



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

Fitch Ratings-New York-29 April 2019: Fitch Ratings has affirmed the Municipal Finance Authority of British Columbia, Canada's (MFABC or the authority) Issuer Default Rating (IDR) at 'AAA'/Outlook Stable. The ratings for approximately C\$8.1 billion in outstanding senior unsecured debentures have also been affirmed at 'AAA'.

Fitch assesses MFABC's stand-alone credit profile (SCP) at 'aaa' reflecting a stronger risk profile, and 'aaa' debt sustainability score based on payback ratios as adjusted per a criteria variation.

MFABC's IDR reflects its high degree of financial autonomy under provincial statutes. There are no explicit links to the provincial or sovereign ratings.

Created in 1970, MFABC is the borrowing vehicle for most municipalities and regional districts in the Province of British Columbia, and is classified as a Type B regional government by Fitch. MFABC provides loans to local and regional governments within the province and issues long-term debentures and short-term CP to fund those loans. While borrower government loan repayments service the authority's debt, MFABC ultimately benefits from an independently levied province-wide property tax to support debt repayment if needed.

### KEY RATING DRIVERS

#### Revenue (Robustness) Assessed as Stronger

MFABC's stronger risk profile assessment reflects the authority's independent and essentially unlimited taxing power, minimal operating risks, carefully matched assets and liabilities, and strong liquidity.

#### Revenue (Adjustability) Assessed as Stronger

The authority has essentially unlimited taxing authority to levy a special property tax to address shortfalls in loan repayments used for debt service.

#### Expenditure (Sustainability) Assessed as Stronger

This assessment derives from MFABC's track record of regular operating surpluses and limited expenditure demands given a modest operating scope.

#### Expenditure (Adjustability) Assessed as Stronger

The authority's operating expenditures are highly flexible as other than the financing program for borrower governments, all other services are essentially discretionary and can be scaled back as needed to maintain fiscal balance.

#### Liabilities and Liquidity (Robustness) Assessed as Stronger

Management of authority debt is both conservative, reflecting a low appetite for risk, and sophisticated, reflecting deep capital markets experience. 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.

## Liabilities and Liquidity (Flexibility) Assessed as Stronger

MFABC retains abundant liquidity to address potential demands and to bridge timing gaps until revenues from the unlimited property tax can be collected.

## Debt Sustainability Assessment: 'aaa'

MFABC's independent taxing power, combined with ample liquidity to cover the time between levying of a special property tax and receipt of property tax revenues, lends it substantial flexibility to address a downturn scenario as envisioned in Fitch's rating case analysis without materially affecting its debt sustainability profile. Fitch anticipates that in a downturn, MFABC's debt levels would likely grow in line with base case expectations, which derive from the authority's own forecasts. MFABC's long-term debt levels are driven by borrowing needs of its client governments and tied to their long-term capital project demands. These are unlikely to shift materially in the event of a typical economic downturn. Even during the 2008-2009 Great Recession, MFABC's debt levels increased, albeit at a somewhat reduced rate relative to preceding years.

## DERIVATION SUMMARY

MFABC's 'AAA' IDR reflects its independent property taxing authority, which supports its mission of providing capital to local and regional governments within the province of British Columbia. The taxing power and the ample liquidity on hand to support demands while tax revenue is levied and collected are the primary drivers for a stronger risk profile assessment and robust debt sustainability metrics in Fitch's through-the-cycle scenario analysis. Within the broad constitutional and statutory limits of the provincial and federal governments, the authority functions relatively autonomously.

## CRITERIA VARIATION

The analysis supporting the 'AAA' rating on the MFABC includes a variation from the Rating Criteria for International Local and Regional Governments dated April 9, 2019. A variation was made to the debt sustainability and scenarios analysis because of the statutory requirement to levy an unlimited property tax on a broad economic base to restore draws on the Debt Reserve Fund, and the matched nature of the authority's long-term debentures with loans made to borrower governments. The authority's taxing power and matched debt provides a mechanism to adjust its financial performance in Fitch's rating case that is not currently anticipated in determining debt sustainability and scenarios. The variation provides a means to assess the likely trajectory of financial metrics given these factors.

## KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:

- Long-term debt grows in line with base case expectations which derive from the MFABC's forecast.
- Property tax levy is available at an unlimited level to restore the DRF to the required level, if drawn upon.
- Operating expenditures are held flat given the authority's robust ability to manage non-core services spending.
- National real GDP growth assumed to decline 1% in fiscal 2020, then slowly rebound to 0.5% growth in fiscal 2021 and then 2% growth in fiscal 2022 and thereafter to reflect a moderate economic recession.
- National nominal GDP growth estimated from real GDP growth assumptions, given 2% annual inflation expectations derived from Fitch's March 2019 Global Economic Outlook (GEO) for Canada. The GEO forecasts inflation through calendar year 2020 and the rating case extends those expectations through the full five-year forecast.

## 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 MFABC's property tax base.

Unrestricted Liquidity Levels: The rating is also sensitive to MFABC's maintenance of unrestricted liquidity, in the form of cash and cash equivalents and credit facilities from highly-rated counterparties at a robust level sufficient to cover approximately a full year of debenture interest obligations.

Contact:

Primary Analyst

Eric Kim

Senior Director

+1-212-908-0241

Fitch Ratings, Inc.

33 Whitehall St.

New York, NY 10004

Secondary Analyst

Douglas Offerman

Senior Director

+1-212-908-0889

Committee Chairperson

Marcy Block

Senior Director

+1-212-908-0239

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

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: [sandro.scenga@thefitchgroup.com](mailto:sandro.scenga@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

Applicable Criteria

Rating Criteria for International Local and Regional Governments (pub. 09 Apr 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT

[HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed

under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **Endorsement Policy**

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

## **Fitch Updates Terms of Use & Privacy Policy**

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more.