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Municipal Finance Authority of British Columbia

The ratings of the Municipal Finance Authority of British Columbia (MFABC) reflect the application of Moody's rating methodology for government-related issuers (GRIs). Please refer to Moody's Rating Methodology entitled The Application of Joint Default Analysis to Government Related Issuers, published in April 2005, and its accompanying press release. Moody's separately published credit opinion also provides a discussion of the application of the JDA methodology.

Well Designed Structure Supports Creditworthiness

The MFABC (Aaa, stable outlook) is the central borrowing agency responsible for financing capital requirements of municipalities and regional districts, including hospital districts, in the Province of British Columbia. 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 the MFABC. Municipalities are jointly and severally liable for all obligations of their regional district, a characteristic that provides considerable strength to the MFABC structure.

Where borrowing on behalf of municipalities outside of the Greater Vancouver Regional District (GVRD) once dominated the activities of the MFABC, the GVRD, including its utilities and transit system, "TransLink", now represents over 50% of the MFABC's loans outstanding. While this share is expected to increase over the coming years, Moody's does not anticipate this concentration would result in any significant deterioration in the MFABC's credit quality given the strong credit profile of participating municipalities and substantial liquidity held by the MFABC.

The MFABC provides three additional programs to its clients: pooled investments, interim financing, and capital leasing. These programs provide mechanisms for investing excess cash, borrowing on a short-term basis and financing capital leases. Participation in these programs is voluntary and, owing to competitive rates, all are well subscribed.

Debt Backed by Strong Municipalities and Substantial Liquidity

The structure of loan agreements with regional districts, and the strong credit profile of participating municipalities, provides security for bondholders. Firstly, loan repayments made by the members pursuant to loan agreements include amounts designated for principal and interest, and required contributions to the Debt Reserve Fund, which would provide liquidity in the event of non-payment by a participating municipality. As at December 31, 2006, the Debt Reserve Fund held assets of C\$86 million. In its more than three decades of operations, the MFABC has not had to rely upon the Debt Reserve Fund as municipalities have continuously met their obligations. Should the reserve fund ever be needed to meet debt service obligations, the MFABC may replenish the reserve using its authority to levy a tax on all the taxable properties in the Province. If the reserve fund were to fall below a prescribed level, the MFABC would be obligated to levy the tax. The imposition of such a tax would not require any further legislative or executive approval.

Secondly, while members borrowing through the MFABC make annual principal and interest payments, the MFABC issues, almost exclusively, bonds with bullet maturities. Accordingly, funds paid to the MFABC in excess of immediate debt service requirements are placed in a debt fund. As a result of timely district payments, the Authority has accumulated assets in this fund of over C\$1.2 billion. When combined with assets in the Debt Reserve Fund, the Authority has available resources in excess of 29% of its net direct debt.

Thirdly, the credit quality of MFABC's loan portfolio is supported by a high level of provincial oversight, which ensures that municipalities remain fiscally conservative. As a result, municipal reserves have been increasing, providing additional support for required repayments to the Authority. Furthermore, municipalities' debt outstanding is, on average, small relative to the limits prescribed in provincial legislation - very few municipalities are approaching their legislated borrowing limits.

Increased Borrowing by TransLink

TransLink (Aa3, stable), which represents, at present, 28% of the MFABC's loan portfolio, has access to a diverse stream of revenues to fund its operations. These revenue sources include a share of the gasoline tax collected in the Greater Vancouver Area, a provincial sales tax levied on parking in the area, property taxes and fare revenues. TransLink is pursuing an aggressive capital plan and has commenced construction on two major projects (the Canada Line - connecting Richmond, Vancouver and the airport - and the Golden Ears Bridge across the Fraser River) and the planning for a third (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, the GVTA and Intransit BC Limited Partnership, led by SNC-Lavalin. The project is estimated to cost C\$1.9 billion and is scheduled to be complete by 2009 (in time for the 2010 winter Olympics). The private sector consortium will design, build, maintain and operate the line in exchange for annual operating payments from TransLink. These payments are to be offset, partially, by incremental fare box 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 total construction costs are estimated at \$1 billion. TransLink is using a design/build/finance/operate model, whereby the concessionaire, led by Bilfinger Berger AG, will be 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 in 2009.

The third project is the Evergreen Line light rail project. This project involves an 11 kilometre rail line that would connect with an existing SkyTrain route. A deep tunnel would have to be constructed for a portion of the route (roughly 2 kilometres). Total project cost is estimated at \$970 million, of which the Province of British Columbia has committed up to C\$170 million. TransLink would provide C\$400 million and an additional C\$400 million contribution from senior levels of government is required prior to this project being approved. If funding is secured, and the TransLink Board recommends proceeding to the implementation phase, construction could commence in late 2007 to achieve the scheduled in-service date of September 2011.

