STANDARD & POOR'S

RATINGSDIRECT®

March 12, 2009

Municipal Finance Authority of British Columbia

Primary Credit Analyst:
Stephen Ogilvie, Toronto (1) 416-507-2524; stephen_ogilvie@standardandpoors.com

Secondary Credit Analyst:
Paul Judson, CFA, Toronto (1) 416-507-2523; paul_judson@standardandpoors.com

Table Of Contents

Municipal Finance Authority of British Columbia

Major Rating Factors

Issuer Credit Rating
AAA/Stable/A-1+

Strengths:

- Continued strong operating revenue growth
- B.C. municipal sector's credit quality
- Solid liquidity from bank lines and sinking funds
- Strong legal framework within which loan obligor borrowings take place
- Supportive relationship between the province and its municipal sector

Weaknesses:

- Lowered operating growth levels stemming from the economic slowdown
- Expected significantly higher debt in 2009
- High and increasing degree of loan portfolio concentration

Rationale

In Standard & Poor's Ratings Services' opinion, the ratings on the Municipal Finance Authority of British Columbia (MFABC or the authority) reflect the following factors:

- The B.C. municipal sector's operating revenue growth continued to be strong in 2007. Aggregate operating revenues rose 7% in the year. The increase was in line with the long-term average of 7.3% for the 2002-2007 period. We expect operating revenue growth rates to be close to historical norms for 2008 and 2009. Growth in 2009 could be muted if municipal councils endeavor to cushion slowing local economies by levying lower tax increases.
- The authority's credit strength comes from the financial strength of B.C. municipalities. Overall, they have very strong liquidity levels, moderate debt burdens, strong long-term operating and after-capital financial results and benefit from stable support from the provincial government. In 2007, the aggregate operating surplus represented 23% of total operating revenues and the total after-capital results were balanced. We do not expect any major change in financial results for 2008 or 2009.
- Liquidity support is solid. The authority maintains an on-demand bank facility of C$200 million, and two irrevocable C$250 million bank lines backstopping its commercial paper (CP) program. In addition, the sinking and debt reserve funds are available for liquidity purposes in the event of market disruption. Those funds totaled C$1.5 billion at the end of 2008.
- There is a strong legal framework in which MFABC borrows on behalf of members. The framework provides for mandatory debt service reserve contributions by obligors at the time of borrowing, the ability to establish sinking funds, and access to the local property tax base. The authority's statutory ability to access the property tax base for debt reserve fund replenishment creates a de facto joint and several liability among all municipal members.
- The Province of British Columbia (AAA/Stable/A-1+) has a history of supporting its municipal sector. It continues to provide a high level of financial support, particularly for smaller and more rural municipalities that have a lower level of own-source revenues compared with those of urban municipalities. Furthermore, although

instances of municipal financial distress are rare, the province has a record of timely assistance when needed.

We believe the following factors somewhat offset these credit strengths:

- Given MFABC's debt issuance intentions, continued strong operating revenue growth is important, although it could be a challenge in 2009. Operating revenue growth and operating surpluses underpin the municipalities and authority's capacity to repay principal and interest costs. Strong operating revenue growth will help to keep MFABC's debt burden at levels consistent with the 'AAA' rating. Maintaining high levels of operating growth could be problematic if the economic slowdown puts a lingering chill into property development and local economic expansion.
- We expect debt to rise substantially from 2009 through to 2012. Debt outstanding (net of sinking funds), which stood at about C$4.5 billion at the end of 2008, is projected to increase to about C$6.4 billion by the end of 2012. As of the end of 2007, that debt's burden was modest at about 51% of aggregate operating revenues. With the substantial net new issuance, the authority's debt burden could rise to as high as 67%.
- The loan portfolio has a substantial exposure to two key obligors. The Greater Vancouver Regional District (GVRD) and the transportation authority (TransLink) represented more than 50% of total lending at the end of 2008.

Outlook

The stable outlook reflects our expectations that the B.C. municipal sector's total operating revenue will continue to rise in line with the average of the past five years, and that the sector's aggregate debt burden will remain comparable with those of 'AAA' rated municipalities outside the U.S. We expect new issuance should not exceed current expectations. Larger-than-expected borrowing, a material change in the authority's powers or business risk profile, or a significant sustained downturn of aggregate operating revenue growth would place downward pressure on ratings.

Ownership And Legal Status

The MFABC was established in 1970 and is incorporated under the Municipal Finance Authority of British Columbia Act (MFA Act or the Act). It is a nonshare, nonprofit corporation. A board of members composed of representatives from the 28 regional districts in B.C. controls the company. The authority is not governed by the Business Corporations Act. It is not an agent corporation of the provincial government; accordingly, MFABC obligations do not benefit from any implicit or explicit B.C. government guarantee.

