FITCH AFFIRMS MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA, CANADA AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-30 April 2018: Fitch Ratings has affirmed the Municipal Finance Authority of British Columbia, Canada's (MFABC) Issuer Default Rating (IDR) at 'AAA'/Stable Outlook. The ratings for approximately C$7.5 billion in outstanding senior unsecured debentures have also been affirmed at 'AAA'.

Created in 1970, MFABC is the borrowing vehicle for virtually all municipalities and regional districts in the Province of British Columbia. The City of Vancouver operates under its own charter and issues its own debt, and the South Coast British Columbia Transportation Authority (TransLink) began funding its own debt directly in 2008. For all other entities, the authority provides financing for general municipal projects, water and sewer infrastructure, and transportation. The joint and several pledge supporting MFABC's debt issuance requires all member governments within a regional district to satisfy the obligations of a deficient borrower within the district and ultimately requires the borrower to repay the authority for any deficiency.

In the event a municipality could not meet its payments, MFABC would draw first on its debt reserve fund (DRF). The authority also maintains a C$100 million line of credit available for any short-term disruption (with Canadian Imperial Bank of Commerce, IDR AA-/Negative Outlook) and ultimately benefits from its ability to levy ad valorem taxes province-wide.

KEY RATING DRIVERS

Institutional Framework (Strength/Stable)
The 'AAA' ratings are supported by the strong institutional framework under which the Municipal Finance Authority of British Columbia (MFABC, or the authority) operates in Canada (IDR AAA/ Outlook Stable). MFABC retains independent fiscal authority, including its statutory requirement to levy an unlimited province-wide property tax to maintain the debt reserve fund (DRF). Within the broad constitutional and statutory limits of the provincial and federal governments, the authority functions relatively autonomously.

Taxing Authority Provides Key Backstop
The authority is statutorily required to levy a province-wide tax should the DRF fall below 50% of its required level. The size of the levy is limited to restoring the DRF to its required level. British Columbia's property tax base is very large, at $1.64 trillion and the authority levies a nominal annual property tax (approximately C$300,000 annually) primarily to maintain the property tax mechanism.

Economy (Strength/Stable)
British Columbia's diverse and deep economy provides a robust base for MFABC's unlimited taxing power. GDP growth exceeds most other provinces, although it remains below its pre-recession pace. The province is a key contributor to Canada's overall economic profile with provincial real GDP in 2016 accounting for approximately 13% of national GDP. Distribution across sectors is similar to the national distribution, although natural resources are critical for portions of the province's vast interior. Other sectors including financial activities and education and health services, based mainly in Vancouver and other urban areas, are significantly larger components of the province's GDP.

Leading up to the Great Recession, British Columbia's growth rate outpaced national trends and the downturn was somewhat less severe in the province than for the nation as a whole. While the province's initial recessionary recovery was somewhat less robust than the nation's, recent performance has been stronger. In 2016, 3.5% real GDP growth exceeded the national gain of 1.4% and led all provinces.

The provincial government's forecast for GDP growth in 2017 and 2018 of 2.9% and 2.1% growth, respectively, is ahead of its national growth forecasts of 2.7% in 2017 and 1.8% in 2018. Fitch's March 2018 Global Economic Outlook reported more robust 3% national growth in 2017 and projects 2% in 2018. British Columbia's employment growth (measured by the Labour Force Survey) accelerated in 2017, increasing 3.7% versus 2.3% national growth.

Population growth should continue, though likely at lower rates than recent years. British Columbia's current population of approximately 4.8 million is up 12% since 2007. Economic weakness in neighboring Alberta had driven inter-provincial migration into British Columbia but that trend has slowed as Alberta's economy has strengthened. International migration will likely support continued population gains in British Columbia.

Fitch views potential slowdowns in the U.S. and Canadian economies as key economic risks for British Columbia. The province appears well-positioned to withstand natural resource-driven challenges at the national level given its economic diversity. Given the close linkage with the neighboring U.S. economy, unanticipated weakness there or disruptions to longstanding trade agreements could have quick and significant implications for the province's economy. Despite a more diversified export base, notably in Asia, the U.S. remains the destination for the majority of British Columbia's exports.

