

Credit Analysis

Moody's International Public Finance Government-Related Issuers

March 2009

Municipal Finance Authority of British Columbia

Victoria, British Columbia, Canada

Summary Rating Rationale

The Aaa rating on debt issued by the Municipal Finance Authority of British Columbia (MFABC) reflects a strong institutional framework and substantial liquidity. Significant bondholder security is provided by a strong institutional framework, which includes the joint and several liability of members of regional districts that borrow from MFABC as well as the unlimited taxing powers on all taxable properties in the province of British Columbia. MFABC's significant holdings of cash and investments, equivalent to 24.6% of net direct debt, also support the Aaa rating. Moody's also assigns a Prime-1 (P-1) rating to MFABC's commercial paper program.

The application of Moody's joint-default analysis methodology to government related issuers (GRIs) requires two key inputs: a baseline credit assessment (BCA, on a scale of 1 to 21 where 1 represents the lowest credit risk), which is a measure of the GRI's standalone credit strength, and an assessment of the likelihood that the supporting government would act to prevent a default by the GRI. In the case of MFABC, Moody's assigns a BCA of 1, which places MFABC in the Aaa rating bracket before any consideration of the likelihood that the Province of British Columbia (Aaa, stable) would act to prevent a default by the authority. To complete the analysis, Moody's assigns a high likelihood of extraordinary support from the provincial government. Moody's assessment of high support reflects the strategic importance of MFABC in providing financing for municipalities in the province. A default by MFABC could raise the cost of borrowing for all municipalities, thereby offering incentive for the province to provide the necessary liquidity to avoid a default, should this highly unlikely situation ever occur.

Rating Outlook

The outlook is stable.

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This Credit Analysis provides an in-depth discussion of credit ratings for the Municipal Finance Authority of British Columbia and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. [Click here to link.](#)



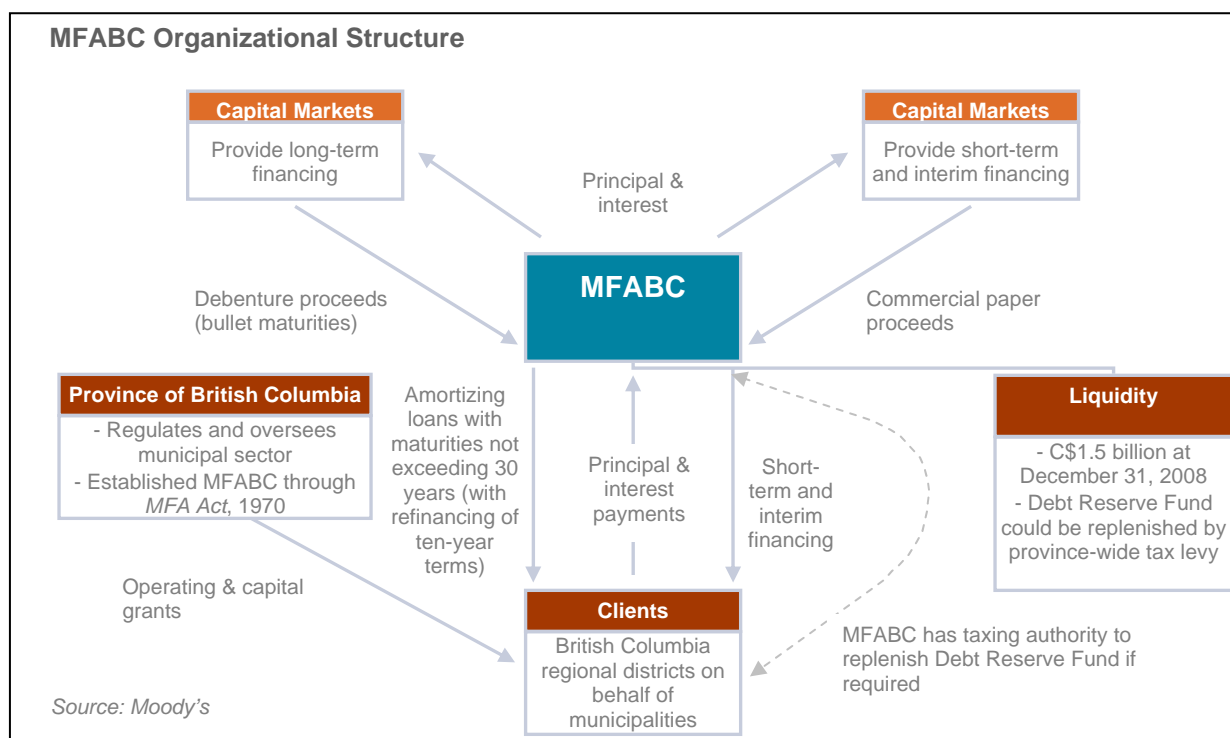
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Municipal Finance Authority of British Columbia