Operational Profile

The MFABC Act empowers the authority to provide long-term funding to regional districts and their constituent municipalities, regional hospitals, and other special-purpose municipal entities through the issue of securities by MFABC and on-lending of the proceeds to the regional districts. The Act also empowers the authority to provide short-term and lease financing to its member regional districts, and to provide access to investment pools for members.

There are 28 regional districts in the province. By law, all regional districts (and their member municipalities) and regional hospital districts (outside of the greater Vancouver area) must obtain their long-term debt funding from MFABC. The only exception to this is the City of Vancouver, which may borrow in its own name. By provincial statute, long-term debt financing is permitted for capital purposes only.

Members seeking long-term capital funding inform MFABC of their requirements in advance. The authority combines those requirements and borrows for all participating members in one aggregate issue. The issue's proceeds are then on-lent under separate loan agreements to the participating members. MFABC borrows in domestic and international capital markets.

Regional districts have a several-only liability with respect to authority debt obligations incurred on their behalf; the lower-tier municipal members of a regional district, however, are joint and severally liable for their regional district's debt obligations.

The MFABC Act requires any borrowing regional municipality to make a mandatory payment to a debt reserve fund (DRF) that the authority holds and controls. The minimum of these mandatory payments equals 1% of principal borrowed to a maximum of 50% of annual average principal and interest payments, payable on receipt of loan proceeds. MFABC may recover any DRF insufficiency through imposing a provincewide property tax levy replenished by a weighted assessment tax levy on all provincial property, including the City of Vancouver. No further municipal or provincial authorization is required to impose this tax.

The capability of imposing a provincewide property tax effectively changes the several-only liability (spelled out in the Act) of the regional districts and their debt obligations to a joint and several liability of all MFABC municipal members. An effective joint and several liability of all municipal members removes the potential constraint on the authority's credit quality of weaker members.

The MFA Act also permits MFABC to establish sinking funds (known as the capital repayment equalization fund). Sinking funds are established for each MFABC issue and only those members participating in an individual issue must make sinking fund payments for it. The authority has used its powers under the Act and it requires all members to make annual sinking fund contributions as a condition of making loans to participating members. Sinking fund contributions must be invested in high-quality fixed-income securities that Canadian local, provincial, and federal governments, chartered banks, and credit unions incorporated in B.C. issue.

Loan Portfolio

The long-term loan portfolio's size continued to increase in 2008. At the end of the year, the portfolio stood at C$4.4 billion, up 8% from 2007. No new obligors joined the pool. Short-term loans to municipalities totaled about C$190 million, up about 10% from the previous year. Municipalities use short-term loans primarily as a source of construction or capital lease financing. Aggregate exposure to individual obligors (regional districts and other related entities) ranged from C$300,000-C$1.5 billion, with a median of about C$50 million.

Most loans are long-term with a weighted average life of close to 16 years. Loan-life has been decreasing slowly as obligors made greater use of construction loans, which are typically termed out with a long-term loan postconstruction. The short-term portfolio behaves like a revolving loan facility, with existing loans being retired and new short-term loans being made.

The portfolio's geographical diversification is low-to-moderate, in our view. As a lender into the British Columbia municipal sector, pool diversification is effectively capped. Compounding the portfolio's limitation to B.C. municipalities, we believe the concentration of loans to municipalities and related entities in the greater Vancouver area is relatively high. At the end of 2008, about 54% of the portfolio was made up of loans to TransLink and the GVRD, which is down from 2007's 57%. The portfolio's biggest obligor is TransLink, whose loans total close to C$1.5 billion at the end of 2008 and represent 34% of all loans. The second biggest borrower, GVRD, was about 20%. Loans to both TransLink and GVRD are several times than that of the next largest borrower. This concentration will increase in the next five years as the majority of MFABC's projected issuance will be for TransLink and the GVRD.

The GVRD and its 22 member municipalities represent the province's major population center, with about 50% of the population and dwellings and 60% of property taxable assessment. Rapid population growth in the past decade has exacerbated the need for infrastructure investment, and the majority of the GVRD's debt issuance (through the MFABC) will occur for water, sewer, water treatment, and transit and transportation purposes. GVRD debt issuance on behalf of TransLink, the Greater Vancouver Water District, and the Greater Vancouver Sewerage and Drainage District plus TransLink direct debt represent the majority of prospective debt-financing requirements.

Obligor Credit Quality

The authority's credit strength comes from the financial strength of B.C. municipalities, which have we believe overall have very strong liquidity levels, moderate debt burdens, and strong long-term operating and after-capital financial results. We also believe they benefit from stable provincial support. For 2007, the aggregate operating surplus represented 23% of total operating revenues; the aggregate after-capital results were balanced. Total cash and investments (net of restricted funds) stood at close to C$4.7 billion at the end of 2007. Total municipal debt (excluding that of Vancouver) represented close to 51% of total operating revenues, or 58% including Vancouver's debt. We do not expect any major change in financial results for 2008 or 2009.

