FitchRatings

FITCH AFFIRMS MUNICIPAL FINANCE AUTH OF BRITISH COLUMBIA, CANADA AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-11 March 2011: Fitch Ratings affirms the 'AAA' rating on the outstanding long-term obligations of the Municipal Finance Authority of British Columbia, Canada (MFABC, or the authority), consisting of:

--Approximately $5.9 billion in senior unsecured debentures.

The Rating Outlook is Stable.

RATING RATIONALE:
--The 'AAA' rating is based on the strength of MFABC's joint and several liability of participating municipalities, which in practice obligates all municipalities in the province for debt service payment.
--The authority's legal structure, careful oversight, stringent monitoring of municipal credit conditions and regimented credit approval process all support well-organized debt financing.
--MFABC retains modest cash debt reserves and good access to capital through credit facilities to satisfy any immediate needs, as well as $1.2 billion in sinking fund set-asides. In the medium term, the authority has adequate timing to raise tax revenues in the event of a payment delay.
--Underlying municipalities have sizeable fiscal reserves, despite recent global recessionary pressures. No municipal borrower has ever failed to make its debt service payments and the authority's debt reserve fund has never been drawn.

KEY RATING DRIVERS
--Maintenance of conservative financial management by MFABC, including access to sufficient liquidity and careful management of borrowing.
--Continued prudent borrowing patterns by constituent municipalities and strong repayment history.
--General health of the provincial economy.

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 of British Columbia, Canada (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 any deficiency. MFABC's available liquidity to respond to temporary payment interruptions includes a modest debt reserve fund (DRF) of $109 million as of fiscal year 2010 and $1.2 billion from sinking fund set asides. In the event a municipality could not meet its payments, MFABC would draw first on the DRF. The authority also maintains a $250 million line of credit available for any short term disruption and ultimately benefits from its ability to levy ad valorem taxes province-wide.

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 sinking fund 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 levy property taxes or draw fiscal reserves to cure a debt service deficiency in its 40-year history. The process for accessing MFABC financing is stringent, generally requiring provincial, voter and regional administrative district approvals prior to review by MFABC. Municipalities' use of debt is restricted to capital purposes, and payments for debt cannot exceed a certain share of a municipality's revenue.

Management of authority debt is conservative and sophisticated. Its outstanding debt consists of approximately $5.9 billion in debentures and approximately $500 million in commercial paper generally used for interim financing. Given timing differences between maturities on loans to municipalities and final maturity of debentures, consistent market access to refinance maturing issues is an important credit feature. The authority has access to multiple sources of liquidity including the DRF ($109 million), a bank credit facility ($250 million), surplus earnings of the sinking fund ($172 million), as well as the total sinking fund itself ($1.2 billion total). In the event of a default by a borrower, immediately available resources would provide adequate flexibility to bridge cash needs pending the imposition and collection of a tax levy. The authority carefully managed the impact from the recent global downturn. Investment returns, formerly robust, were dampened, and the authority revised its expected returns accordingly. In addition, MFABC management stepped up its already vigilant monitoring of municipal credit quality to ensure timely repayments, held more cash in its accounts, and moved credit union and bank investments to provincial instruments with less perceived risk.

As of 2010, MFABC had almost $4.8 billion in outstanding principal on loans to clients net of sinking funds. New loans declined to $482 million in 2010, from $648 million the prior year, reflecting in part the impact of the economic downturn on municipalities' borrowing capacity. The largest loan balances outstanding are to Greater Vancouver municipal entities, including TransLink, the regional transportation authority, totaling about 45% of outstanding principal. TransLink is authorized to issue debt on its own and has not borrowed through MFABC since 2009. Despite recessionary weakness the fiscal condition of MFABC's borrowers in aggregate remained steady, with revenues growing to $9.8 billion in fiscal 2010, 1% higher than fiscal 2009; borrowers' reserves totaled $4.6 billion in fiscal 2010, equal to 47% of revenues.

The province's economy encompasses the vibrant, growing Vancouver metro area, a hub for business and trade, as well as important natural resource-related and tourism activities across the province. The recession affected the province's mining, energy and forestry sectors as demand for its exports dropped, particularly in key U.S. markets, although the 2010 Winter Olympics provided valuable stimulus. Growth is now resuming; employment rose 0.6% in January 2011, lower than the 2% Canadian average, reflecting in part last year's Winter Olympics-related hiring. The province's economic forecast released in February 2011 estimates that GDP rose 3.1% in 2010 but forecasts GDP slowing to 2% in 2011 before accelerating to 2.6% in 2012 as the economic recovery accelerates. Ongoing economic risks for the province include global commodities-related volatility as well as the challenge of effectively managing growth.

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Applicable Criteria and Related Research:
--Tax-Supported Rating Criteria, dated Aug. 16, 2010;
--International Local and Regional Governments Rating Criteria, Outside the United States, dated March 17, 2010.

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605
International Local and Regional Governments Rating Criteria - Outside the United States
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=504770