Issuer Profile

MFABC is a non-share capital corporation that was created in 1970 by an act of the legislature of the Canadian province of British Columbia, the *Municipal Finance Authority Act*. MFABC acts as the central borrowing agency for financing capital requirements of municipalities and regional districts, including hospital districts, in British Columbia.

In addition to providing long-term capital financing for regional districts and their member municipalities, the stated objectives of the Authority include the provision of interim financing and short-term investment opportunities for the aforementioned institutions. These programs provide British Columbia municipalities with mechanisms for investing excess cash, borrowing on a short-term basis and financing capital leases. Participation in these programs is voluntary and, owing to attractive rates, well subscribed.



Key Rating Considerations

Institutional Framework

Joint and Several Liability, Taxing Authority Strengthen Structure

Municipalities in the province, with the exception of the City of Vancouver, are prohibited, by law, from issuing debt directly. Instead, they borrow through their respective regional districts which, in turn, borrow from MFABC. The *Community Charter* of British Columbia includes a general liability provision, whereby municipalities are jointly and severally liable for all obligations of their regional district, providing considerable strength to MFABC's institutional structure.

The *Municipal Finance Authority Act* grants MFABC taxing authority on all taxable properties in British Columbia in order to replenish its Debt Reserve Fund (discussed below) if required. MFABC's tax collection system is already operational, as MFABC collects a small amount of tax receipts through its operating levy.

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Highly Regulated Municipalities

As in other Canadian provinces, British Columbia exercises a high degree of oversight over municipal financial activities, resulting in strong municipal financial performance and balance sheets. The *Local Government Act* stipulates that municipalities are not allowed to run operating deficits and that borrowing by municipalities may be undertaken only for infrastructure investments. Such regulation and oversight of municipalities' financial affairs helps to ensure that MFABC's loan portfolio remains of a high quality. Moreover, much like in other Canadian provinces, British Columbia municipalities tend to rely on pay-as-you-go financing, thereby limiting debt accumulation, and long-term planning in anticipation of infrastructure needs leads to the accumulation of municipal cash reserves, providing liquidity to mitigate unanticipated shocks.

Financial Position and Performance

Sound Aggregate Municipal Financial Position

As a result of prudent municipal financial policies, municipal debt outstanding owed to MFABC remains within defined limits. Aggregate debt outstanding of British Columbia municipalities owed to MFABC totaled C\$4.6 billion at the end of 2008, representing approximately 60% of aggregate municipal revenues¹. Furthermore, cash reserves held directly by municipalities have been increasing, providing additional support for required repayments to MFABC. Aggregate reserves held by municipalities and other MFABC borrowers (in addition to those held by MFABC) measured roughly C\$4.8 billion at the end of 2008, slightly higher than total amount of municipal loans owed to MFABC.

Debt and Liquidity

Solid Liquidity Position

MFABC issues almost exclusively debentures with bullet maturities; however, the structure of loan agreements with regional districts, whereby repayments made by borrowers include amounts designated for principal and interest, provides security for bondholders. Accordingly, funds paid to MFABC in excess of immediate debt service requirements are allocated to investments. MFABC's total cash and investments measured C\$1.5 billion at December 31, 2008, equivalent to roughly 25% of MFABC's total debt outstanding. MFABC's cash and investments are invested in securities issued or guaranteed by the Canadian federal government, Canadian provincial governments, Canadian municipalities as well as Canadian chartered banks.

