FitchRatings

Public Finance
Local and Regional Governments
Canada

Municipal Finance Authority of British Columbia

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Key Rating Drivers

Rating Derivation Summary: The 'AAA' Long-Term Issuer Default Rating (IDR) for the Municipal Finance Authority of British Columbia (MFABC) reflects a Standalone Credit Profile (SCP) of 'aaa', which combines its 'Stronger' risk profile and 'aaa' category debt sustainability assessment. The debt sustainability assessment is informed by a variation on Fitch Ratings' *International Local and Regional Governments (LRG) Rating Criteria*.

Risk Profile — 'Stronger': MFABC's 'Stronger' risk profile is based on its broad taxation power, narrow and predictable expense profile, and solid liquidity and debt profile, which support its mission of providing market access for the capital needs of LRGs within the Province of British Columbia (AA+/Stable) and result in 'Strong' assessments for all six risk profile categories.

Debt Sustainability — 'aaa' Category: The 'aaa' debt sustainability assessment is based on MFABC's independent, unlimited property taxing power and ample internal and external liquidity to bridge the timing gap between a borrower's failure to pay and receipt of a special property tax levy. The ability to adjust financial performance in a manner that fully offsets potential stresses imposed by Fitch is reflected in the criteria variation.

Other Rating Factors: The IDR is not capped by Canada's 'AA+' IDR or British Columbia's 'AA+' IDR. Provincial responsibility for local governments under Canada's institutional framework shields MFABC from federal interference, in Fitch's view, and the province has statutorily delegated a high degree of financial autonomy and taxation powers to MFABC. The ability of MFABC to be rated above the province or the sovereign is tempered by likelihood that factors affecting their credit quality would ultimately affect MFABC's operating environment as well.

Criteria Variation: A variation was made to the debt sustainability assessment because of the statutory requirement to levy an unlimited property tax on a broad economic base to restore draws on the debt reserve fund (DRF) if a borrower fails to pay, as well as the matched nature of long-term debentures and loans to borrower governments. These factors provide MFABC with the ability to adjust its financial performance in a manner that offsets potential stresses imposed by Fitch under the rating case.

ESG Considerations: ESG credit relevance is a score of '3', meaning ESG issues are either credit-neutral or have only a minimal credit impact, due to either their nature or the way in which they are being managed by the entity.

Rating Sensitivities

No Upgrade Possible: The rating is the highest on Fitch's scale and cannot be upgraded.

Downgrade on Erosion of Liquidity: The rating could be lowered based on erosion of sizable unrestricted liquidity to a level at or below one year of interest on debt, raising the risk of insufficient resources to bridge the timing gap until receipt of a tax levy.

Downgrade on Weaker Operating Environment or Institutional Changes: A lower rating is possible if MFABC's operating environment changes, including structural weakening in the economy or tax base, or provincial changes to MFABC's independent and unlimited taxing power or to strong provincial oversight of local governments; Fitch believes such changes are unlikely.

Ratings

Foreign Currency	
Long-Term Issuer Default Rating	AAA
Outlook	
Long-Term Foreign Currency Issuer Default Rating	Stable
Debt Ratings	
Senior Unsecured Debt — Long-Term Rating	AAA

Issuer Profile Summary

Created in 1970, MFABC is the authorized capital financing entity for most municipalities and regional districts in the Province of British Columbia. MFABC provides loans to local and regional governments primarily for capital needs, issuing long-term debentures to fund those loans.

Financial Data Summary

(CAD mil.)	FY22	FY27rc
Payback ratio (x)	22.2	10.1
Synthetic coverage (x)	0.6	1.1
Fiscal debt burden (%)	2,162.7	985.6
Net adjusted debt	5,822	5,264
Operating balance	263	523
Operating revenue	269	534
Debt service	1,081	1,816
Mortgage-style debt annuity	476	475

rc – Fitch's rating case scenario
Source: Fitch Ratings, Fitch Solutions, Municipal Finance Authority of British Columbia

Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2021)

Related Research

Global Economic Outlook – June 2023 (June 2023)

Canadian Subnationals – Framework Report (October 2021)