The GVRD's financial strength will strongly influence that of the B.C. municipal sector, as the GVRD represents such a large share of the province's population and taxable assessment. The authority's loan portfolio also mirrors the Vancouver area's predominance, because GVRD and TransLink are the two biggest obligors. At the end of 2007, the total debt of GVRD municipalities, including Vancouver, and TransLink stood at about 63% of total operating revenues and could reach as high as 130% of projected operating revenues by 2010. Very robust operating growth has offset some of that increase. Nevertheless, with the bulk of planned net new issuance going to GVRD municipalities or related entities, the credit profile of the greater Vancouver municipal sector will remain a key aspect of the authority's credit quality.

Debt Reserve And Sinking Funds

We believe the authority has considerable cash and investment holdings. At the end of fiscal 2008, total holdings, which are made up of sinking and debt reserve funds, stood at close to C$1.5 billion (fair value), up 10% from a year earlier. Investments are held in high-quality fixed income securities (statutory requirement) and does not include asset-backed CP. The income from those sinking-fund investments must be retained with the sinking fund accounts by law.

The DRF, whose balance is included in investment holdings, stood at more than C$100 million (fair value), including C$30 million in cash at the end of 2008. It is subject to the same statutory requirements on investments and income as sinking funds. The MFA Act also stipulates that the authority may impose a provincewide property tax if it cannot make its planed debt service payments or sinking fund contributions, and must impose the tax if the DRF balance is less than half of its required level. Municipalities make payments into the sinking fund according to a prescribed formula (1% of total borrowed principal) when they receive the net proceeds from MFABC's borrowing. To date, there has never been a draw on the DRF.

Liquidity And Debt

MFABC has solid access to liquidity, thanks to its bank credit facilities and its own sinking fund holdings. Its general bank facility consists of C$200 million on demand, which could cover a potential timing gap in the unlikely event that the authority has to exercise its provincewide property taxing power.

Two separate, C$250 million lines of credit of equal size back MFABC's C$500 million CP program. The two lines are with two separate, high-credit-quality Canadian financial institutions, and are irrevocable.

In addition to bank lines, the sinking and debt reserve funds are available for liquidity purposes in the event of market disruption. Those funds totaled C$1.5 billion at the end of 2008.

At the end of fiscal 2008, total short- and long-term debt outstanding, net of sinking funds, stood at just less than C$4.5 billion, of which close to C$600 million was made up of short-term debt, mostly CP. Total debt increased modestly by 10% in 2008, which was close to the average annual rate of increase since the beginning of the decade.

MFABC's debt platform consists largely of long-term debt. with a weighted average term to maturity of 10 years. The authority has issued US dollar-denominated debt, but currently, but all debt outstanding is in Canadian dollars. By the end of 2012, C$1.9 billion of debt outstanding will mature but obligors are expected refinance close to C$800 million of that. Refinancing needs arise as some obligors want terms that are longer than the authority's standard 10-year term.

The share of total debt that short-term CP constitutes increased moderately in 2008. CP outstanding was C$500 million, and represented about 11% of total debt. The CP program, which is not extendible, has an authorized limit of C$500 million.

MFABC's debt will increase again in 2009 and in each year through to 2012. Annual net new issuance in the 2009-2012 period will range from C$300 million to just more than C$700 million. We expect that total debt outstanding, net of sinking funds, should reach C$5.4 billon by the end of this year and as high as C$6.4 billion by the end of 2012. The net new issuance will go to GVRD utilities, TransLink, and municipalities in approximately equal shares.

MFABC's debt burden remains moderate and consistent with the ratings. At the end of 2007, total debt outstanding (net of sinking funds) represented 51% of aggregate operating revenues; we expect that it rose to 54% by the end of 2008. Aggregate operating revenues include those of TransLink and Vancouver. By the end of 2011, the burden could reach as high as 67% of projected total operating revenues. Including Vancouver's debt in the authority's total (Vancouver does not issue through MFABC but recovers its debt charges through the property tax base), the total debt of the B.C. municipal sector represented 58% of total operating revenues in 2007.

MFABC does not have unfunded pension liability. Those are the responsibility of the provincial government's municipal employee pension plan, which is estimated to be fully funded at the end of 2005. The authority's financial statements do not reveal any significant unfunded liability, contingent liability, or commitment.

Ratings Detail (As Of March 12, 2009)*	
Municipal Finance Authority of British Columbia	
Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Canadian National Scale Commercial Paper Rating	A-1(HIGH)
Senior Unsecured (18 Issues)	AAA
Issuer Credit Ratings History	
19-Mar-2008	AAA/Stable/A-1+
29-Aug-2007	AA+/Positive/A-1+
21-Feb-2006	AA+/Stable/A-1+
08-Apr-2004	AAA/Negative/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.