The *Municipal Finance Authority Act* requires that MFABC's clients make contributions to a Debt Reserve Fund, which would provide liquidity in the event of non-payment by a participating municipality. As mentioned above, the *Act* also includes a provision that allows MFABC to levy a tax on all taxable properties in British Columbia to replenish the Debt Reserve Fund if required. The imposition of such a tax would require no further legislative approvals. In its history, MFABC has never had to rely on the Debt Reserve Fund as all clients have made required payments when due. As at December 31, 2008, the Debt Reserve Fund held cash and investments of C\$101.9 million.

Commercial Paper Program Supported by Ample Liquidity

MFABC's C\$500 million commercial paper program, rated P-1, is supported by ample liquidity. MFABC's commercial paper maturities average approximately C\$55 million, while the authority maintains on average C\$30 million in its bank account (with same-day access). In addition, MFABC usually arranges its cash and investment maturities so that approximately 50% of commercial paper maturities can be covered by maturing investments. Moreover, as of October 2008, C\$22.0 million of MFABC's C\$101.9 million Debt Reserve Fund was available on a same-day notice. These internal sources of liquidity typically provide more than 1:1 coverage of MFABC's commercial paper maturities.

In addition to the aforementioned internal sources of liquidity—and principal and interest payments from clients—MFABC's commercial paper program is backed by two separate term revolving credit facilities, with

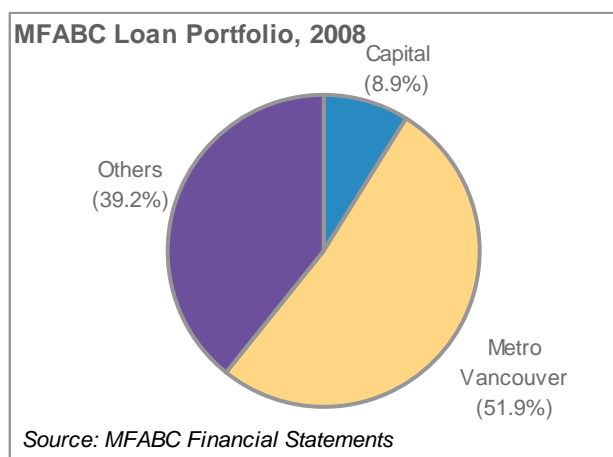
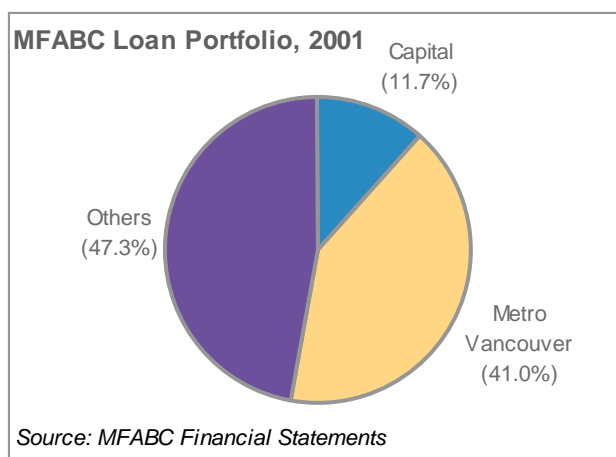
¹ These revenue figures exclude the City of Vancouver (Aaa, negative), which does not borrow through MFABC.

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Canadian chartered banks, totaling C\$500 million. MFABC has full access to both facilities before 10am, Pacific Time.

Loan Portfolio Concentration Increasing, But Strong Overall Quality

Where borrowing on behalf of municipalities outside of Metro Vancouver once dominated the activities of MFABC, Metro Vancouver, including its utilities and transit system, TransLink, now accounts for over half of MFABC's loans outstanding. At December 31, 2008, the Metro Vancouver regional district and TransLink had C\$889.0 million and C\$1.5 billion, respectively, in loans outstanding owed to MFABC, representing a combined 51.9% of MFABC's loan portfolio, up from 41.0% at December 31, 2001. While increasing loan portfolio concentration constitutes a challenge for MFABC, Moody's does not anticipate this would result in any significant deterioration in MFABC's credit quality given the strong credit profile of participating municipalities and substantial liquidity held by MFABC.



