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CREDIT OPINION
23 May 2018

Update

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RATINGS

Municipal Fin. Authority of British Columbia

Domicile	British Columbia, Canada
Long Term Rating	Aaa
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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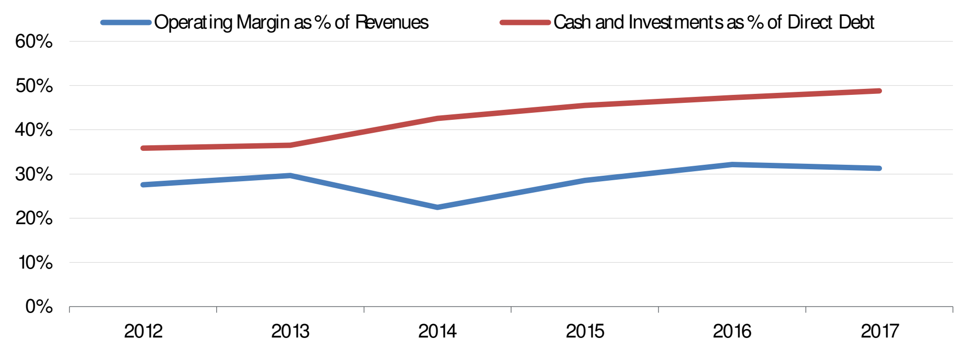
Municipal Finance Authority of British Columbia (Canada)

Update to credit analysis

Summary

The credit profile of the Municipal Finance Authority of British Columbia (Aaa stable) (MFABC) benefits from a strong institutional and governance framework, including a joint and several liability of members of regional districts that borrow from MFABC, and unlimited taxing powers on all taxable properties in the Province of British Columbia. The rating is also supported by MFABC's solid liquidity profile, evidenced by increasing cash and investments that covered nearly 50% of total direct debt at year-end 2017.

Exhibit 1
Both profitability and liquidity metrics remain strong



Source: Moody's, MFABC

Credit strengths

» Strong institutional framework including unlimited taxing powers of MFABC and joint and several liability of borrowers

» High quality loan portfolio

» Substantial liquidity provides security to bondholders

» Affordable debt burden

Credit challenges

» Single-name and geographic concentration of the loan portfolio

» Limited ability to earn positive net interest spread

Rating outlook

The rating outlook is stable, which reflects the stable institutional framework and predictable funding environment.

Factors that could lead to a downgrade

A depletion of reserves, eroding taxation power and/or a deterioration in loan portfolio quality could lead to a downgrade in the rating.

Key indicators

Exhibit 2

Municipal Fin. Authority of British Columbia

(Year Ending 12/31)	2013	2014	2015	2016	2017
Total Direct Debt (C$000)	7,026,335	7,231,956	7,570,182	8,073,065	8,342,084
Loans Outstanding to Clients (C$000)	4,659,144	4,615,594	4,603,150	4,606,276	4,681,086
Total Cash and Investments (C$000)	2,566,535	3,076,713	3,445,794	3,816,891	4,070,973
Operating Margin as % of Revenues [1]	29.6	22.4	28.5	32.1	31.2
Debt Burden [2]	0.46	0.46	0.40	0.38	0.37
Cash and Investments as % of Direct Debt	36.5	42.5	45.5	47.3	48.8
% Change in Loans Outstanding	-2.2	-0.9	-0.3	0.1	1.6

[1] Before gains/losses from change in fair value of derivative contracts
[2] Net direct debt as % of assessed property value
Source: Moody's, MFABC

Detailed credit considerations

Baseline credit assessment

The credit profile of MFABC, as expressed in its Aaa stable rating, combines a baseline credit assessment (BCA) of aaa, and a high likelihood of extraordinary support coming from the Province of British Columbia (Aaa stable) in the event MFABC faced acute liquidity stress.

Strong institutional framework including unlimited taxing powers of MFABC and joint and several liability of borrowers

MFABC was created in 1970 by an act of provincial legislature, the Municipal Finance Authority Act. MFABC acts as the central borrowing agency in British Columbia for financing capital requirements of municipalities and regional districts, including hospital districts and other municipal-related bodies. MFABC operates at arm's length from the province, and obligations of MFABC are not the obligations of the province and are not guaranteed by the province.

