending represent 92% of operating revenues and 12% of total expenditures, respectively, for fiscal years 2013–2017. Flexibility is constrained on the spending side, in our opinion. Health care cost escalation has been problematic for all provinces, owing to an aging population, rising drug costs, wage escalation, among others. As a result, we believe

Newfoundland's leeway to cut spending, like that of all Canadian provinces, will remain limited.

Newfoundland's budgetary results are what we view as weak. In fiscal 2014, the province produced an operating surplus of 9.3% of adjusted operating revenues which was down from 10.7% in fiscal 2013. The fiscal 2014 after-capital deficit of 5.7% of total revenues was deterioration from the 0.2% deficit the previous year. The wider capital deficit was the result of a smaller operating surplus and higher capital spending. Newfoundland's strong budgetary performance in recent years was mostly revenue-driven, with offshore oil royalty rates, together with increased oil and mineral production keeping royalty revenues high. Oil royalty revenues have fallen dramatically with the plunge in oil prices. The province expects offshore oil revenues to be close to C\$800 million lower than forecast in the 2014 budget. We expect Newfoundland will produce an operating surplus of 3% of projected operating revenues in fiscal 2015 and an after-capital deficit of about 13% of projected total revenues; however, both results could weaken, possibly significantly. The province has taken some steps to reduce costs. Under our base-case forecast for fiscal years 2013-2017, we expect that Newfoundland will record an average operating surplus of about 4% of adjusted operating revenue and average after-capital deficits of close to 8% of total revenues. In our opinion, the province's budgetary performance is subject to considerable volatility, given its high reliance on resource royalties, which accounted for nearly 30% of adjusted operating revenues in fiscal 2014.

We view Newfoundland's debt burden as very high. At the end of fiscal 2014, tax-supported debt, which includes direct debt and guarantees, stood at about C\$6.2 billion, down slightly (about 1%) from the previous year. The province did not issue any debt in fiscal 2014, using its cash instead to meet maturities. The burden of tax-supported debt represented 89% of adjusted consolidated operating revenues in fiscal 2014, essentially unchanged from the year before. Newfoundland's interest burden was 12% of operating revenues in fiscal 2014. In our base-case scenario, we expect the province's tax-supported debt to remain below 120% of adjusted consolidated operating revenues in the next two years and interest payments should be above 9% of adjusted operating revenues. Newfoundland also has large unfunded pension liabilities, under our criteria. As of Mar. 31, 2014, its defined-benefit plans had a net unfunded liability of C\$3.9 billion and the unfunded liability for other postemployment benefits (group health and life insurance) stood at about C\$2.6 billion. Together, they represented 93% of adjusted operating revenues. For fiscal 2015, the province will borrow about C\$1.0 billion. We expect that borrowing requirements will stay high as long as oil prices remain well below pre-plunge values. We expect tax-supported debt to rise above 100% of projected operating revenues in fiscal 2015. If oil prices do not recover meaningfully, tax-supported debt should be close to 120% in fiscals 2016 and 2017.

Newfoundland's high contingent liabilities also constrain the ratings. The province's primary contingent risk relates to its wholly-owned local energy provider, Nalcor Energy, a holding company that owns NLH. NLH's consolidated operations include a vertically integrated, regulated electrical utility in St. John's; a 65.8% interest in Churchill Falls (Labrador) Corp. (CFLCo.); an a 51% interest in Lower Churchill Development Corp. Ltd. CFLCo in turn has voting control of and holds a 33% interest in Twin Falls Power Corp. Ltd. Newfoundland has guaranteed NLH's debt, which stood at an estimated C\$800 million (net of face-value sinking funds), or an estimated 11% of the province's adjusted operating revenues in fiscal 2014. Newfoundland is committed to developing the Muskrat Falls project. Nalcor will be the vehicle for the project, which will cost an estimated C\$7.0 billion. Although the decision to proceed with the project bodes well for the economy, it could expose the province to substantial construction risk and borrowing requirements in the next several years.

#### Liquidity

Newfoundland's liquidity is adequate, as our criteria define the term. At fiscal year-end 2014, the province had cash and temporary investments of about C\$1.6 billion, down from C\$2.0 billion at the end of fiscal 2013. As well, it has strong access to Canada's well-developed capital markets, in our view. By our liquidity calculations, Newfoundland had free cash and liquid assets of about C\$1.4 billion. We estimate that free cash, liquid assets, and committed facilities will represent about 75% of the next 12 months' debt service as of March 31, 2015. We believe the province's liquidity levels could decline in the next two years as it deploys some of cash and investment holdings to fund capital (and reduce potential debt issuance) or meet maturing debt obligations.

#### OUTLOOK

The stable outlook reflects our expectation that, under our base-case scenario, Newfoundland's liquidity will remain strong despite some potential drawdowns, its economy will continue to generate high GDP per capita, and budgetary performances will improve when oil prices recover. We expect that tax-supported debt will not rise above 120% of projected operating revenues in the next two years. We also expect ongoing capital investment in major resource projects to support the province's employment levels and tax revenues.

We would raise the ratings if, all else being equal, we foresaw a material reduction in potential contingent liabilities, after-capital results improved to near-balance, and the tax-supported debt burden began to return to levels before the plunge in oil prices. We could consider a negative rating action if we saw sustained deterioration in economic prospects or liquidity levels fell

substantially, coupled with weaker-than-expected budgetary performance (operating surpluses below 5% of operating revenues).

## KEY STATISTICS

**Table 1**

### Province of Newfoundland and Labrador -- Economic Statistics

	--Fiscal year ended March 31--				
(%)	2011	2012	2013	2014bc	2015bc
Population (total)	525,037	526,874	528,194	526,977	527,397
Population growth	0.6	0.3	0.3	(0.2)	0.1
GDP per capita (C\$)	63,799	61,428	67,839	66,322	64,189
Real GDP growth	3.1	(4.5)	7.2	(2.0)	1.7
Unemployment rate	12.6	12.3	11.6	11.9	11.7

The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international sources, reflect Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. Sources typically include Statistics Canada.