TransLink Undertaking Major Capital Projects

TransLink is pursuing an aggressive capital plan including three major projects: the Canada Line light rail project (connecting Richmond, Vancouver and the airport), the Golden Ears Bridge across the Fraser River and the Evergreen Line light rail project (in the north-east sector). The Canada Line is being developed as a public-private partnership (P3). Partners in the project include the federal government, the province, the Vancouver Airport Authority, TransLink and Intransit BC LP, led by SNC-Lavalin. Total cost is estimated at C\$1.9 billion and the project is scheduled to be complete by November 2009 (in time for the 2010 winter Olympics). The private sector consortium has been contracted to design, build, partially finance, and maintain and operate the line in exchange for annual operating payments from TransLink. These payments are to be offset, partially, by farebox revenues and system savings generated by the elimination of bus service along the route.

The second project is the Golden Ears toll bridge across the Fraser River for which the construction costs for the bridge and extensive road connectors are estimated at \$1.0 billion. TransLink is using a design/build/finance/operate model, whereby the concessionaire, led by Bilfinger Berger, is responsible for raising the majority of the funding and TransLink will make concession payments to the operator and collect the tolls, thereby accepting the risk associated with traffic volumes. Construction began in January 2006, and is scheduled to be completed by June 2009.

The third project is the Evergreen Line light rail project. This project involves an approximate 11 kilometre rail line that would connect with two existing SkyTrain lines. In a joint press release on February 1, 2008, the province of British Columbia and TransLink announced the results of a new business case for the rapid transit Evergreen Line and confirmed advanced light rapid transit (ALRT) as the recommended technology. The project's capital cost has been revised to C\$1.4 billion (previously C\$970 million using an alternate technology) and the province has increased its financial commitment to C\$400 million from C\$170 million. The province and TransLink will seek additional funding from the federal government, which, in its 2009-2010 budget,

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identified the Evergreen Line as a “priority project” that could receive federal funding. No details respecting the magnitude or timing of the potential federal funding have been released. Construction could commence in 2010 and the Evergreen Line could be operational by 2014; however, the project requires federal funding to proceed. The Evergreen Line has nevertheless been included in TransLink's 2009-2018 base plan.

Cost overruns are often experienced with large capital projects. While construction risk for the two major capital projects underway (Canada Line and the Golden Ears Bridge) have been transferred to the respective concessionaires, any cost overruns experienced with future major projects could necessitate increased funding by TransLink that could, in turn, lead to increased debt and pressure on its operating budget. Moody's will continue to monitor developments associated with these major capital projects and any potential impact on the ability of TransLink to support its debt and, by extension, on the quality of MFABC's loan portfolio.

Governance and Management Factors

The *Municipal Finance Authority Act* states that the executive and administrative powers and duties of MFABC must be exercised and performed by a Board of Trustees composed of ten members elected annually: four trustees representing the Metro Vancouver, one representing the Capital Regional District (Victoria) and five representing the remaining regional districts. A small staff carries out the day-to-day operations of the Authority and the operating policies described above ensure security for bondholders, supporting the creditworthiness of MFABC.

The *Municipal Finance Act* restricts the spectrum of MFABC's allowed investments to fixed-income securities issued or guaranteed by Canadian governments or Canadian chartered banks and credit unions. MFABC adheres to conservative debt and investment management policies, which limits its exposure to market-related risks and helps to ensure relatively smooth debt servicing costs. As stated above, the authority's robust cash and investment position provides a source of liquidity that supports the Aaa rating.

These fiscal, debt and investment management measures are supported by comprehensive, transparent and timely financial reporting.

Economic Profile

After trailing the national average in real economic growth through the latter half of the 1990s and the early part of this decade, the British Columbia economy outperformed the Canadian economy in recent years, expanding at a compound annual growth rate of 3.1% from 2000 to 2007, higher than the 2.6% performance recorded by the Canadian economy. The strong performance recorded since the start of the decade reflects increases in commodity prices and a booming construction sector, partially offset by difficulties in the province's forestry industry. Moreover, a more competitive tax regime and a number of regulatory changes introduced in recent years have supported increased investment in the province, a strong labour market and robust growth in personal income.