Municipalities in British Columbia, with the exception of the City of Vancouver which operates under a special charter, are prohibited from issuing debt directly. Instead, they borrow long-term through their respective regional districts, which in turn borrow from MFABC. MFABC issues debt in its own name, and on-lends the proceeds to the borrowing regional districts. At year-end 2017, MFABC's loan portfolio amounted to CAD4.7 billion including short-term loans to clients.

MFABC's strong institutional framework provides security to bondholders. MFABC withholds 1% of principal borrowed of long-term loans (greater than 5 years) into a Debt Reserve Fund (DRF), which stood at CAD109 million at 31 December 2017. Funds in the DRF must be accessed first if MFABC does not have sufficient funds to meet payments due on its obligations. MFABC has never been required to tap the DRF.

If the DRF cannot be replenished in a reasonable time, MFABC has the option to levy a tax on all taxable properties in British Columbia in order to replenish the DRF to its required level. If the DRF falls to below 50% of its required level, MFABC must exercise this authority and levy a tax. MFABC currently sets a nominal tax rate on properties to ensure that the charge is already present on all property tax notices. The increase of the tax rate would require no further legislative approvals. Due to the maximum potential delay of 14 months before enacting the property tax provision, MFABC ensures it maintains sufficient liquidity to cover at least 14 months of its funding requirements.

In addition, the institutional framework benefits from the presence of a joint and several liability. The Local Government Act 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 and promoting fiscal discipline across borrowers. MFABC's unlimited taxing power and the joint and several liability of borrowing municipalities are key factors in MFABC's credit rating.

High quality loan portfolio

As of year-end 2017, MFABC had a total loan portfolio of CAD4.7 billion including CAD279 million in short-term loans. We anticipate only a modest increase in the loan portfolio over the next 12-18 months. The loan portfolio is distributed across a range of regional districts/municipalities, regional hospital districts and other municipal-related bodies in the Province of British Columbia. The Authority has never had a missed debt service payment from any of its borrowers in its history.

As with other Canadian provinces, the Province of British Columbia exercises a high degree of oversight over municipal financial activities: (1) municipalities cannot run operating deficits; (2) municipalities can only borrow long-term for capital spending; (3) long-term borrowing requires a comprehensive public approval process prior to MFABC approval; (4) municipalities have to adhere to a debt service limit according to which only 25% of recurring revenues are eligible to service debt; and (5) the Office of the Auditor General for Local Governments in the province conducts regular performance audits and provides recommendations on operational effectiveness. This frameworks supports the quality of MFABC's loan portfolio. Municipal debt issuance for capital spending is also limited by the reliance on other funding sources such as pay-as-you-go financing, reserves as well as provincial and federal government grants.

Besides loans to regional districts/municipalities, MFABC provided loans to TransLink, the transit authority in the Metro Vancouver Area (CAD663 million, or 14% of long-term loans at year-end 2017, down from 30% in 2009), and to regional hospital districts (CAD572 million, or 12% of long-term loans). We expect that the share of TransLink in the portfolio will continue to decline over time as TransLink now issues debt directly in the capital markets. We anticipate loans to regional hospital districts to increase modestly over the next 12-18 months.

Substantial liquidity provides security to bondholders

MFABC has a strong liquidity profile and its liquidity sources continue to fully cover its commercial paper maturities. In 2018, MFABC expects to refinance approximately CAD1,015 million of maturing long-term debentures and issue an aggregate CAD670 million of new long-term debt in the capital markets. At December 31, 2017 MFABC had cash and investments of CAD4.1 billion (48.8% of total direct debt). This amount includes CAD3.6 billion sinking fund investments set aside for future debt repayment, which however, could be drawn to cover debt payments, a further CAD109 million held in the Debt Reserve Fund, and CAD64 million in the Strategic Retention Fund. All fund balances in 2017 were above their previous year's levels.