**Table 2**

### Province of Newfoundland and Labrador -- Financial Statistics

	--Fiscal year ended March 31--				
(Mil. C\$)	2011	2012	2013	2014bc	2015bc
Operating revenues	7,749	7,041	6,966	6,972	6,472
Operating expenditures	6,316	6,289	6,320	6,739	6,739
Operating balance	1,433	752	646	233	(267)
Operating balance (% of operating revenues)	18.5	10.7	9.3	3.3	(4.1)
Capital revenues	104	109	60	78	78
Capital expenditures	781	875	1,107	1,226	600
Balance after capital accounts	756	(14)	(401)	(915)	(789)
Balance after capital accounts (% of total revenues)	9.6	(0.2)	(5.7)	(13.0)	(12.0)
Debt repaid	289	77	65	355	339
Balance after debt repayment and onlending	467	(91)	(466)	(1,270)	(1,128)
Balance after debt repayment and onlending (% of total revenues)	5.9	(1.3)	(6.6)	(18.0)	(17.2)
Gross borrowings	0	N/A	N/A	0	789
Balance after borrowings	467	(91)	(466)	(1,270)	(339)
Operating revenue growth (%)	6.2	(9.1)	(1.1)	0.1	(7.2)
Operating expenditure growth (%)	3.7	(0.4)	0.5	6.6	0.0
Modifiable revenues (% of operating revenues)	82.6	88.6	86.8	86.5	100.0
Capital expenditures (% of total expenditures)	11.0	12.2	14.9	15.4	8.2
Direct debt (outstanding at year-end)	4,942	4,820	4,758	5,591	6,041
Direct debt (% of operating revenues)	63.8	68.5	68.3	80.2	93.3

Tax-supported debt (% of consolidated operating revenues)	83.2	89.9	89.4	104.5	119.5
Interest (% of operating revenues)	4.9	5.1	5.2	9.9	10.6
Debt service (% of operating revenues)	8.7	6.2	6.2	15.0	15.9

Note: The data and ratios above result in part from Standard & Poor's own calculations, drawing on national as well as international source reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The sources are the financial statements and budgets, as provided by the issuer. Base case reflects Standard & Poor's expectations of the most likely scenario. Downside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with an upgrade. bc--Base case.

## RATINGS SCORE SNAPSHOT

**Table 3**

### Province of Newfoundland and Labrador -- Ratings Score Snapshot

Key rating factors	Assessment
Institutional Framework	Very predictable and well-balanced
Economy	Strong
Financial Management	Strong
Budgetary Flexibility	Average
Budgetary Performance	Weak
Liquidity	Adequate
Debt Burden	Very high
Contingent Liabilities	High

Note: Standard & Poor's ratings on local and regional governments are based on eight main rating factors listed in the table above. Section Standard & Poor's "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the factors are combined to derive the foreign currency rating on the government.

## KEY SOVEREIGN STATISTICS

**Sovereign Risk Indicators**, Dec. 15, 2014. Interactive version available at <http://www.spratings.com/sri>

## RELATED CRITERIA AND RESEARCH

### Related Criteria

- **Methodology For Rating Non-U.S. Local And Regional Governments**, June 30, 2014

### Related Research

- **Institutional Framework Assessments For Non-U.S. Local And Regional Governments**, June 30, 2014
- **Canada Economic Outlook: Another Year Or Two Of Disappointing Growth**, Sept. 29, 2014

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.

[Feedback | Amer](#)

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issue 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

##### Newfoundland and Labrador (Province of)

Issuer credit rating	A+/Stable/A-1+
Senior unsecured debt	A+
Senior unsecured debt	AA
Commercial paper	
Global scale	A-1+
Canada scale	A-1(High)

##### Newfoundland and Labrador Hydro

Senior unsecured debt	A+
Commercial paper	
Global scale	A-1+
Canada scale	A-1(High)

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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Insight beyond the rating.

**Rating Report**

**Report Date:**  
December 4, 2013

**Previous Report:**  
August 10, 2012

# Province of Newfoundland and Labrador

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**The Province**

Newfoundland and Labrador is the eastern-most province in Canada. It is heavily reliant on natural resources, particularly oil and the mining sector. With nominal GDP of \$34 billion in 2012, Newfoundland and Labrador ranks ninth among Canadian provinces by population and eighth by size of economy.

**Rating**

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Short-Term Debt*	R-1 (low)	Confirmed	Stable
Long-Term Debt*	A	Confirmed	Stable

\*Issued/guaranteed by the Province, including Newfoundland and Labrador Hydro and Newfoundland and Labrador Municipal financing Corporation.

**Rating Update**

DBRS has confirmed the Issuer Rating of the Province of Newfoundland and Labrador (Newfoundland or the Province) at “A,” along with its Long-Term Debt and Short-Term Debt at “A” and R-1 (low), respectively. All trends remain Stable. Volatile commodity prices, which have a significant bearing on the provincial treasury, have caused the plan to return to balance to be extended by one year. DBRS acknowledges the solid progress made by the Province to manage the debt burden and improve liquidity; however, amid softening revenues, renewed fiscal resolve will be required to achieve fiscal balance. Additionally, despite the favourable long-term economic benefits that will be accrued from the Lower Churchill River hydroelectric project (Lower Churchill Project), the project presents near-term risk to the outlook as it will likely reduce reserve levels while increasing debt levels materially so, should there be cost overruns.

As public accounts are yet to be released, based on preliminary results, the Province reported a weaker-than-expected \$431 million deficit in 2012-13, which translates to a DBRS-adjusted shortfall of \$758 million, or 2.2% of gross domestic product (GDP) – a deterioration from the surplus posted in the prior year. Driving the weaker fiscal results were a decline in royalties stemming from extended maintenance shutdowns at all three of the Province’s offshore oil-producing projects and Brent crude prices averaging USD 112/barrel during the year – well below the USD 124/barrel budget assumption. Consequently, total revenues missed projections notably, slumping by 14.2% year over year, despite a healthy rise in taxation receipts. (Continued on page 2.)

