

## **FITCH RATES MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA, CANADA 'AAA'**

Fitch Ratings-Chicago-15 March 2007: Fitch assigns an 'AAA' rating to the Municipal Finance Authority of British Columbia (MFABC), Canada's C\$250 million and C\$465 million series DL debentures, dated April 19, 2006 and Nov. 7, 2006, respectively. Fitch also assigns the 'AAA' rating to MFABC's outstanding senior unsecured debt. The debentures are direct and unconditional unsecured obligations of MFABC. The Rating Outlook is Stable.

The 'AAA' rating is based on the strength of the authority's joint and several security pledge provided by all municipal governments within the Province of British Columbia; the authority's sizeable financial reserves, encompassing both MFABC resources and the reserves held by all constituent municipalities; and the authority's role in facilitating debt structuring and monitoring credit conditions of municipal borrowers. The authority's primary role as the coordinator of municipal borrowing province-wide is strengthened by its regional governance structure, which sets financial management standards for municipal borrowers, reviews the credit capacity of individual governments to meet debt servicing responsibilities, and facilitates timely market borrowings for the capital needs of its members. The authority has an impeccable debt repayment record, but maintains the unconditional power to levy ad valorem taxes province-wide, without external approval, if a municipal borrower fails to meet its debt service payments.

MFABC's board and regional administrative districts consist of municipal representatives that carefully manage capital project planning and debt issuance, achieving low borrowing costs for local governments. The authority is deliberate and cautious in its credit approval process, tailoring structurally and financially sound projects to suitable financing methods. Additionally, MFABC returns all excess earnings on investments to its borrowers once sinking funds have earned enough to satisfy associated debt service requirements. This strategy effectively reduces borrowing costs as sinking funds typically are sizeable enough to cover one-third of principal.

MFABC is the borrowing vehicle for all municipalities and regional districts in the province, providing financing for general municipal projects, water and sewer infrastructure, and transportation. Created in 1970 by the Municipal Finance Authority Act, the authority works closely with its member municipalities to guide debt issuance and monitor financial performance of individual governments to ensure timely debt service payments. The joint and several pledge supporting the MFABC's debt issuance requires all member governments to satisfy the obligations of a deficient borrower and ultimately requires the borrower to repay the authority for the deficiency.

MFABC's sizeable reserves include C\$1.2 billion of sinking funds plus debt service reserves. Each debenture issue creates a sinking fund dedicated to repayment of that specific issue. The authority's debt service reserve fund holds 1% of all borrowings in cash, representing a reserve paid by all clients. If any municipality cannot meet its payments, MFABC will draw on the debt service reserve account, currently equaling \$96 million. The debt service reserve account in 2006 was equivalent to 2.5 times (x) the largest single-day interest expense. In addition, the authority will levy an unlimited ad valorem tax on all properties within the province in an amount equivalent to the deficient debt service payment.

A key component supporting the MFABC's financial capacity is the economic strength of British Columbia, particularly within the Greater Vancouver region. With an estimated population of 4.3 million, provincial population growth averaged 5.7% annually since 2001, compared to 5.2% on average annually for the nation. Although the forestry product industry remains an important economic sector, rapid growth in healthcare, financial and other services has diversified the region and helped British Columbia's economic output grow to 12% of Canadian gross domestic product. The province has led Canadian housing starts, with average home price in the Vancouver area nearly doubling since 2000. Province-wide, taxable valuation grew 23% in 2006 and now exceeds C\$800 billion.

Strong provincial economic prospects are illustrated by a diverse employment base with low unemployment rates and population gains with greater per capita income levels. With a slightly older, better-educated residential base than the Canadian average, per capita personal income equals 96% of the Canadian average, but is growing more rapidly than the nation. The province's 2005 unemployment rate of 5.9% was the lowest in three decades, as provincial employment opportunities centering on finance, health care, and retail trade increased. In 2006, unemployment rates continued to decline, equaling just 5.2% in December 2006.

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