

Credit Opinion: Municipal Fin. Authority of British Columbia

Municipal Fin. Authority of British Columbia

British Columbia, Canada

Ratings

Category	Moody's Rating
Outlook	Stable
Bonds	Aaa
Commercial Paper -Dom Curr	P-1

Contacts

Analyst	Phone
David Rubinoff/Toronto	1.416.214.1635
Yves Lemay/New York	1.212.553.1653

Key Indicators

Municipal Fin. Authority of British Columbia	1999	2000	2001	2002	2003
Net direct and underlying debt (C\$000)	3,535,829	3,591,815	3,758,488	3,990,236	4,154,144
Loans outstanding to members (C\$000)	2,702,011	2,714,849	2,832,474	3,071,025	3,316,576
Total investments (C\$000)	1,086,783	1,124,902	1,206,796	1,172,051	1,065,961
Operating margin as % of revenues	12.7	19.9	26.8	25.6	21.3
Net direct and underlying debt as % of full value	1.1	1.1	1.1	1.1	1.1
Investments as % of gross direct debt	34.2	34.4	35.3	32.6	28.4
% Change in loans outstanding	35.9	0.5	4.3	8.4	8.0

Opinion

Credit Strengths

Credit strengths for the Municipal Finance Authority of British Columbia include:

- high quality loan portfolio backed by fiscally conservative municipalities
- availability of a Debt Reserve Fund, providing liquidity

- general sinking fund exceeding 28% of long-term debt
- joint and several liability of borrowers
- unrestricted authority to levy a tax on property to replenish Debt Reserve Fund, if required

Credit Challenges

Credit challenges for the Municipal Finance Authority of British Columbia include:

- concentration of loan portfolio with a small number of large borrowers

Rating Rationale

The Aaa rating for the debt issued by the Municipal Finance Authority of British Columbia (MFA) reflects strong security provisions and prudent management practices. As MFA debt is not guaranteed by the Province of British Columbia, the prime grade credit rating reflects solely the Authority's own credit fundamentals.

Significant security is provided by the joint and several liability of members of regional districts that, in turn, borrow from the MFA, the availability of a Debt Reserve Fund, which has remained fully funded, and unlimited taxing powers on all taxable properties within the Province to replenish the reserve. Assets held in a general sinking fund, which presently exceed 28% of long-term debt, further enhances bondholder security.

Low municipal debt levels reflect a strong local commitment to pay-as-you-go capital financing. The expansion of MFA's activities to include some non-municipal members in the Greater Vancouver Area, including most recently the transportation authority, TransLink, has resulted in a significant increase in the Authority's borrowing needs and a concentration of its loan portfolio with a small number of large borrowers. TransLink's activities are financed via access to a broad range of revenue sources thereby providing a measure of stability. Borrowing by TransLink is carried out through the Greater Vancouver Regional District (GVRD) whose obligations are a joint and several liability of all the municipalities within the GVRD.

Noted security provisions continue to protect investors and, when combined with the Authority's strong track record, the increased debt load should not impact negatively on the MFA's financial position.

Rating Outlook

The outlook is stable. The MFA continues to display prudent management and when combined with the numerous structural safeguards, these elements provide a solid foundation for the Authority's rating.

What Could Change the Rating - DOWN

The MFA's long history of strong management and the solid structure of its operation provide substantial support for its Aaa credit rating. A deterioration of conditions leading to a downgrade is difficult to imagine, but pressure on the rating could arise if reserves and taxation power were to weaken while the quality of the loan portfolio were to deteriorate. This is highly improbable.

Recent Developments/Results

As at December 31, 2003, sinking funds totaled C\$1.1 billion - over 28% of long-term debt. For the year, the Authority recorded an operating margin of C\$70.3 million or 21% of revenues.

© Copyright 2005, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."