

## **FITCH RATES MUNICIPAL FINANCE AUTH OF BRITISH COLUMBIA, CANADA'S DEBENTURES 'AAA'; OUTLOOK STABLE**

Fitch Ratings-Chicago-10 March 2010: Fitch Ratings assigns an 'AAA' rating to the following Municipal Finance Authority of British Columbia (MFABC, or the authority), Canada's debentures:

- \$340 million series DR;
- \$440 million series DS.

The debentures represent the authority's Spring 2009 issues; series DR is dated April 21, 2009 and series DS, June 1, 2009.

In addition, Fitch affirms MFABC's approximately \$5 billion in outstanding senior unsecured debentures at 'AAA'.

The Rating Outlook is Stable.

### **RATING RATIONALE:**

--The 'AAA' rating is based on the strength of the authority's joint and several pledge of participating municipalities, which in practice obligates all municipalities in the province for debt service payment.

--The underlying municipalities obligated to repay authority debt remain relatively strong financially and economically, and have sizeable fiscal reserves, despite the presence of global recessionary pressures.

--The authority's legal structure, careful oversight, stringent monitoring of municipal credit condition and regimented credit approval process all support well-organized debt financing.

--MFABC is guided by strong and sophisticated management.

--No municipal borrower has ever failed to make its debt service payments and the authority's debt reserve fund has never been drawn upon; however, if any payment were to be delayed, MFABC retains modest cash debt reserves and good access to capital through credit facilities to satisfy any immediate needs as well as \$1.1 billion sinking fund set-asides. In the medium term, the authority has adequate timing to raise tax revenues should payments be further delayed.

### **KEY RATING DRIVERS:**

--General health of the provincial economy.

--Continued strong repayment performance and conservative borrowing patterns by constituent municipalities.

--A substantial change in MFABC's financial performance, such as reduced ability to lend due to investment losses, could result in downward rating pressure.

### **SECURITY:**

The debentures are direct and unconditional unsecured obligations of the authority; the debentures are entitled to the benefits of the authority's debt reserve fund and the power of the authority to impose ad valorem taxes without limitation on all taxable property in the province to maintain the

debt reserve fund.

## CREDIT SUMMARY:

Created in 1970, MFABC is the borrowing vehicle for all municipalities and regional districts in the province and provides financing for general municipal projects, water and sewer infrastructure, and transportation. The joint and several pledge supporting 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 available liquidity includes \$1.1 billion from sinking fund set asides and modest debt service reserves of approximately \$107 million in 2009 to deal with temporary payment interruptions. If any municipality cannot meet its payments, MFABC will draw on these unencumbered reserves. Although these fully unencumbered reserves are relatively modest, the authority also maintains a \$200 million line of credit available for any short term disruption and its taxing ability province-wide ultimately counters any related risk.

MFABC's board and regional administrative districts consist of municipal representatives that carefully manage capital project planning and debt issuance to achieve low borrowing costs for local governments. 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 large enough to cover one-quarter to one-third of principal.

The authority 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. With an impeccable record of debt repayment, the authority has never had a payment default from one of its borrowers nor has it needed to draw property taxes or fiscal reserves to cure a debt service deficiency in its 40-year history.

Nonetheless, the authority is not immune to the effects of the global economic downturn. Municipalities have deferred planned capital projects in response to reduced or contracting revenue growth. In addition, as available revenues dictate debt capacity, 2009 debt issuance was less than expected. In 2009, borrowers also turned more frequently to short-term loans as rates dropped precipitously. Investment returns, formerly robust, were dampened and the authority revised its budgeted expectations of market returns accordingly. In addition, MFABC management stepped up its already vigilant monitoring of municipal credit quality to ensure continued timely repayments, held more cash in its accounts, and moved credit union and bank investments to provincial instruments with less perceived risk.

A key component supporting MFABC's financial capacity is the economic strength of British Columbia, particularly within the Greater Vancouver region. The province weakened economically over the past two years but remains relatively stable compared with other provinces, Canadian averages, or the U.S. experience. With a 2008 estimated population of 4.4 million, the provincial population continues to grow. After declining to 4.6% in 2006, the lowest unemployment rate for the province in three decades, unemployment has increased to 8.1% in January 2010, on par with Canadian averages and well below U.S. unemployment. However, these figures are likely aided by the 2010 Olympic Games and Fitch anticipates provincial employment may become more pressured in coming months. While the province has experienced softness in construction-related activity and home sales, the housing market remains relatively resilient to date in part due to substantial barriers to home ownership and continued strong housing values.

Applicable criteria available on Fitch's website at [www.fitchratings.com](http://www.fitchratings.com):

--'Tax-Supported Rating Criteria,' dated Dec. 21, 2009;

--'International Rating Methodology for Local and Regional Governments', dated July 8, 2008.

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