Debt (Strength/Stable)
MFABC issues bullet maturities and benefits from excellent access to capital, as demonstrated through credit facilities and frequent long- and short-term borrowings to finance client loans. MFABC also retains modest operating and debt reserves (via its DRF) as well as more than C$3 billion in sinking fund set-asides.

Prudent Debt Management
Management of authority debt is conservative and sophisticated. The authority closely manages its debt burden to a relatively modest level relative to the economic resource base. Outstanding MFABC debt consists of approximately C$7.5 billion in debentures and approximately C$700 million in commercial paper (CP) generally used for interim financing.

The long-term debentures are issued in bullet maturities, which expose MFABC to refinancing risk although demonstrated access to Canada's well-established capital markets are an offsetting factor. In addition, the authority's loans to clients, which the debentures finance, rely on a sinking fund structure whereby the borrowers make regular amortization payments.

MFABC invests these payments under strict statutory guidelines with the majority in federally or provincially-guaranteed securities. The authority returns all excess earnings on sinking fund investments to its borrowers, once sinking funds have earned enough to satisfy associated debenture debt service requirements. This sinking fund methodology effectively reduces borrowing costs, as investment earnings on the sinking funds typically are large enough to cover one-quarter to one-third of principal.

The CP program benefits from substantial internal liquidity support, as well as dedicated lines of credit provided by CIBC and National Bank of Canada (IDR A+/Outlook Stable). When the authority increased the CP program to $700 million several years ago, MFABC increased the dedicated lines of credit to maintain 50% coverage of the full CP program. Fitch views these measures as prudent and characteristic of the authority's approach to debt management.

Management (Strength/Stable)
The authority's legal structure, careful oversight, stringent and regimented credit-approval process all support well-organized debt financing. MFABC's outstanding debt is all fixed rate with no foreign exchange risk.

Fiscal Performance (Strength/Stable)
MFABC functions as a financing entity for local and regional governments within the province, with very limited operating demands. Within this narrow scope, the authority typically generates annual operating surpluses.

In addition to its loan program, MFABC also provides financial education services for member governments and manages a pooled investment plan on their behalf. The authority typically generates an operating surplus with roughly C$3 million gained from operations in 2017. For the past several years the authority has been building those surpluses up in a Strategic Retention Fund that provides additional liquidity.

MFABC's available liquidity to respond to temporary payment interruptions includes a modest DRF of C$109 million, C$3.2 billion from sinking fund set-asides and C$64 million in the Strategic Retention Fund (as of the fiscal year-end Dec. 31, 2017).

Well-Managed Loan Portfolio
Facilitating local borrowing remains MFABC's primary function and prudent management of the loan portfolio supports profitability. The authority has never had a payment default from one of its borrowers, nor has it needed to levy property taxes or draw on fiscal reserves to cure a debt service deficiency.

The process for accessing MFABC financing is stringent, generally requiring provincial government, local voter and regional administrative district approvals prior to review by MFABC. Municipalities' use of debt is restricted to capital purposes, and payments for debt cannot exceed 25% of a municipality's recurring revenues.

As of Dec. 31, 2017, MFABC had C$4.4 billion in outstanding principal on loans to clients (net of sinking funds). Approximately 50% of the loan balances outstanding are to Greater Vancouver municipal entities, including TransLink, the regional transportation authority. New long-term loans increased steadily to more than C$500 million in 2017 from C$380 million in 2016. MFABC anticipates growth will continue as Metro Vancouver in particular implements a sizable capital plan to service an expanded economic base.

MFABC's borrowers in aggregate saw revenue growth in 2017, with revenues up a solid 3% over the prior year to an estimated C$14.1 billion. Borrower reserves of C$10.8 billion in fiscal 2017 were equal to a strong 77% of total client revenues.

RATING SENSITIVITIES

Taxing Power and Economic Base: The rating is sensitive to a change in the robust institutional framework, including the authority's unlimited taxing power, and the overall trajectory of British Columbia's economy and the MFABC's property tax base.

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In addition to the sources of information identified in Fitch's International Local and Regional Governments Rating Criteria, this action was additionally informed by information from Statistics Canada and the Canada Department of Finance.

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Additional information is available on www.fitchratings.com

Applicable Criteria
International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/878660