TransLink's reliance on a broad range of revenue sources lends significant flexibility to its budget planning. Fare box revenues provide only about 35% of total revenues and unlike many other regional transit authorities, TransLink is not reliant on grants from the government to meet its financing needs. Access to the tax bases listed above, combined with fare box revenues, represent the full extent of TransLink's resources. As legislation precludes TransLink from budgeting an operating deficit, it must adjust its revenues and expenditures to ensure a balance. If faced with extreme fiscal pressures, TransLink could substantially reduce services to save costs while not impacting the majority of its revenues. This flexibility affords TransLink the means necessary to meet its financial obligations.

Economic Outlook

After trailing the national average real economic growth rate through the latter half of the 1990s and the early part of this decade, the British Columbia economy grew more rapidly than the national average in each year since 2002, expanding at a compound annual growth rate of 3.7% from 2002 to 2005. The provincial government, in the 2007-08 budget, estimated growth of 3.9% in 2006 and forecast growth of 3.1% in 2007 and 3.0% in 2008, based on a series of prudent assumptions. While the British Columbia economy has benefited from strong commodity prices in recent years that have boosted economic performance, prices for some commodities are softening; however, it appears that fundamentals may be improving. A more competitive tax regime and a number of regulatory changes introduced in recent years should help to increase investment in the province, improving both productivity and personal income per capital, both of which currently lag the national average.

Rating History	
Long-term Domestic Debt	Moody's Rating
June 1980	Aaa
November 1974	Aa
August 1971	A

Related Research

Analyses:

[British Columbia, Province of, April 2006 \(92085\)](#)

[Greater Vancouver Transportation Authority, October 2006 \(94267\)](#)

[City of Vancouver, February 2007 \(101935\)](#)

Rating Methodology:

[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.

Municipal Finance Authority of British Columbia

Debt Statement (as of 12/31; C\$000)	2002	2003	2004	2005	2006
Gross direct debt	3,593,232	3,748,257	3,910,640	4,005,947	4,437,336
Less:					
Sinking funds[1]	3,265	0	0	0	0
Net direct debt	3,589,967	3,748,257	3,910,640	4,005,947	4,437,336
Net overlapping debt [2]	388,890	350,285	401,195	468,396	468,395
Net direct and overlapping debt	3,978,857	4,098,542	4,311,835	4,474,343	4,905,731

[1] Excludes assets in excess of related debt.

[2] Net direct debt of the City of Vancouver. For 2006, debt figures for 2005 were used as an approximation.

Debt Trends (as of 12/31; C\$000)	2002	2003	2004	2005	2006
Net direct debt	3,589,967	3,748,257	3,910,640	4,005,947	4,437,336
As % of assessed property value	1.0	1.0	0.9	0.8	0.8
Net direct debt per capita (C\$)	880	911	941	953	1,043
As % of gross direct debt					
Total Investments [1]	32.6	28.4	29.3	26.7	29.3
Loans to districts	85.5	88.5	88.9	85.0	80.5
Net debt issuances (C\$000)	405,133	492,554	389,296	531,230	715,175
Investments as a % of net direct debt	32.1	28.4	29.3	26.7	29.3
Translink loans as % of total loan portfolio	24.3	23.6	24.3	26.5	28.0
Translink + GVRD loans as % of total loan portfolio	50.0	52.5	51.2	51.7	52.2

[1] Includes debt fund, debt reserve fund and sinking funds.

Statement of Revenues and Expenditures - Consolidated Operations (as of 12/31; C\$000)	2002	2003	2004	2005	2006
Revenues					
Operating levy	103	108	119	140	161
Investment income	75,631	70,504	73,261	77,637	65,326
Interest payments from loans	255,427	258,180	253,649	258,067	271,051
Other revenues	1,358	1,102	1,171	1,598	1,735
Total revenues	332,519	329,894	328,200	337,442	338,273
Expenditures					
Interest expense	240,202	251,014	245,870	252,670	245,724
Other expenditures	13,069	12,705	17,027	16,357	19,664
Total expenditures	253,271	263,719	262,897	269,027	265,388
Operating margin	79,248	66,175	65,303	68,415	72,885

Financial Trends (as of 12/31)	2002	2003	2004	2005	2006
% Change in revenues	(1.8)	(0.8)	(0.5)	2.8	0.2
As % Revenues					
Regional district payments	76.8	78.3	77.3	76.5	80.1
Investment income	22.7	21.4	22.3	23.0	19.3
Interest expense	72.2	76.1	74.9	74.9	72.6
Operating margin	23.8	20.1	19.9	20.3	21.5
% Change in Expenditures	(31.3)	4.1	(0.3)	2.3	(1.4)