MFABC has access to short-term borrowing through its CAD700 million commercial paper (CP) program to finance short-term loans and investments. The program is typically fully utilised but maturities are staggered and only about 33% matures at each 91-day term, reducing rollover risk. The average maturity of outstanding CPs was 53 days in 2017. MFABC also has full access to two external market disruption lines in the combined amount of CAD350million, representing half of the CP program limit. In addition, MFABC had same day access to CAD179 million of marketable securities, and maintained on average CAD233 million cash on hand during 2017 that matched investment maturities to weekly CP maturities. The Authority also has access to a bank revolving credit facility of CAD100 million.

Affordable debt burden

MFABC's total debt relative to outstanding loans remained elevated in 2017 at 178% but only marginally higher than in 2016 (175%). In 2018, we expect MFABC's total debt to be in line with 2017 levels. MFABC's debt burden as a % of assessed property values remained fairly stable over the last five years, averaging around 0.4% and benefiting from a strong housing market over the time period.

Municipal debt outstanding owed to MFABC continues to be within defined limits as a result of prudent municipal financial policies. Furthermore, aggregate reserves held by clients (in addition to those held by MFABC) measured approximately CAD10.8 billion in 2017, providing more than two times coverage of net loan receivables to MFABC.

The majority of debt is in the form of long-term debentures issued with a typical term of 5-10 years, although the Authority recently issued debt with a 25-year term. Short-term debt, mostly commercial paper, amounted to about CAD700 million. Additionally, all debt is issued in Canadian dollars. While MFABC almost exclusively issues debentures with bullet maturities, the amortizing structure of loan agreements with regional districts provides security for debenture holders. Accordingly, funds paid to MFABC in excess of immediate debt service requirements are allocated to investments.

Single-name and geographic concentration of the loan portfolio

The loan portfolio has a high but gradually declining concentration of borrowers in the Vancouver Region, which includes the Metro Vancouver Regional District and TransLink, accounting for more than half of outstanding long-term loans.

The geographical and single-name concentration results in a lack of diversity of the loan portfolio and could represent a challenge in case of an unexpected severe event that would lead to a substantial deterioration of credit quality and municipal fiscal performance in the region. However, the risks stemming from a concentrated loan portfolio are mitigated by MFABC's strong liquidity profile, institutional strength and robustness of the economy in British Columbia, and the loan portfolio concentration closely reflects the geographical concentration of borrowers in the Metro Vancouver region. In addition, the majority of borrowers each constitute less than 1% of the overall loan portfolio.

Limited ability to earn positive net interest spread

MFABC has a solid track record of generating a positive net income over the last five years, averaging CAD111 million per year during the 2013-2017 period. MFABC posted strong net income for 2017 at CAD133 million, 10% above the prior year net income primarily on strong investment returns and lower interest expense.

MFABC's net interest margin weakened sligthly to -0.25% in 2017 from -0.11% in 2016, highlighting the continued challenge for MFABC to earn a positive net interest spread in the current low interest environment. We expect that the net interest margin will continue to face similar pressures in 2018. Given its mandate, we would expect MFABC to generate a slightly positive net interest margin through the cycle but would not anticipate high net interest margins comparable to a commercial bank.

Extraordinary support considerations

While MFABC's BCA of aaa already places it in the Aaa rating bracket, the Joint-Default Analysis methodology also considers the likelihood of extraordinary support coming from the Province of British Columbia. Moody's assigns a high likelihood of support, reflecting the strategic importance of the MFABC in providing financing for municipalities in the province. A default by the MFABC could raise the cost of borrowing for all municipalities in the province, thereby offering an incentive for the province to provide the necessary liquidity to avoid a default.

Moody's also assigns a very high default dependence level between MFABC and the Province of British Columbia, reflecting the two entities' shared exposure to common economic and financial risks.

Rating methodology

U.S. Municipal Pool Program Debt 29 March 2013

Government-Related Issuers 21 August 2017

Ratings

Exhibit 3

Category	Moody's Rating
MUNICIPAL FIN. AUTHORITY OF BRITISH COLUMBIA	
Outlook	Stable
Senior Unsecured -Dom Curr	Aaa
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

REPORT NUMBER 1123438

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