Growth, however, is estimated to have decelerated sharply in 2008 and will likely continue to be sluggish in 2009. The construction sector, which employs a higher proportion of the labour force than in other regions of the country, has slowed since the second half of 2008 as a result of the credit crisis and a slowing real estate market—especially in the Greater Vancouver area. The resource sector is also expected to slow down as a result of lower commodity prices brought about by the US recession and slowing world economy.

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Rating History

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Date	Rating
June 1980	Aaa
November 1974	Aa
August 1971	A

Annual Statistics

Debt Statement (C\$000, as at 12/31)	2003	2004	2005	2006	2007	2008
Long-Term Debt	3,715,271	3,881,914	3,981,350	4,437,336	4,889,753	5,357,506
Short-Term Debt	213,426	349,689	269,386	260,189	511,517	575,629
Net Direct Debt	3,928,697	4,231,603	4,250,736	4,697,525	5,401,270	5,933,135
Net Indirect Debt [1]	350,285	401,195	468,396	402,933	470,853	470,853
Net Direct and Indirect Debt	4,278,982	4,632,798	4,719,132	5,100,458	5,872,123	6,403,988

[1] Net direct debt of the City of Vancouver. For 2008, debt figures for 2007 were used as an approximation.

Debt Trends (C\$000, as at 12/31)	2003	2004	2005	2006	2007	2008
Net Direct Debt	3,928,697	4,231,603	4,250,736	4,697,525	5,401,270	5,933,135
As % of Assessed Property Value	1.0	1.0	0.9	0.8	0.8	0.8
Net Direct Debt per Capita (C\$)	959	1026	1023	1,119	1,273	1,377
As % of Net Direct Debt						
Total Investments	27.0	26.5	24.7	27.5	24.6	24.6
Loans to Districts	84.4	82.1	80.1	76.1	78.3	77.2
Short-Term Debt	5.4	8.3	6.3	5.5	9.5	9.7
Net Debt Issuances	492,554	389,296	531,230	715,175	909,605	859,000
Investments as a % of Net Direct Debt	27.0	26.5	24.7	27.5	24.6	24.6
TransLink Loans as % of Total Loan Portfolio	23.6	24.3	26.5	28.0	33.6	32.5
TransLink + Metro Vancouver Loans as % of Total Loan Portfolio	52.5	51.2	51.7	52.2	54.4	51.9

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Consolidated Operations (C\$000, Year Ending 12/31)	2003	2004	2005	2006	2007	2008
Revenues						
Operating Levy	108	119	140	161	197	160
Investment Income	70,504	73,261	77,637	65,326	67,097	67,191
Interest Payments from Loans	258,180	253,649	258,067	271,051	284,738	302,490
Other Revenues	1,102	1,171	1,598	1,735	1,917	2,143
Total Revenues	329,894	328,200	337,442	338,273	353,949	371,984
Expenses						
Interest Expense	251,014	245,870	252,670	245,724	258,993	274,986
Other Expenses	12,705	17,027	16,357	19,664	18,986	46,389
Total Expenses	263,719	262,897	269,027	265,388	277,979	321,375
Operating Margin	66,175	65,303	68,415	72,885	75,970	50,609

Financial Trends (Year Ending 12/31)	2003	2004	2005	2006	2007	2008
% Change in Revenues	(0.8)	(0.5)	2.8	0.2	4.6	5.1
As % Revenues						
Regional District Payments	78.3	77.3	76.5	80.1	80.4	81.3
Investment Income	21.4	22.3	23.0	19.3	19.0	18.1
Interest Expense	76.1	74.9	74.9	72.6	73.2	73.9
Operating Margin	20.1	19.9	20.3	21.5	21.5	13.6
% Change in Expenses	4.1	(0.3)	2.3	(1.4)	4.7	15.6

Balance Sheet - Consolidated Operations (C\$000, as at 12/31)	2003	2004	2005	2006	2007	2008
Cash	8,770	8,326	10,849	15,297	9,547	99,202
Investments	1,060,343	1,122,924	1,051,810	1,294,111	1,327,491	1,456,908
Loans Receivable from Districts	3,316,576	3,475,043	3,406,685	3,574,009	4,227,789	4,582,352
Debt Reserve Fund [1]	78,908	80,833	82,128	85,538	94,506	101,877
Net Direct Debt	3,928,697	4,231,603	4,250,736	4,697,525	5,401,270	5,933,135

[1] Subsumed in cash and investments.