**Rating Considerations****Strengths**

- (1) Manageable debt burden and prudent debt profile
- (2) Demonstrated fiscal discipline
- (3) Strong liquidity position
- (4) Significant energy resources
- (5) Competitive personal income tax structure

**Challenges**

- (1) Reliance on volatile non-renewable resource sector
- (2) Below-average economic diversification and demographics
- (3) Significant unfunded pension liabilities
- (4) Potential financing needs of the Lower Churchill Project

**Financial Information**

(all financial figures DBRS adjusted)	For the Year ended March 31				
	2013-14B	2012-13P	2011-12	2010-11	2009-10
Debt (\$ millions)	9,538	9,108	8,983	9,019	8,971
Debt/GDP	25.9%	26.9%	26.8%	31.0%	35.9%
Surplus (deficit) (\$ millions)	(936)	(758)	369	88	(255)
Surplus (deficit)/GDP	(2.5%)	(2.2%)	1.1%	0.3%	(1.0%)
Interest costs/total revenues	10.7%	10.2%	8.5%	9.7%	11.6%
Federal transfers/total revenues	15.2%	13.4%	18.5%	21.8%	21.3%
Nominal GDP (\$ millions)	36,759	33,817	33,501	29,063	24,972
Real GDP growth	6.8%	(4.4%)	2.9%	5.9%	(9.9%)
Unemployment rate	11.5%	12.5%	12.7%	14.4%	15.5%

Source: Province of Newfoundland and Labrador, Statistics Canada, DBRS calculations.  
B=Budget. P=Projected.



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**Rating Update** (Continued from page 1.)

Encouragingly, the Province was able to quell the pace of expenditure growth in 2012-13, with spending falling by 1.1%. The DBRS-adjusted debt burden rose modestly to \$9.1 billion by March 31, 2013, owing largely to growing unfunded pension liabilities. The debt-to-GDP ratio was virtually unchanged at 26.9% in 2012-13 and sits at the low end of the spectrum for the rating category. Based on the recently released Fall update, real GDP growth of 5.8% is expected in 2013 (slightly lower than the budget forecast), followed by a contraction of 1.6% in 2014. This compares with a private-sector growth forecast of 5.3% and 1.3% in 2013 and 2014, respectively. Domestic economic activity has been buoyant for some time, driven by solid gains in employment, consumption and investment related to large capital projects. However, given the Province's heavy dependence on the export of resources and commodities, external demand and changes in the timelines and number of major projects or in oil production could alter the forecast significantly.

The budget points to a continuation of difficult fiscal conditions over the next couple of years. A deficit of \$564 million is budgeted for the current fiscal year, which translates to a DBRS-adjusted shortfall of \$936 million, or 2.5% of GDP. This compares with an average of 1.5% for all provinces. Total revenues are projected to remain flat, while DBRS-adjusted spending is expected to grow by 2.6%, as growth in general government spending, sustained capital spending and higher debt charges crowd out declines in both health-care and education spending. Amid volatility in the mining and oil and gas (O&G) sectors, the plan to return to balance has been extended by one year to 2015-16, with the projected performance likely to translate to DBRS-adjusted deficits representing 2.9% and 0.4% of GDP in 2014-15 and 2015-16, respectively. Despite the fiscal weakness, the Province does not intend to issue debt in the current fiscal year as maturing debt and other cash requirements are expected to be addressed with cash on hand. With only modest growth in DBRS-adjusted debt owing to higher pension obligations, the Province's debt-to-GDP ratio is projected to fall to 25.9% in 2013-14. The Fall update points to an improvement in the Province's fiscal position, largely stemming from tighter expenditure management.

The Province has put forward a ten-year Sustainability Plan, which focuses on deficit elimination and reviews of post-secondary institutions, regional health authorities and pension reform in the early years, and maintaining fiscal discipline, economic diversification and debt reduction in the later years. Further, the Province has reaffirmed its commitment to reduce its net debt per capita to the Canadian provincial average within ten years. DBRS believes that such plans illustrate the Province's willingness to tackle its pressing challenges and its commitment to fiscal soundness. However, in the intervening years, uncertainty remains with respect to the progress of the Lower Churchill Project, and potential cost overruns, which still has the potential to erode financial flexibility.

**Rating Considerations Details**

**Strengths**

(1) Debt levels have remained relatively stable since 2006-07 as the repayment of maturing debt has offset increasing unfunded pension liabilities. Strong nominal GDP growth over this period has pushed the debt-to-GDP ratio to 26.9% as of March 31, 2013, down from a peak in excess of 80% in the mid-1990s. This represents a very manageable debt burden for the rating. Additionally, floating-rate and foreign currency exposures are managed at prudent levels.

(2) Newfoundland has posted DBRS-adjusted surpluses in six of the last eight years. Higher-than-expected oil prices and production levels get much of the credit for this performance, but prudent fiscal management has also played a role, with spending growth, for example, slowing annually over the past three years. Though spending has grown notably, it has generally not outstripped revenue growth, and the Province has resisted the temptation to allocate unexpected surpluses to new spending. However, the Province slipped into deficit in 2012-13 and is now forecasting to remain in deficit through 2014-15, at least.



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(3) A sizable liquidity position is maintained by the provincial treasury, with cash and cash equivalents estimated by DBRS at \$2.0 billion as of March 31, 2013. When combined with modest maturities over the next five years, this cash position will limit future borrowing needs.

(4) Development of the Province's substantial offshore oil resources has had a dramatic impact on the economy, and Newfoundland is now consistently one of the top-performing provinces on many economic indicators. Output at three projects currently in production – Hibernia, Terra Nova and White Rose – has peaked as these oil fields enter the mature years of their lifecycle. However, construction of the production platform for Hebron, the second-largest discovery to date after Hibernia, is currently underway, with first oil expected in 2017. Additionally, several significant discoveries have been made in recent years, including Harpoon, Bay du Nord, and Mizzen, and could potentially be developed within the next decade. Over the longer term, there remains the potential for further discoveries as much of the Province's seabed has yet to be explored.

(5) Newfoundland maintains a competitive personal income tax (PIT) structure in comparison with its Atlantic peers. With the Province experiencing robust employment growth and challenging demographics, a competitive tax system should support labour retention and assist with efforts to attract and repatriate highly skilled workers.

**Challenges**

(1) The Province's economic and fiscal results are heavily dependent on the resource sector, which accounts for about a third of revenues. This does not take into consideration the significant other fiscal revenues that are indirectly derived from the industry. Such dependence complicates the budgeting process as a large proportion of revenue is subject to volatile oil prices and production levels that may be affected by a number of unpredictable factors. The weak nominal GDP growth and 4.4% decline in real GDP in 2012 were largely due to production shutdowns at the three offshore oil-producing projects and lower oil prices. The Province estimates that a USD 1/barrel change in the oil price results in an approximately \$26 million swing in revenues. Oil production is projected to decline over the next 20 years, though development of recent discoveries could slow the anticipated decline.

