

# Credit Analysis

## Moody's International Public Finance Government-Related Issuer

March 2008

# Municipal Finance Authority of 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 the joint and several liability of members of regional districts that borrow from MFABC, investments equivalent to 24.6% of net direct debt and unlimited taxing powers on all taxable properties within the province.

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 (in which 1 represents the lowest credit risk), which is a measure of the GRI's stand-alone credit strength, and an assessment of the likelihood that the supporting government would act to prevent a default by the RLG. 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.

Moody's also assigns a Prime-1 (P-1) rating to MFABC's commercial paper program.

## Rating Outlook

The rating outlook is stable. The numerous structural safeguards and MFABC's prudent management provide a solid foundation for the Aaa rating.

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This analysis provides an in-depth discussion of credit rating(s) 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

The MFABC, created in 1970 by an act of the provincial legislature, is the central borrowing agency responsible for financing capital requirements of municipalities and regional districts, including hospital districts, in the Province of British Columbia.

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 attractive rates, all are well subscribed.

### Key Rating Considerations

#### Institutional Framework

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##### Joint and Several Liability a Credit Positive

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. Municipalities are jointly and severally liable for all obligations of their regional district, providing considerable strength to MFABC's structure.

##### Strong Oversight Ensures Quality of Municipal Loan Portfolio

As in other Canadian provinces, British Columbia exercises a high degree of oversight of municipal financial activities resulting in strong municipal financial performance and balance sheets, thus supporting the quality of MFABC's loan portfolio. Municipalities are not allowed to run operating deficits and borrowing is undertaken only for infrastructure investments. In British Columbia, much like in other Canadian provinces, 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 reserves.

#### Financial Position and Performance of Municipalities

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##### Strong Municipal Balance Sheets

As a result of prudent municipal financial policies, municipal debt outstanding remains well within defined limits; aggregate municipal debt outstanding at the end of 2006 measured less than 50% of aggregate municipal revenues. Furthermore, reserves held directly by municipalities have been increasing, providing additional support for required repayments to the Authority. Aggregate reserves held by municipalities and other MFABC borrowers (in addition to those held by MFABC) measured roughly C\$4.2 billion at the end of 2007, roughly equivalent to the total amount of municipal loans owed to MFABC.

#### Debt & Liquidity

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##### Investments Provide Substantial Liquidity

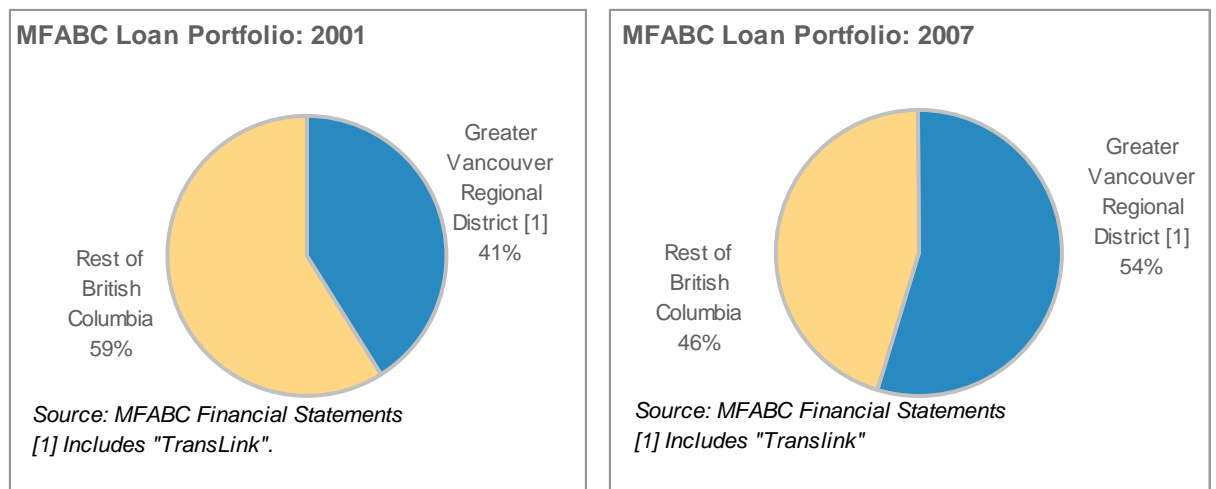
The structure of loan agreements with regional districts provides security for bondholders. Loan repayments made by clients pursuant to loan agreements include amounts designated for principal and interest, and required contributions to the Debt Reserve Fund, which would provide liquidity in the event of non-payment by a participating municipality. 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, 2007, the Debt Reserve Fund held investments of C\$93.4 million. Should the reserve fund ever be needed to meet debt service obligations, MFABC may replenish the reserve using its authority to levy a tax on all the taxable properties in the Province. The imposition of such a tax would not require any further legislative or executive approval.