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Economic Trends (Year Ending 12/31) [1]	2003	2004	2005	2006	2007	2008
Population (000)	4,122	4,155	4,197	4,244	4,310	4,382
Full Value (C\$ Millions) [2]	377,459	419,367	494,706	566,187	696,312	784,015
Per Capita (C\$)	91,563	100,927	117,877	133,422	161,546	178,933
Real GDP Growth (%)	2.5	4.0	3.7	3.9	3.0	--
Personal Income (C\$000)	117,126	124,263	131,454	142,195	151,836	--
Per Capita (C\$)	28,412	29,906	31,323	33,508	35,226	--
As a % of National Per Capita Level	96.5	97.1	97.6	98.9	99.0	--
Unemployment Rate (%)	8.0	7.2	5.9	4.8	4.2	4.6
Housing Starts	26,174	32,925	34,667	36,443	39,195	34,321

[1] Sources: Government of British Columbia, Statistics Canada.

[2] Full value of assessed properties.

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MFABC Membership Information, 2008

Regional District	Population (Forecast) [1]	Loans Outstanding Owed to MFABC	Debt Burden [2]	Debt per Capita (C\$)
Alberni-Clayoquot	32,111	21,175	0.5%	659
Bulkley-Nechako	39,841	8,005	0.3%	201
Capital	369,391	409,254	0.6%	1,108
Cariboo	65,212	33,042	0.5%	507
Central Coast	3,307	283	0.2%	86
Central Kootenay	59,764	41,167	0.5%	689
Central Okanagan	180,842	178,544	0.5%	987
Columbia-Shuswap	54,057	50,988	0.5%	943
Comox Valley	110,075	64,190	0.6%	583
Cowichan Valley	83,053	39,954	0.3%	481
East Kootenay	58,676	46,430	0.4%	791
Fraser Valley	279,486	173,099	0.5%	619
Fraser-Fort George	97,117	122,646	1.3%	1,263
Metro Vancouver	2,293,438	888,986	0.2%	388
Kitimat-Stikine	39,349	12,398	0.5%	315
Kootenay-Boundary	32,795	23,303	0.5%	711
Mount Waddington	12,008	6,921	0.7%	576
Nanaimo	150,449	78,116	0.3%	519
North Okanagan	84,095	91,250	0.7%	1,085
Northern Rockies	6,334	19,742	1.3%	3,117
Okanagan-Similkameen	85,400	113,563	0.8%	1,330
Peace River	62,966	101,682	1.2%	1,615
Powell River	20,653	7,700	0.3%	373
Skeena-Queen Charlotte	20,385	15,507	1.2%	761
Squamish-Lillooet	38,853	57,407	0.4%	1,478
Strathcona	42,771	17,006	0.3%	398
Sunshine Coast	30,200	49,356	0.6%	1,634
Thompson-Nicola	130,984	108,819	0.7%	831
TransLink	--	1,489,601	--	--
E-COMM and Other	--	126,992	--	--
Short-Term Loans	--	185,226	--	--
Total	4,483,612	4,582,352	0.6%	1,022

[1] Source: BC Stats.

[2] Loans outstanding owed to MFABC as a % of assessment base.

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Moody's Related Research**Credit Opinion:**

- British Columbia, Province of, February 2008
- Vancouver, City of, January 2008

Analysis:

- Canada, January 2009 (114138)

Statistical Handbook:

- Non-US Regional and Local Governments, December 2008 (113620)

Rating Methodologies:

- Regional and Local Governments Outside the US, May 2008 (107844)
- The Application of Joint-Default Analysis to Regional and Local Governments, December 2008 (99025)
- The Application of Joint-Default Analysis to Government-Related Issuers, April 2005 (92432)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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Report Number:114742

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