(2) While resource-based industries have injected vitality into the Province's economy in recent years, a lack of economic diversification stands as perhaps the greatest impediment to ratings improvement. The majority of economic activity associated with the offshore is located in the St. John's area, with employment in rural areas remaining high. On a province-wide basis, the unemployment rate, while much reduced over the last ten years and currently at a 40-year low, remains substantially above the rate for Canada as a whole. Given the finite nature of offshore resources, diversification will be required to avoid fiscal and economic hardship when petroleum reserves reach their inevitable end. The Province also faces demographic challenges with one of the highest dependency ratios in the country and the associated negative consequences for future health-care costs.

(3) Unfunded pension liabilities remain sizable at \$3.3 billion in 2012-13 and are projected to grow to \$4.0 billion in 2013-14. Despite some prudent payments related to the Atlantic Accord and surplus funds that have been applied to the pension deficit, these obligations continue to place a burden on the Province's finances and represent a significant part of the DBRS-adjusted debt burden.

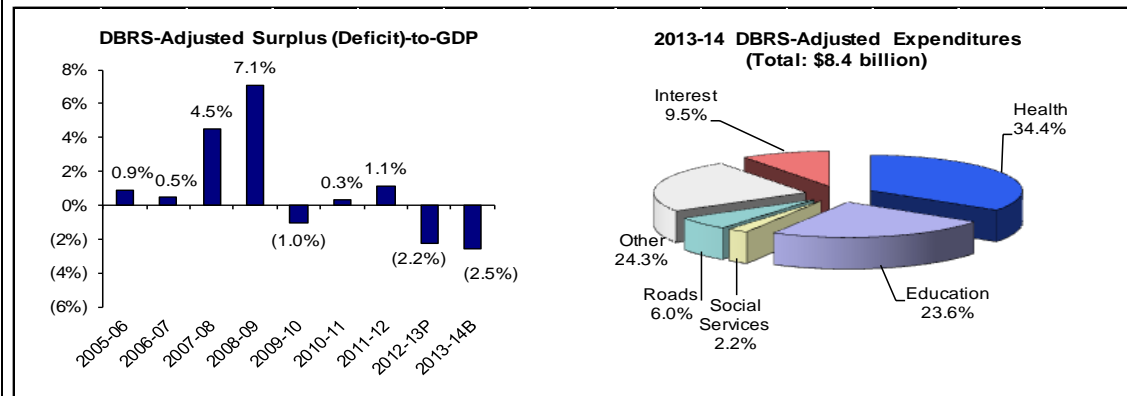
(4) It is not yet clear how the Province intends to finance its portion of the construction of the Muskrat Falls hydroelectric facility and the associated transmission lines to the island. Total project costs are estimated at \$6.2 billion (excluding the Maritime Link component). The Province has already used a portion of its high cash balances to provide equity to the project. While DBRS is of the view that the long-term benefits of the Lower Churchill Project are substantial, the Province's rating could come under stress in the short to medium term, depending on the financing structure used and the extent of any cost overruns.



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## 2013-14 Budget



For 2013-14, the budget calls for a \$564 million deficit. On a DBRS-adjusted basis (recognizing capital expenditures as incurred rather than as amortized), this translates into a shortfall of \$936 million, or 2.5% of GDP. This marks the largest such shortfall since 2003-04. Revenues are projected to be up by a meager 0.4%. Despite continued strength in PIT, a sharp drop in corporate income tax (CIT) owing to prior year adjustments will contribute to an 8.7% decline in total tax receipts. Sales tax (HST) revenues are expected to remain stable. No major tax measures were announced in the budget, though tobacco taxes and some user fees were raised. Resource revenues are projected to rebound by 11.3% primarily because of a return to steady state production at the three active offshore oil fields following maintenance shutdowns, which greatly affected results in the prior year. The budget assumes a Brent crude oil price of USD 105/barrel over the next three years, which is lower than the 2012-13 average of USD 111.63/barrel and the USD 124.12/barrel assumed in last year's budget. As of 2012-13, the Province no longer recognizes revenues from the Atlantic Accord, yet federal transfers are expected to see a solid 13.9% increase on higher health and social transfers and a large increase in cost-shared programs revenues.

Tight control is expected to be exerted over spending, with a particular focus on reducing the size of the broader public service. The Province estimates that the departmental core mandate review initiated as part of last year's budget generated \$410 million in base expenditure reductions. Still, total DBRS-adjusted spending, which incorporates capital expenditures, is budgeted to grow by 2.6%. Both health-care and education spending are expected to decline, by 1.8% and 1.7%, respectively, which DBRS views as ambitious targets. The Province will expand access to home, personal and long-term care options to help reduce the need for hospital admissions. Moreover, on account of declining student enrolment, the Province will move from five to just two school boards – one English and one French – resulting in consolidation of administrative services in addition to reducing a number of positions. Capital spending is once again expected to remain elevated, while debt service costs are projected to rise by 4.9% largely because of pension expenses. Apart from strong increases in general government and transportation spending, most other areas are expected to see declines. A key part of the government's restraint efforts will be decreasing the size of the public service. The Province plans to trim upwards of 1,200 government jobs, including cutting 485 employees (or 5.4% of the total workforce) from the core public service and eliminating another 450 jobs at arm's-length agencies and boards. Additionally, vacant positions will go unfilled and early retirement incentive program will be initiated.

### Outlook

The Fall update, released on December 2, 2013, points to an improvement in the fiscal outlook. The deficit is now projected to be \$113 million smaller than at budget time, owing to lower-than-expected spending on infrastructure projects and reduced program spending, more than offsetting weaker resource revenues.

The fiscal recovery plan has been extended by one year, with the return to balance now expected in 2015-16. Resource revenues account for roughly one-third of revenues, and the Province estimates that a \$1 change in the price of oil generates a roughly \$26 million swing in revenues. As such, expectations of relatively subdued oil prices will temper revenue growth in the years ahead. Amid volatility in the mining and O&G





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sectors, the Province expects to post a deficit of \$651 million in 2014-15 before moving back to a \$230 million surplus in 2015-16, which will likely translate into DBRS-adjusted deficits of 2.9% and 0.4% of GDP, respectively. Average annual revenue growth of 5.6% is projected over the forecast period, while spending is expected to decline over the next three years. This makes spending restraint even tighter than previously assumed.

