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Research Update:

Municipal Finance Authority of British Columbia 'AAA' Ratings Affirmed On Strong Loan Portfolio; Outlook Stable

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Overview

- We are affirming our ratings, including our 'AAA' long-term issuer credit rating, on the Municipal Finance Authority of British Columbia (MFABC).
- The ratings on reflect Standard & Poor's opinion of MFABC's strong loan portfolio, ability to levy a provincewide property tax to replenish reserves, and excellent liquidity.
- The stable outlook reflects our expectation that MFABC's loan portfolio will retain its strong credit risk profile.

Rating Action

On March 18, 2011, Standard & Poor's Ratings Services affirmed its ratings, including its 'AAA' long-term issuer credit rating, on the Municipal Finance Authority of British Columbia (MFABC). The outlook is stable.

Rationale

The ratings reflect Standard & Poor's opinion of MFABC's strong loan portfolio, ability to levy a provincewide property tax to replenish reserves, and excellent liquidity. The ratings also factor in our view of the authority's near-term prospective borrowing requirements, and high loan concentration within Metro Vancouver.

MFABC provides long-term, interim, and capital equipment financing to regional districts and their member municipalities, as well as the province's regional hospital districts and other special-purpose entities. It's the exclusive provider of long-term financing to these institutions, except to the City of Vancouver (AA/Stable/--) and the South Coast British Columbia Transportation Authority (TransLink; not rated), which borrow on their own names directly in the capital markets.

MFABC's loan portfolio, which contains high-credit-quality regional government borrowers, remains a key component of the ratings. The portfolio fared very well through the credit crisis and subsequent global recession, with no instances of loan obligor distresses or defaults. Its total value climbed 2% to C$4.8 billion as of Dec. 31, 2010.

We think the Province of British Columbia (B.C.; AAA/Stable/A-1+) has helped foster the municipal sector's strong credit quality. Its legislation requires municipalities to obtain the acceptance of the public and member municipalities before taking on debt; adhere to prescribed debt service ceilings; limit the use of debt proceeds to capital infrastructure; and adopt balanced annual operating budgets. Its legislation also requires municipalities to conduct long-term borrowing through their regional districts, which interact directly with MFABC. Municipalities are jointly and severally liable for their regional districts' debt, including their MFABC loan obligations.

While instances of municipal distress in B.C. are rare, the province has a record of supporting those in need through loan workouts and other measures. What's more, municipalities themselves generally follow what we consider to be conservative financial practices and possess sound economic fundamentals.

Also supporting the ratings is MFABC's unfettered ability to replenish its reserve through a provincewide levy on all taxable land and improvements in B.C., including in Vancouver. The authority has never experienced a default in its 40-year history, and has never had a reserve deficiency. Accordingly, it has never had to implement such a levy. Nevertheless, it's registered as a claimant on local tax bills, which we believe would expedite its ability to collect a special levy if needed.

MFABC maintains strong liquidity to address potential loan obligor defaults and support debt servicing in the event of a temporary market disruption. Its two primary sources of internal liquidity, the debt service reserve and sinking funds, stood at C$1.53 billion, or 180% of the next 12 months' debt service, as of Dec. 31, 2010. The authority maintains a C$200 million on-demand bank facility, which is available to cover a potential timing gap should it have to exercise its taxing power. It holds two C$250 million bank lines to backstop its C$500 million commercial paper (CP) program. In addition, it has a record of strong capital market access, particularly through recent periods of market stress.

The ratings take into account our view of the authority's near-term prospective borrowing requirements. To meet the municipal sector's demand for new loans, we project MFABC will increase its debt (net of sinking funds) to about C$5.7 billion, or about 56% of members' consolidated operating revenues, by 2013, from C$5 billion, or about 52%, at Dec. 31, 2010. The projected increase is considerably smaller than what we foresaw in 2010, when we projected debt to reach C$6.2 billion, or 65% of members' consolidated operating revenues, by 2012. The downward revision primarily stems from TransLink's decision in 2010 to stop using MFABC for new loans, and instead issue long-term debt and CP directly in the capital markets.

TransLink has the legislated ability to raise property taxes in Metro Vancouver in periods of stress. In our view, this creates a de facto joint-and-several liability for Metro Vancouver and its member municipalities. Accordingly, we believe TransLink's borrowing activities will remain a key driver of Metro Vancouver's credit quality and, in turn, MFABC's credit quality, albeit less directly than before. We expect the combined debt of

MFABC, Vancouver, and TransLink to reach about 92% of members' consolidated operating revenues by 2012, up slightly from about 91% in 2010.

The ratings also reflect our assessment of the large single-name concentrations in the loan portfolio. Metro Vancouver and TransLink accounted for 51% of the portfolio as of Dec. 31, 2010. This is a corollary of the population distribution in B.C., where close to 60% of people live in Metro Vancouver. However, the loan portfolio concentration has fallen from 57% in 2006, and is likely to decline further given TransLink's plan to continue issuing debt directly in the capital markets.

Outlook

The stable outlook reflects our expectation that MFABC's loan portfolio will retain its strong credit risk profile. We also expect the authority's debt to evolve in line with our projections. Deterioration in the loan portfolio's credit risk profile, larger-than-expected borrowing, or a material change in MFABC's powers could place downward pressure on the ratings.

Related Criteria And Research

Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

Ratings List

Ratings Affirmed

Municipal Finance Authority of British Columbia	
Issuer credit rating	AAA/Stable/A-1+
Senior unsecured debt	AAA
Commercial paper	
Global scale	A-1+
Canada scale	A-1(High)

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.