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While clients borrowing through MFABC make annual principal and interest payments, MFABC issues, almost exclusively, bonds with bullet maturities. Accordingly, funds paid to MFABC in excess of immediate debt service requirements are allocated to investments. At December 31, 2007, MFABC held investments totaling C\$1.3 billion (including those held in the Debt Reserve Fund) or 24.6% of net direct debt outstanding.

### Loan Profile Shifting

Where borrowing on behalf of municipalities outside of the Greater Vancouver Regional District (GVRD) once dominated the activities of MFABC, the GVRD, including its utilities and transit system, *TransLink*, now represents over 50% of MFABC's loans outstanding. While this concentration of its loan portfolio presents 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* 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 Limited Partnership, led by SNC-Lavalin. The project is estimated to cost C\$1.9 billion and 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 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 an existing SkyTrain route. 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 a matching C\$400 million commitment from the federal government, which did

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announce, in its 2008-09 budget, some funding for infrastructure projects. While the federal budget announcement did name the Evergreen Line as one project to receive funding, no details respecting the magnitude or timing of that funding have been released. Construction could commence once necessary financing has been confirmed.

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.

### Governance and Management Factors

The executive and administrative powers and duties of MFABC are exercised and performed by a Board of Trustees composed of ten members elected annually: four trustees representing the GVRD, 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 the bondholder, supporting the creditworthiness of MFABC.

### 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 3.5% from 2002 to 2006. The provincial government, in the 2008-09 budget, estimated that the economy expanded by 3.0% in 2007 and forecast growth of 2.4% in 2008 and 2.8% in 2009, 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. It appears, however, that economic fundamentals may be improving. 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.

### Rating History

Municipal Finance Authority of British Columbia	
Date	Rating
June 1980	Aaa
November 1974	Aa
August 1971	A

## Municipal Finance Authority of British Columbia

## Annual Statistics

Debt Statement (C\$000, As at 12/31)	2003	2004	2005	2006	2007
Long-Term Debt	3,715,271	3,881,914	3,981,350	4,437,336	4,889,753
Short-Term Debt	213,426	349,689	269,386	260,189	511,517
<b>Net Direct Debt</b>	<b>3,928,697</b>	<b>4,231,603</b>	<b>4,250,736</b>	<b>4,697,525</b>	<b>5,401,270</b>
Net Overlapping Debt [1]	350,285	401,195	468,396	402,933	402,933
<b>Net Direct and Overlapping Debt</b>	<b>4,278,982</b>	<b>4,632,798</b>	<b>4,719,132</b>	<b>5,100,458</b>	<b>5,804,203</b>

[1] Net direct debt of the City of Vancouver. For 2007, debt figures for 2006 were used as an approximation.

Debt trends (C\$000, As at 12/31)	2003	2004	2005	2006	2007
Net Direct Debt	3,928,697	4,231,603	4,250,736	4,697,525	5,401,270
As % of Assessed Property Value	1.0	1.0	0.9	0.8	0.8
Net Direct Debt per Capita (C\$)	955	1,019	1,012	1,104	1,253
As % of Net Direct Debt					
Total Investments	27.0	26.5	24.7	27.5	24.6
Loans to Districts	84.4	82.1	80.1	76.1	78.3
Net Debt Issuances	492,554	389,296	531,230	715,175	909,605
Investments as a % of Net Direct Debt	27.0	26.5	24.7	27.5	24.6
TransLink Loans as % of Total Loan Portfolio	23.6	24.3	26.5	28.0	33.6
TransLink + GVRD Loans as % of Total Loan Portfolio	52.5	51.2	51.7	52.2	54.4