The task is complicated by the fact that a large number of the collective agreements within the numerous labour groups have expired, including contracts with nurses, teachers and physicians. In light of the strong wage gains experienced across the Province in recent years and the contradiction between the prevailing buoyant economic mood and the challenging fiscal realities, DBRS expects negotiations to be difficult. DBRS notes that a four-year deal with the 11 groups representing approximately 17,000 public-sector employees was agreed to in October 2013, at reasonable terms that included a salary freeze for the first two years of the deal.

As part of the budget, the Province outlined a ten-year Sustainability Plan. Year 1 and 2 focus on deficit elimination and reviews of post-secondary institutions, regional health authorities, and pension reform, while a return to a surplus is projected in the third year. Through Years 4 and 10, the focus will be on maintaining fiscal discipline, economic diversification and debt reduction. DBRS views this as positive as it illustrates a commitment to tackle the pressing challenges, and is a further indication of the Province's disciplined fiscal framework. Significant progress toward achieving these goals, particularly economic diversification and debt reduction, would have positive rating implications.

### **2012-13 Preliminary Results**

At budget time, Newfoundland expected to post a \$431 million deficit for the fiscal year ended March 31, 2013, which equates to a DBRS-adjusted shortfall of \$758 million, or 2.2% of GDP. Fiscal performance was weaker than the \$369 million surplus posted in 2011-12, as oil production slumped and thus hit fiscal results. Total revenues were down by a steep 14.2% year over year, or \$1.2 billion. A bright spot was that taxation receipts outstripped expectations, rising by a strong 16.9% year over year, spurred by solid increases in PIT, HST and CIT collections on strength in employment, income and consumer confidence. However, mining taxes and oil royalties meaningfully underperformed expectations, falling by 32.9% year over year on account of lower-than-expected production levels stemming from maintenance shutdowns and commodity prices. Compounding this was the cessation of offset payments associated with the Atlantic Accord, which contributed to a 37.9% year-over-year decline in total federal transfers.

Recognizing that volatile oil prices and declining production pose a fiscal challenge, the Province engaged in an extensive exercise to contain spending, including a core programs review adopted in 2012-13. Expenditure performance was favourable in 2012-13 as total DBRS-adjusted spending came in below budget and declined by 1.1%, owing largely to a sharp decline in capital spending. This continues a trend of expenditure moderation that has been evident over the last few years and is indicative of the Province's disciplined fiscal management. Major spending areas were generally in line with budget as education and health-care spending rose by 5.5% and 2.8%, respectively, in 2012-13, with the latter assisted by the implementation of a new generic drug-pricing model. Debt interest costs rose modestly on account of higher pension obligations. Providing an offset were lower resources and trade, and transportation expenditures.

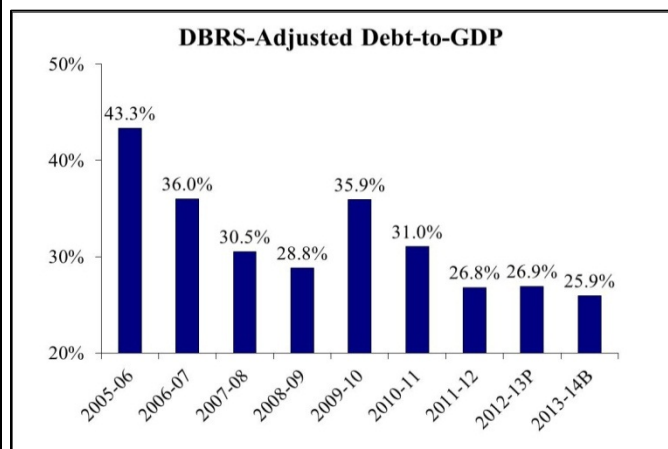
DBRS notes that the Fall update reveals a better-than-expected as-reported deficit of \$199 million anticipated for 2012-13, though finalized public accounts have not yet been released.



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## Debt Profile



Preliminary estimates indicate that debt as measured by DBRS (total tax supported plus unfunded pension liabilities) remained fairly stable, up by just 1.4% year over year to \$9.1 billion by March 31, 2013. This increase was largely attributed to growing unfunded pension liabilities, which rose by 7.1% to \$3.3 billion. Tax-supported debt fell by nearly \$94 million, with new municipal borrowing for the capital city more than offset by maturing debt and retired with cash on hand. Newfoundland's debt-to-GDP stood relatively unchanged at 26.9% in 2012-13, from 26.8% in the prior year.

The Province has not incurred new market debt since 2007, which is a notable accomplishment, especially in light of the fiscal pressure exerted on all provinces in the wake of the 2009 recession and the extensive capital works projects undertaken to stimulate economic activity. Despite the paying down of market debt, however, the DBRS-adjusted debt burden has been unable to dip meaningfully below \$9 billion, prevented by continued growth in unfunded pension liabilities. The Province recognizes that this is a challenge and has taken some measures to mitigate the liability, including the application of one-third of the 2011-12 surplus. Pension reform is currently being explored, with a focus on governance, investment policy and benefit modifications.

Newfoundland maintains a prudent debt maturity profile and is exposed to relatively modest foreign currency (U.S. dollar) debt at 15.8% of its portfolio in 2012-13. Oil prices tied to the U.S. dollar provide a natural hedge for this exposure. Additionally, levels of floating rate debt remain low at 8.7% in 2012-13, which adds further stability to the credit profile. The interest burden was 10.2% of total revenues in 2012-13 (which remained one of the highest among the provinces), but has improved markedly from over 22% of total revenues in 2002-03, providing increased fiscal flexibility.

### Outlook

Despite the deficit, no new market debt is anticipated in 2013-14 as maturing debt and other cash requirements are expected to be addressed with cash on hand. As such, the anticipated 4.7% increase in DBRS-adjusted debt to \$9.5 billion is entirely due to rising pension obligations. Offset by stronger nominal GDP growth, the debt-to-GDP is projected to fall to 25.9%. The Province has built a substantial liquidity cushion of cash on hand, estimated by DBRS at over \$2.0 billion as of March 31, 2013, thus limiting any need to borrow. However, with sustained deficits and elevated capital expenditures, DBRS expects that new borrowing will be required over the next few years, particularly for the financing of the Lower Churchill Project, which continues to weigh on the credit profile. The view remains that the project will be beneficial to the Province over the long term; however, potential cost overruns introduce an element of uncertainty in the outlook over the near term as the project may also result in debt needs that could put pressure on the credit profile.