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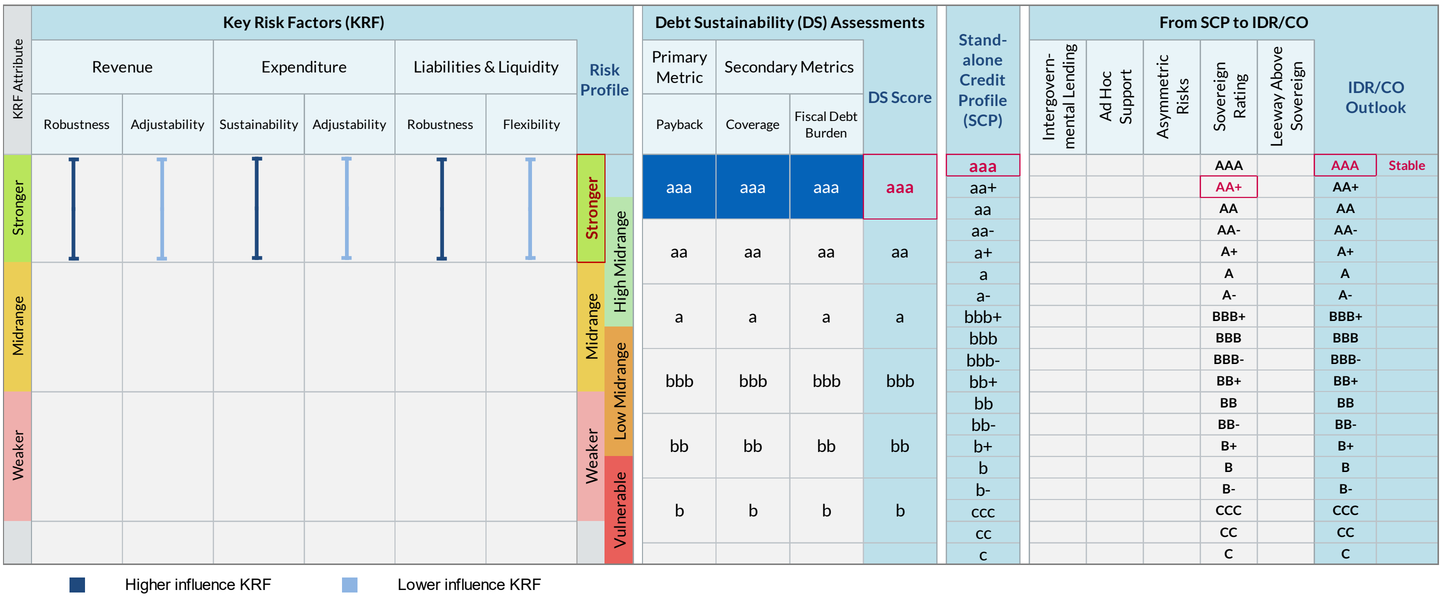
Rating Synopsis

Municipal Finance Authority of British Columbia IDR/CO Derivation Summary



Under Fitch's *International LRG Rating Criteria*, the six key risk factors, combined according to their relative importance, collectively represent the risk profile of the LRG. Risk profile and debt sustainability assessments, which measure the LRG's debt burden and debt service requirements amid a reasonable economic or financial downturn over the rating horizon, are combined in the SCP. The SCP, together with additional factors not captured in SCP, like extraordinary support or a rating cap, produces the IDR.

Issuer Profile

Canadian Subnational Framework: Canada has a decentralized federal system of government, with powers divided between or shared among the federal government and 10 provinces. The constitution bestows responsibility for most public services on the provinces and provides them with virtually unlimited revenue and borrowing powers to support their spending responsibilities. These include the responsibility to establish the types and roles of local governments. Municipal governments tiers in British Columbia include 161 municipalities within 28 regional districts.

MFABC Overview: MFABC is governed by regional districts, which appoint 40 members who then elect 10 trustees. It operates autonomously from the province and does not report to the Ministry of Municipal Affairs. Its financial statements and debts are not consolidated with the province's, and the province does not guarantee MFABC debt. However, MFABC benefits from a strict system of provincial oversight of local governments; they may not budget for deficits and have broad operating flexibility to adjust their finances to address their own needs, and municipalities specifically are subject to strict borrowing limits that include capping P&I at 25% of recurring revenues.

Under provincial law, nearly all regional districts and municipalities must use MFABC to finance general municipal capital projects, including water and sewer infrastructure, communications technology, and transportation. MFABC issues short- and long-term debt to fund loans to local entities. Multiple layers of approval are necessary before financing is possible, including voter approval, provincial verification that an entity can service the debt, regional district approval, MFABC credit review and trustee approval. Once a loan is made to a municipality, it becomes a regional district liability carrying the joint and several guarantee of all member local borrowers within the district.