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

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

Balance Sheet - Consolidated Operations (C\$000, As at 12/31)	2003	2004	2005	2006	2007
Cash	8,770	8,326	10,849	15,297	9,547
Investments	1,060,343	1,122,924	1,051,810	1,294,111	1,327,491
of which, Debt Reserve Fund	78,908	80,833	82,128	85,538	93,368
Loans Receivable from Districts	3,316,576	3,475,043	3,406,685	3,574,009	4,227,789
Net Direct Debt	3,928,697	4,231,603	4,250,736	4,697,525	5,401,270

Economic Trends (Year Ending 12/31) [1]	2003	2004	2005	2006	2007
Population (000)	4,155	4,202	4,255	4,310	4,380
Full Value (C\$ Millions) [2]	377,459	419,367	494,706	566,187	696,312
Per Capita (C\$)	90,853	99,805	116,278	131,366	158,975
Real GDP Growth (%)	2.5	4.0	3.7	3.9	3.0
Personal Income (C\$ 000)	116,617	121,747	130,481	141,098	148,547
Per Capita (C\$)	28,069	28,975	30,669	32,737	33,915
As a % of National Per Capita Level	95.8	96.2	96.5	97.6	--
Unemployment Rate (%)	8.1	7.2	5.9	4.8	4.2
Housing Starts	26,174	32,925	34,667	36,443	39,195

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

[2] Full value of assessed properties.

## Municipal Finance Authority of British Columbia

Membership Information (As at December 31, 2007)				
Regional District	Population [1]	Loans Outstanding to MFABC (C\$000)	Debt Burden [2]	Debt Per Capita (C\$)
Alberni-Clayoquot	32,345	22,649	0.6%	700
Bulkley-Nechako	39,969	8,177	0.3%	205
Capital	366,162	300,770	0.5%	821
Cariboo	65,875	36,796	0.7%	559
Central Coast	3,327	297	0.3%	89
Central Kootenay	60,115	33,602	0.5%	559
Central Okanagan	176,996	143,273	0.5%	809
Columbia-Shuswap	53,758	41,627	0.5%	774
Comox-Strathcona	108,795	84,096	0.6%	773
Cowichan Valley	81,950	25,913	0.2%	316
East Kootenay	59,062	42,301	0.5%	716
Fraser Valley	274,388	139,661	0.4%	509
Fraser-Fort George	97,966	127,951	1.8%	1,306
Greater Vancouver	2,249,725	882,220	0.2%	392
Kitimat-Stikine	39,917	11,577	0.6%	290
Kootenay Boundary	33,042	22,212	0.6%	672
Mount Waddington	12,288	6,940	0.8%	565
Nanaimo	147,455	84,494	0.4%	573
North Okanagan	83,063	95,527	0.9%	1,150
Northern Rockies	6,311	12,302	0.9%	1,949
Okanagan-Similkameen	84,832	78,157	0.7%	921
Peace River	62,372	93,278	1.4%	1,496
Powell River	20,820	9,224	0.4%	443
Skeena-Queen Charlotte	20,610	15,112	1.4%	733
Squamish-Lillooet	37,663	35,063	0.3%	931
Sunshine Coast	29,781	51,850	0.7%	1,741
Thompson-Nicola	130,523	110,505	0.8%	847
<i>TransLink</i>	--	1,418,910	--	631
E-Comm and other	--	124,325	--	--
Short-term debt	--	168,980	--	--
<b>Total</b>	<b>4,379,110</b>	<b>4,227,789</b>	<b>0.4%</b>	<b>965</b>

[1] Source: BC Stats.

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

## Municipal Finance Authority of British Columbia

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

- British Columbia, February 2008
- Canada, January 2008

**Analysis:**

- *TransLink*, October 2007 (105297)

**Special Comment:**

- Canadian Provinces Well Positioned to Meet Fiscal Challenges, February 2008 (107144)
- The Application of Joint-Default Analysis to Government-Related Issuers, April 2005 (92432)

**Statistical Handbook:**

- Non-U.S. Regional and Local Governments, September 2007 (104479)

*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

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Report Number: 107909

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