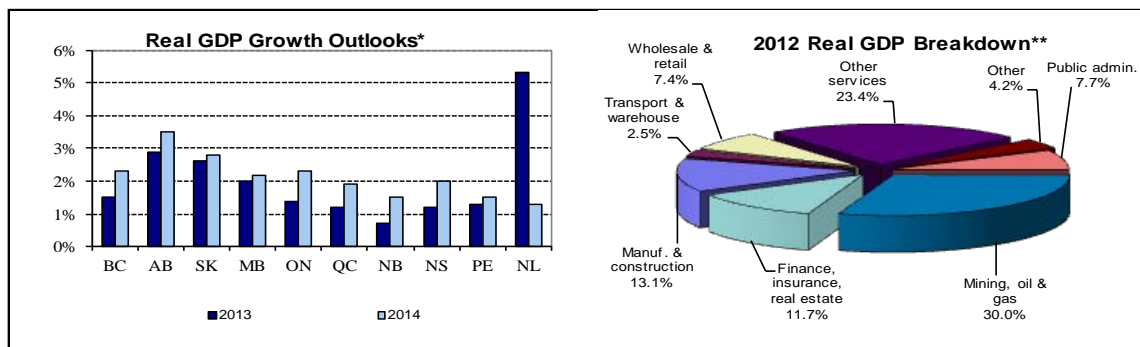
The Province reaffirmed its 2012-13 budget commitment to lowering its net debt per capita to the Canadian provincial average over ten years. This is a laudable goal and a credible one, given the recent track record of paying off debt. However, success on this front will very much depend on the fortunes of the petroleum sector, and in particular the long-run price of oil as well as the financing requirements of the Lower Churchill Project.



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## Economy



\* Based on the major Canadian banks' forecasts at the time of this report. \*\* Statistics Canada

As the O&G sector is the largest contributor to the provincial economy, extended maintenance shutdowns at the Province's three active offshore oil projects had an adverse effect on the provincial economy in 2012, with real growth declining by 4.4%. This left Newfoundland as one of three provinces to have experienced a contraction during the year. Of the three projects, Hibernia was offline for 30 days, while Terra Nova and White Rose were shut down for much longer periods of 183 and 102 days, respectively. These shutdowns, along with natural production declines at all three projects, resulted in a larger-than-expected 25.8% decline in oil production in 2012, to 72.2 million barrels. This had a dampening effect on exports, which declined by 6.4% in 2012, though exports of iron ore, refined petroleum and newsprint were all up during the year. The volume of fish landings also declined in 2012, falling by 6.2% compared with 2011.

Notwithstanding the weak GDP results, other economic indicators advanced solidly in 2012, with final domestic demand exceeding expectations and expanding by 10.5%. Capital investments remained strong, rising for a third consecutive double-digit gain, up by 33.0% in 2012. This activity helped Newfoundland record the second fastest employment growth among provinces in 2012 – the highest level in the Province's history. As such, the jobless rate continued its descent, dipping by 0.2 percentage points to 12.5%, its lowest level in 40 years. The population grew by 0.3% in 2012 – a fifth consecutive rise – as economic expansion and increasing employment opportunities have helped to stabilize the Province's population, in contrast to 15 consecutive years of annual declines before 2008. Average weekly earnings were again the second highest in the country. Retail sales rose by 4.6% in 2012, pushed higher by record-level vehicle sales. After slipping in the prior year, housing starts rose by 11.4% to 3,885 in 2012 – the highest level in 36 years.

### Outlook

The budget called for real growth of 6.8% in 2013, which is more bullish than the private-sector consensus tracked by DBRS, as a recovery in exports and higher investment and consumption are expected to more than offset government restraint measures. According to a Statistics Canada survey of investment intentions, investment activity in 2013 is projected to grow by 9.7%, supported by continued construction activity at the Vale nickel processing facility, a significant ramp-up of construction activity at the Hebron project, and acceleration of the development of the Muskrat Falls hydroelectric project. DBRS notes that the \$14 billion Hebron project is expected to be in production in 2017, and is estimated to contain the second-largest reserves in the Province's history behind Hibernia. The projects, along with an already buoyant domestic economy, are expected to help drive further employment and consumer spending, though housing starts are expected to soften. The Fall update points to a slightly lower real GDP growth forecast of 5.8% for 2013 because of softer iron ore production, though this anticipated growth rate remains the highest among provinces.

Preliminary indications suggest that the Newfoundland economy is off to a sound start in 2013. Unemployment rate stood at 11.0% (seasonally adjusted) in October 2013, down by 0.9% year over year and below the budget assumption. Retail sales were up 4.4% over the first nine months of the year compared with the same period in 2012. Similarly, oil production was up 21.3% over the first ten months of the year versus the same period in 2012, outpacing natural declines at mature fields and reflecting a return to steady-state





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operations, though the downtime at the Terra Nova project was extended. However, housing starts declined by 31% over the first three quarters of 2013 compared with the same period in 2012, and will likely miss the budget target in 2013.

The Province cautiously assumed real GDP growth will decline by 1.6% in 2014 as the effects of the rebound in oil activity dissipate. This is conservative relative to the private-sector consensus of 1.3% growth. Given its heavy dependence on the export of resources and commodities, the Province is vulnerable to downturns in those economies that consume its resources and whose demand drives commodity prices. In addition, changes in the timelines and number of major projects or in oil production in particular could alter the forecast significantly.

In the long run, DBRS views the development of the Lower Churchill Project in Labrador as a net positive for Newfoundland because the construction phase would boost economic activity and export sales of electricity could create a permanent, more stable and substantial revenue stream for the Province. Notwithstanding any impact that financing requirements might have on the Province's credit rating during the construction phase, a successfully completed and commissioned project generating export revenue would likely leave Newfoundland in a stronger fiscal, financial and economic position. Additionally, the Province continues to make investments to advance its fisheries and aquaculture, agri-food and tourism sectors.