A borrower's failure to pay triggers a DRF draw and ultimately a requirement that MFABC levy a province-wide property tax to replenish the DRF; no provincial approval is required for MFABC to act. Over MFABC's 53-year history, there have been no instances of local government failure to repay loans. Pandemic disruptions in 2020–2021 and the severe fires and floods in the province's interior in 2021 had no impact on MFABC given robust provincial and federal disaster support and recovery mechanisms.

MFABC's loan activity is concentrated in the province's most populated regions, with 61% of loans in metropolitan Vancouver and another 16% on Vancouver Island. The city of Vancouver is a member but operates under its own charter and issues its own debt, and the South Coast British Columbia Transportation Authority, the regional transit agency also known as TransLink, began issuing directly in 2008, rather than using MFABC. Remaining TransLink debt was approximately 6% of outstanding MFABC long-term borrowing in 2022.

Economic Profile of British Columbia: British Columbia's diverse and growing economy provides a robust base for MFABC's taxing power. It has had the strongest average real GDP growth rate among the provinces, rising 2.6% annually over 20 years versus 1.8% for Canada as a whole. Long-term growth prospects remain strong despite the likelihood of an economic slowdown next year, triggered by inflation, rising interest rates and their effects on the broader economy, including housing. The province is among Canada's four largest by population and GDP, equating to almost 14% of the population in 2022 and 13% of GDP in 2021, and its economic diversity approximates Canada's.

Most of the population and economic resources are concentrated in the wealthy Lower Mainland region, which encompasses metropolitan Vancouver, and in Victoria, the capital on Vancouver Island. Trade, finance, insurance and real estate activities and education and health services are significant shares of the province's GDP. Population growth exceeds Canada's, and Vancouver is a magnet for immigrants, particularly from the Pacific Rim and domestic migrants from the rest of Canada.

The housing market in British Columbia has been a source of uncertainty, given rising prices, high demand, constrained affordability and rising mortgage interest rates. This is particularly the case in Greater Vancouver, given the region's growth, geographic constraints and continued attractiveness to newcomers. Efforts to slow the market, notably including tax changes, have had limited effect, even as Bank of Canada rate increases in 2022 and 2023 pushed mortgage rates higher and led to a modest housing market correction.

Socioeconomic Indicators

	British Columbia	Canada
Population, 2022 (mil.)	5.3	38.9
GDP per capita, 2021 (CAD)	54,227	55,022
Gross regional product growth, 2021 (%)	6.1	5.0
Inflation, 2022 (%)	6.9	6.8
Unemployment rate, 2022 (%)	4.6	5.3

Source: Fitch Ratings, Statistics Canada, Province of British Columbia

Risk Profile Assessment

Risk Profile: 'Stronger'

Fitch assesses MFABC's risk profile at 'Stronger', reflecting the following combination of assessments:

Risk Profile Assessment

Risk Profile	Revenue Robustness	Revenue Adjustability	Expenditure Sustainability	Expenditure Adjustability	Liabilities and Liquidity Robustness	Liabilities and Liquidity Flexibility
Stronger	Stronger	Stronger	Stronger	Stronger	Stronger	Stronger

Source: Fitch Ratings

Fitch views MFABC's risk profile as 'Stronger,' reflecting the 'Stronger' assessments for all six key risk factors. The assessment reflects Fitch's view of a very low degree of risk relative to international peers that the issuer's ability to cover debt service by the operating balance weakens unexpectedly over the forecast horizon for Fitch's analysis, which extends through 2027, either because of lower-than-expected revenue, expenditure above expectations, or an unanticipated rise in liabilities or debt-service requirements.

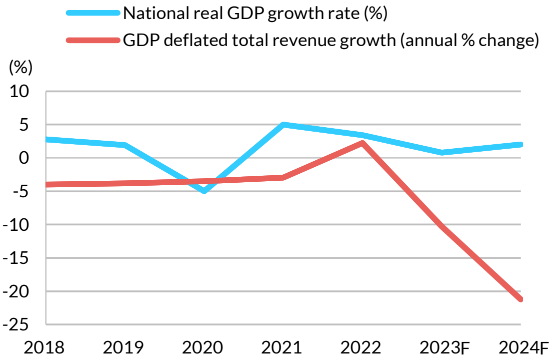
Revenue Robustness: 'Stronger'

Total revenue was CAD433 million in 2022. MFABC's largest source of annual receipts is loan repayments from client governments, which generated CAD247 million in 2022. The second-largest is investment income from the portfolio of assets managed by MFABC, mainly sinking funds, which generated CAD164 million in 2022. The operating levy included in every property owner's annual tax bill generated only CAD549,000 in 2022. Maintaining the levy at a small level ensures a functioning mechanism that would allow MFABC to increase it if needed to address a borrower's failure to pay.

