Municipal Finance Authority of British Columbia (/gws/en/esp/issr/84990473)

FitchRatings

Fitch Affirms Municipal Finance Authority of British Columbia, Canada at 'AAA'; Outlook Stable

Fitch Ratings-New York-05 May 2017: Fitch Ratings affirms the Municipal Finance Authority of British Columbia, Canada's (MFABC) 'AAA' Issuer Default Rating (IDR), including approximately C$7 billion in outstanding senior unsecured debentures.

The Rating Outlook is Stable.

SECURITY

The debentures are direct and unconditional unsecured obligations. MFABC has a debt reserve fund (DRF) pledged to debenture holders and is required to impose ad valorem taxes without limitation on all taxable property in the province to maintain the DRF in the event of a loan default.

KEY RATING DRIVERS

ROBUST INSTITUTIONAL FRAMEWORK AND AUTHORITY: The 'AAA' rating is based on the strong institutional framework under which Municipal Finance Authority of British Columbia (MFABC, or the authority) operates in Canada (IDR: 'AAA'/Outlook Stable). MFABC retains independent fiscal authority, including the ability to collect on loans by municipal borrowers and 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.

SOLID LIQUIDITY AND MARKET ACCESS: MFABC 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 C$3.4 billion in sinking fund set-asides.

GEOGRAPHIC CONCENTRATION, STRONG BORROWER HISTORY: No borrower has ever failed to make its debt service payments, and the authority's DRF has never been drawn upon. The provincial government of British Columbia (IDR: 'AAA'/Outlook Stable) exercises significant oversight of its local governments, including explicit control over borrowing through MFABC.

CONSERVATIVE MANAGEMENT: The authority's legal structure, careful oversight, stringent monitoring of municipal credit conditions and regimented credit-approval process all support well-organized debt financing.

BROAD, SLOWLY GROWING ECONOMY: British Columbia's diverse economy continues its pace of steady economic growth, ahead of the national trend. Employment growth accelerated in 2016 and the provincial government is forecasting modest GDP growth, albeit below pre-recession growth rates.

RATING SENSITIVITIES

FUNDAMENTAL CREDIT CHARACTERISTICS: The rating is sensitive to a change in MFABC's prudent approach to borrowing, access to sufficient liquidity, or changes in the robust institutional framework provided by Canada.

CREDIT PROFILE
Created in 1970, MFABC is the borrowing vehicle for all municipalities and regional districts in the Province of British Columbia, Canada and 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.

MFABC's available liquidity to respond to temporary payment interruptions includes a modest DRF of C$108 million, C$3.4 billion from sinking fund set-asides and C$55 million of unrestricted retained earnings (as of fiscal year-end 2016 [Dec. 31]).

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

MFABC returns all excess earnings on sinking fund investments to its borrowers, once sinking funds have earned enough to satisfy associated 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.

TAXING AUTHORITY PROVIDES KEY BACKSTOP
The authority maintains the power to levy ad valorem taxes, without external approval, if a borrower fails to meet its debt service payments and other sources such as the DRF are used to pay debt service. Further, MFABC must 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.

The authority has never had a payment default from one of its borrowers, nor has it needed to levy property taxes or draw fiscal reserves to cure a debt service deficiency. The authority does levy a nominal annual property tax (totaling approximately C$300,000 annually) primarily to maintain the property tax mechanism.

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.

PRUDENT DEBT MANAGEMENT
Management of authority debt is conservative and sophisticated. Outstanding MFABC debt consists of approximately C$7 billion in debentures and approximately C$700 million in commercial paper (CP) generally used for interim financing. In addition to substantial internal liquidity support, the CP program also benefits from dedicated lines of credit provided by CIBC (IDR 'AA-'/Outlook Stable) and National Bank of Canada (IDR 'A+'/Outlook Stable). In conjunction with the recent increase of the CP program to $700 million, the authority 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.

AGGREGATE CLIENT DATA INDICATE OVERALL STRENGTH
As of Dec. 31, 2016, MFABC had C$4.3 billion in outstanding principal on loans to clients (net of sinking funds). New long-term loans increased slightly to C$380 million in 2016 from C$308 million in 2015. Approximately 50% of the loan balances outstanding are to Greater Vancouver municipal entities, including TransLink, the regional transportation authority.

TransLink now issues its own debt, having last borrowed through MFABC in 2009, and its balance (currently approximately 20% of the MFABC's loans outstanding) should continue to decline as a share of the authority's portfolio. MFABC's borrowers in aggregate saw revenue growth in 2016, with revenues up a solid 6.3% over the prior year to C$12.9 billion. Borrowers' reserves totaled C$9.2 billion in fiscal 2016, equal to a strong 71% of revenues.

BROAD ECONOMIC BASE GROWING SLOWLY
British Columbia's overall economic profile continues to provide a solid and diverse revenue base, but growth remains slow and below the pre-recession pace. The province is a key component of Canada's overall economic profile with provincial real GDP in 2015 comprising approximately 14% of national GDP. Distribution across sectors is similar to the national distribution, indicating a well-diversified economic base.

Leading up to the 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 recessionary recovery was somewhat less robust than the nation, recent performance has been stronger.

In 2015, 3% real GDP growth exceeded the national gain of 1.8% and led all provinces. The Finance Ministry's forecast for 2017 of 2.1% growth in British Columbia is ahead of the ministry's national forecast of 1.6%. Fitch's March 2017 Global Economic Outlook projects 2% national growth in 2017.

BC's employment growth (measured by the Labour Force Survey) ticked up notably in 2016 to 3.2% annual growth from just 1.2% the prior year. Employment growth in the province remains slightly ahead of that pace through the first few months of the year, at 3.8% on a quarterly moving average basis. The province's growth easily exceeds national trends of 1% annual employment gains.

Fitch views the economic risk associated with a potentially overvalued housing market as manageable for the province. In 2015, Canada Mortgage and Housing Corporation (CMHC) reports housing starts in the province accelerated to 33% growth versus the prior year. Starts declined considerably in the second half of 2016 and into 2017 with first quarter 2017 starts down 20% from the prior year. Similarly, sale prices tracked by Canadian Real Estate Association (CREA) indicate average home prices in the province rose rapidly in 2016 but have cooled in 2017.

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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, the Canada Department of Finance, Canada Mortgage and Housing Corporation, and the Canadian Real Estate Association.

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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)

Additional Disclosures
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