<b>Economic Statistics</b>	For the year ended December 31						
	2014P	2013P	2012	2011	2010	2009	2008
Nominal GDP (\$ millions)	36,134	36,759	33,817	33,501	29,063	24,972	31,434
Nominal GDP growth	(1.7%)	8.7%	0.9%	15.3%	16.4%	(20.6%)	9.4%
Real GDP growth	(1.6%)	6.8%	(4.4%)	2.9%	5.9%	(9.9%)	2.2%
Population (thousands)	526.5	526.7	526.8	525.0	522.0	516.7	511.5
Population growth	(0.0%)	(0.0%)	0.3%	0.6%	1.0%	1.0%	0.5%
Employment (thousands) (annual average)	234.6	236.9	230.5	225.4	219.4	212.3	218.7
Unemployment rate	11.8%	11.5%	12.5%	12.7%	14.4%	15.5%	13.2%
Housing starts	3,102	3,520	3,885	3,488	3,606	3,057	3,261
Retail sales (\$ millions)	8,741	8,544	8,200	7,841	7,446	7,124	7,019
Inflation rate (CPI)	2.3%	2.6%	2.1%	3.4%	2.4%	0.3%	2.9%
Household income per capita	n.a.	n.a.	n.a.	36,243	33,979	32,921	31,036

Source: Statistics Canada (actuals). Province of Newfoundland and Labrador, CMHC & DBRS (projections). P = Projected.



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## Province of Newfoundland and Labrador

### Budget Summary

	<u>Budget</u>	<u>Projected</u>	<u>Budget</u>			
(\$ millions)	<u>2013-14</u>	<u>2012-13</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>
Revenue (DBRS adjusted)	7,419	7,389	7,662	8,609	8,084	7,246
Program expenditure (DBRS adjusted)	(7,564)	(7,393)	(7,577)	(7,506)	(7,212)	(6,662)
Program surplus (deficit)	(145)	(4)	86	1,103	872	584
Net interest charges	(791)	(754)	(777)	(734)	(784)	(839)
<b>DBRS-Adjusted Surplus (Deficit)</b>	<b>(936)</b>	<b>(758)</b>	<b>(691)</b>	<b>369</b>	<b>88</b>	<b>(255)</b>
Add: adjustment for GBEs	-	-	-	-	-	-
Add: adjustment for capital expenditures	372	327	433	514	506	223
Add: non-recurring revenues (expenditures)	-	-	-	-	-	-
Surplus (deficit), as reported	<b>(564)</b>	<b>(431)</b>	<b>(258)</b>	<b>883</b>	<b>595</b>	<b>(33)</b>

### DBRS-Adjusted Debt Burden\*

	9,538	9,108	9,102	8,983	9,019	8,971
Gross provincial cash requirements	1,017	183	1,061	(411)	(164)	388
Gross capital expenditure	1,307	776	1,576	781	818	685

### Selected Financial Indicators (DBRS-adjusted)

Debt** as % of GDP	25.9%	26.9%	27.0%	26.8%	31.0%	35.9%
Accrual surplus (deficit) as % of GDP	(2.5%)	(2.2%)	(2.0%)	1.1%	0.3%	(1.0%)
Net interest charges as % of revenue	10.7%	10.2%	10.1%	8.5%	9.7%	11.6%
Total tax revenue as % of revenue	40.1%	44.1%	39.1%	32.4%	33.0%	34.7%
Federal transfers as % of revenue	15.2%	13.4%	13.9%	18.5%	21.8%	21.3%
Resource revenues % of revenue	31.3%	28.3%	33.3%	36.2%	32.5%	30.4%
Total expenditure % of revenue	112.6%	110.3%	109.0%	95.7%	98.9%	103.5%
Health spending as % of total expenditures	34.4%	35.9%	35.0%	34.5%	33.3%	34.9%
Total revenue growth	0.4%	(14.2%)	(10.2%)	6.5%	11.6%	(15.6%)
Program expenditure growth	2.3%	(1.5%)	2.0%	4.1%	8.3%	17.8%
Total expenditure growth	2.6%	(1.1%)	2.2%	3.0%	6.6%	18.1%

\*Tax-supported debt+municipal debt+unfunded pension liabilities.

### Political Background Information

Party in Power:	Progressive Conservative	Number of Seats:	35 of 48
Premier:	Kathy Dunderdale	Election required by:	October 2015



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## Province of Newfoundland and Labrador

### Revenues

	<u>Budget</u>	<u>Projected</u>	<u>Budget</u>			
(\$ millions)	<u>2013-14</u>	<u>2012-13</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>
Personal income tax	1,113	1,077	949	942	887	817
Retail sales tax	946	945	836	873	800	704
Gasoline tax	176	171	174	169	169	155
Corporate income tax	420	768	763	487	533	595
Payroll tax	111	98	83	79	70	64
Tobacco tax	146	138	136	136	135	123
Other	61	59	58	99	71	57
<b>Total Taxes</b>	<b>2,973</b>	<b>3,256</b>	<b>3,000</b>	<b>2,786</b>	<b>2,664</b>	<b>2,516</b>
Mining and offshore royalties	2,323	2,088	2,555	3,112	2,628	2,206
Liquor profits	157	146	140	142	132	130
Vehicle drivers' licences	74	74	69	75	69	70
Other fees and fines	309	306	186	200	213	187
Interest income	29	32	102	32	33	26
Lottery revenues	118	114	109	106	107	108
Net income of Nfld. and Labrador Hydro (4)	93	92	107	127	78	61
Other revenues	214	290	331	435	397	396
<b>Total Own-Source Revenue</b>	<b>6,292</b>	<b>6,399</b>	<b>6,599</b>	<b>7,014</b>	<b>6,321</b>	<b>5,700</b>
Equalization and offsets (1)	-	-	-	536	642	465
Canada Health and Social Transfer	674	613	618	625	598	686
Other federal sources	453	377	445	433	524	394
<b>Total Federal Government Transfers</b>	<b>1,127</b>	<b>990</b>	<b>1,063</b>	<b>1,594</b>	<b>1,763</b>	<b>1,545</b>
<b>Total DBRS-Adjusted Revenue</b>	<b>7,419</b>	<b>7,389</b>	<b>7,662</b>	<b>8,609</b>	<b>8,084</b>	<b>7,246</b>
Other non-recurring income (4)	-	-	-	-	-	-
Total revenue, as reported	7,419	7,389	7,662	8,609	8,084	7,246

### Expenditures

Health	2,875	2,926	2,921	2,846	2,665	2,620
Education	1,974	2,007	1,554	1,902	1,812	1,452
Child youth and family services	182	175	196	164	152	2
Resources and trade	300	332	353	397	423	404
Transportation and works	497	447	447	477	529	435
General government	760	588	576	583	497	517
Public protection	229	249	239	241	223	221
Other	375	343	859	383	403	788
Net capital expenditures	372	327	433	514	506	223
<b>DBRS-Adjusted Program Expenditures</b>	<b>7,564</b>	<b>7,393</b>	<b>7,577</b>	<b>7,506</b>	<b>7,212</b>	<b>6,662</b>
Net interest charges (2)	791	754	777	734	784	839
<b>DBRS-Adjusted Expenditures</b>	<b>8,355</b>	<b>8,147</b>	<b>8,354</b>	<b>8,240</b>	<b>7,996</b>	<b>7,501</b>
DBRS adjustment (sinking fund earnings)	56	54	54	56	53	51
Adjustments for capital expenditures (3)	(372)	(327)	(433)	(514)	(506)	(223)
Total expenditures, as reported	8,039	7,874	7,975	7,782	7,542	7,329

(1) Includes the effect of the 1985 and 2005 Atlantic Accords. (2) Interest costs are net of sinking fund income.