Municipal Finance Authority of British Columbia

Balance Sheet - Consolidated Operations (as of 12/31; C\$000)

	2002	2003	2004	2005	2006
Cash	8,227	8,770	8,326	10,849	15,297
Investments					
Debt fund [1]	1,073,467	987,053	1,065,567	989,292	1,214,709
Debt reserve fund	79,718	78,908	80,833	82,128	85,538
Sinking fund [2]	18,866	0	0	0	0
Total investments	1,172,051	1,065,961	1,146,400	1,071,420	1,300,247
Accounts payable and accrued interest	44,286	44,825	39,944	40,290	59,545
Receivables from districts					
Loans	3,071,025	3,316,576	3,475,043	3,406,685	3,574,009
Gross long-term debt	3,593,232	3,748,257	3,910,640	4,005,947	4,437,336

[1] Beginning in 2002, the Capital Repayment Equalization Fund is subsumed by the Debt Fund.

[2] Total assets of sinking funds, including assets in excess of related debt.

Economic Trends (as of 12/31) [1]

	2002	2003	2004	2005	2006
Population (000)	4,115	4,155	4,202	4,255	4,310
Full value (C\$ millions) [2]	348,472	377,459	419,367	494,706	566,187
Per capita (C\$)	84,683	90,853	99,805	116,278	131,366
Real GDP growth	3.3	2.5	4.0	3.7	3.9
Personal income (C\$000)	113,021	116,617	121,747	130,481	139,016
Per capita (C\$)	27,466	28,069	28,975	30,669	32,254
As a % of national per capita level	96.0	95.7	96.0	96.3	n/a
Unemployment rate (%)	8.6	8.1	7.2	5.9	4.8
Housing starts	21,625	26,174	32,925	34,667	36,443

[1] Source: Government of British Columbia and StatsCan.

[2] Full value of assessed property.

Membership Information (as at December 31, 2005)

Regional District	Assessment [1]	Population [2]	Loans	Debt	Debt
			Outstanding to MFABC	Burden [3]	per capita
	(C\$000)		(C\$000)		(C\$)
Alberni-Clayoquot	2,083,275	33,063	20,254	0.8%	613
Bulkley-Nechako	1,905,328	44,147	6,175	0.3%	140
Capital	39,156,796	353,710	297,081	0.6%	840
Cariboo	3,881,233	70,849	35,951	0.9%	507
Central Coast	85,294	3,860	323	0.4%	84
Central Kootenay	4,132,580	60,651	32,082	0.7%	529
Central Okanagan	14,211,473	173,026	124,801	0.7%	721
Columbia-Shuswap	4,234,205	54,520	40,291	0.8%	739
Comox-Strathcona	7,703,120	107,312	88,371	0.9%	823
Cowichan Valley	5,990,662	80,295	26,390	0.4%	329
East Kootenay	5,510,120	63,169	35,294	0.6%	559
Fraser Valley	18,204,728	268,972	81,668	0.6%	304
Fraser-Fort George	5,252,817	101,881	127,883	1.4%	1,255
Greater Vancouver	247,231,164	2,180,737	857,572	0.3%	393
Kitimat-Stikine	1,684,148	42,927	13,600	0.8%	317
Kootenay Boundary	2,524,682	32,864	20,079	0.7%	611
Mount Waddington	635,115	13,562	5,295	0.8%	390
Nanaimo	11,443,219	143,791	45,702	0.3%	318
North Okanagan	5,531,304	81,888	100,126	1.5%	1,223
Northern Rockies	896,979	6,644	7,276	0.6%	1,095
Okanagan-Similkameen	6,080,746	84,914	42,326	0.6%	498
Peace River	4,350,203	64,272	59,876	1.2%	932
Powell River	1,478,379	21,364	11,747	0.7%	550
Skeena-Queen Charlotte	853,070	22,722	12,429	1.5%	547
Squamish-Lillooet	12,103,051	37,750	23,664	0.2%	627
Sunshine Coast	4,072,512	29,262	31,157	0.6%	1,065
Thompson-Nicola	8,064,800	130,933	71,245	0.8%	544
Translink	--	2,180,737	904,065	--	415
E-Comm and other	--	--	140,189	--	--
Short-term debt			143,773		
Total			3,406,685		

[1] BC Ministry of Community Services

[2] BC Stats

[3] Loans outstanding as a % of assessment base.

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