(3) DBRS recognizes capital expenditures as incurred (pay-as-you-go basis) rather than as amortized.

(4) Hydro net income excludes one-time impact of accounting change for recognition of gains on sinking fund investments in



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## Province of Newfoundland and Labrador

### Consolidated Balance Sheet

(\$ millions)

<b>Financial Assets</b>
Cash and marketable securities
Accounts receivable
Loans and investments
Equity in gov't enterprises
Other
<b>Total Financial Assets</b>

As at March 31

2012	2011	2010
2,443	2,213	1,922
1,209	1,058	898
368	354	280
1,495	1,343	1,244
7	5	5
<b>5,523</b>	<b>4,974</b>	<b>4,349</b>

As at March 31

<b>Liabilities</b>	2012	2011	2010
Treasury bills	493	493	494
Payables and accrued liab.	1,800	1,820	1,472
Unfunded pens. liab.	3,090	2,667	2,177
Debt	4,881	5,422	5,723
Employee benefits	2,083	1,909	1,768
Other liabilities	1,002	919	935
<b>Total Liabilities</b>	<b>13,348</b>	<b>13,229</b>	<b>12,569</b>
<b>Net Debt</b>	<b>(7,825)</b>	<b>(8,255)</b>	<b>(8,220)</b>
<b>Total</b>	<b>5,523</b>	<b>4,974</b>	<b>4,349</b>

### Public Sector Debt

(\$ millions)

<b>Public Sector Debt</b>
Direct debt
Less: sinking funds
<b>Net Direct Debt</b>
Housing
Municipal
Other
Total other tax-supported debt
<b>Total Tax-Supported Debt</b>

As at March 31

2014B	2013P	2012	2011	2010	2009	2008	2007	2006
5,920	6,025	6,028	6,354	6,653	7,212	7,289	7,307	7,070
(1,234)	(1,186)	(1,085)	(1,083)	(994)	(995)	(846)	(1,073)	(988)
<b>4,685</b>	<b>4,839</b>	<b>4,942</b>	<b>5,270</b>	<b>5,659</b>	<b>6,217</b>	<b>6,443</b>	<b>6,234</b>	<b>6,082</b>
19	23	24	26	25	24	25	30	37
422	477	436	424	494	533	580	655	643
445	461	491	633	616	579	569	542	557
886	961	951	1,082	1,134	1,137	1,174	1,227	1,236
<b>5,571</b>	<b>5,799</b>	<b>5,893</b>	<b>6,353</b>	<b>6,793</b>	<b>7,354</b>	<b>7,617</b>	<b>7,461</b>	<b>7,318</b>

Newfoundland and Labrador Hydro	1,310.8	1,314.9	1,319	1,322	1,225	1,225	1,425	1,425	1,400
Less: sinking funds	(509.6)	(495.4)	(482)	(467)	(443)	(427)	(406)	(381)	(363)
Net hydro debt (1)	801	820	836	855	782	798	1,020	1,044	1,038
Total public sector debt	6,372	6,619	6,729	7,208	7,576	8,152	8,637	8,504	8,356

### Unfunded Pension Liabilities (2)

3,967	3,308	3,090	2,667	2,177	1,704	1,459	1,925	2,201
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### Per Capita (\$)

Tax-supported debt	10,577	11,008	11,224	12,170	13,147	14,375	14,963	14,612	14,227
Tax-supported debt + unfunded pension liab.	18,109	17,287	17,109	17,279	17,360	17,707	17,830	18,382	18,506

### As a % of GDP

Tax-supported debt	15.2%	17.1%	17.6%	21.9%	27.2%	23.4%	25.6%	28.6%	33.3%
Tax-supported debt & unf. pension liab.	25.9%	26.9%	26.8%	31.0%	35.9%	28.8%	30.5%	36.0%	43.3%

### Direct Debt Breakdown by Currency (3)

CAD pay	84.7%	84.2%	84.5%	85.5%	85.5%	83.1%	86.6%	83.7%	82.7%
Non-CAD pay	15.3%	15.8%	15.5%	14.5%	14.5%	16.9%	13.4%	16.3%	17.3%

### Direct Debt Breakdown by Interest Rate Type (3) (4)

Fixed Rate	91.4%	91.3%	87.8%	88.4%	88.9%	89.1%	90.3%	92.4%	91.2%
Floating Rate	8.6%	8.7%	12.2%	11.6%	11.1%	10.9%	9.7%	7.6%	8.8%

### Gross Market Debt Maturity Profile (5)

As at March 31, 2013

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-23	2024+	Total
Direct provincial debt (\$ millions)	576	450	271	-	-	1,201	3,526	6,025
- % of total	9.6%	7.5%	4.5%	0.0%	0.0%	19.9%	58.5%	100.0%

(1) Guaranteed by the Province.

(3) Including hedges (if any).

(5) Does not include all debt.

(2) Includes unamortized experience gains and losses.

(4) Floating rate debt is defined as debt that matures or is repriced within 12 months.

P = Projected. B = Budget.



**Province of  
Newfoundland  
and Labrador**

**Report Date:**  
December 4, 2013

## Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Short-Term Debt*	R-1 (low)	Confirmed	Stable
Long-Term Debt*	A	Confirmed	Stable

\*Issued/guaranteed by the Province, including Newfoundland and Labrador Hydro and Newfoundland and Labrador Municipal Finance Corporation.

## Rating History

	Current	2012	2011	2010	2009	2008
Issuer Rating	A	A	NR	NR	NR	NR
Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Long-Term Debt	A	A	A	A	A	A

## Related Research

- [Rating Canadian Provincial Governments](#), August 3, 2012.

### Notes:

All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on [www.dbrs.com](http://www.dbrs.com).

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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