The province's massive property tax base is assessed at CAD2.4 trillion as of the 2023 assessment. Assessments are completed annually by BC Assessment, an independent provincial authority. Assessment trends over time have been robust, and Fitch expects further solid growth. The pandemic resulted in a 2.9% dip in assessed value in 2020, but the 10-year CAGR through 2023 for the assessment roll total value was 9.2%, including gains of 21.3% in 2022 and 11.6% in 2023.

Fitch does not consider housing market weakness to be a material risk to MFABC's ability to levy sufficient property taxes, given the small size of the levy that would be necessary to ensure replenishment of the DRF compared with the total value of the provincial assessment roll. Despite near-term uncertainty, over the long-term, property market fundamentals are expected to remain strong, consistent with Fitch's view of British Columbia's economy.

Real Total Revenue and GDP Growth



F – Forecast
Source: Fitch Ratings, Municipal Finance Authority of British Columbia

Revenue Breakdown, 2022

(%)	Operating revenue	Total revenue
Interest from loans	91.8	57.0
Amortization of premiums	6.8	4.2
Fees	1.3	0.8
Property tax levy	0.2	0.1
Operating revenue	**100.0**	**62.1**
Investment income	–	37.9
Capital revenue	–	0.0
Total revenue	**–**	**100.0**

Source: Fitch Ratings, Fitch Solutions, Municipal Finance Authority of British Columbia

Revenue Adjustability: 'Stronger'

The authority has the ability by a vote of its board to levy a province-wide property tax base following any draw on the DRF if it determines that loan repayments will be insufficient to restore funds within a reasonable period. If the DRF is drawn down by more than 50% from its required level, MFABC is statutorily required to levy a province-wide tax to restore it. The size of the levy is limited to restoring the DRF to its required level of half of the average annual P&I payments on borrower loans for all regional districts and half of the average annual P&I payments on borrowings by districts' member municipalities. There is no other limitation on the rates that MFABC can levy, and no approvals are necessary from provincial or local authorities.

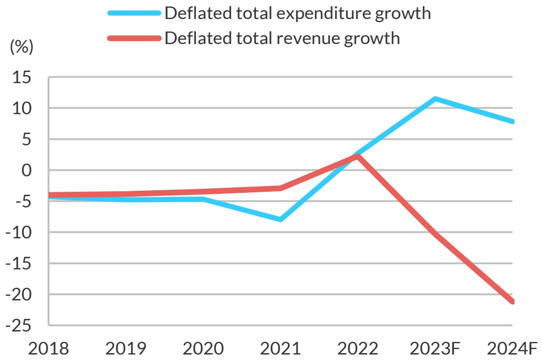
British Columbia's tax base appears exceptionally robust relative to a potential additional tax levy that would be needed to support MFABC. Actual property tax revenue data is lagged, but 2022 total property taxes and charges were CAD11.6 billion, of which variable rate taxes were CAD9.5 billion; MFABC's CAD549,000 operating levy in 2022 was a tiny share of the total, and the total DRF balance of CAD120 million would likewise represent a small share. Interest on long-term debt, at CAD270 million, equates to only 2.8% of variable rate property taxes, suggesting substantial tax leeway in the event that the higher levy is triggered. Relative to household income of CAD328 billion, using provincial data, interest on long-term debt measures a very small 0.08%, suggesting ample affordability of any levy.

Property tax assessments are determined on July 1 and sent to property owners the following January. Tax rates are set in March, bills are mailed in May and payments are due in July. MFABC receives its levy by August 1. Debenture debt service falls either in June and December, or April and October, leaving a maximum gap of nearly a year between a potential missed borrower repayment and levied property tax revenues.

Expenditure Sustainability: 'Stronger'

MFABC's operating profile consists primarily of servicing market-issued debt with loan repayments from borrowing governments, managing pools of invested sinking funds, and providing secondary financial and related services to client governments, including asset management. Rising interest rates over time are passed through to borrowers in the form of higher loan repayments, insulating MFABC from interest rate risk. The authority provides no direct program services to residents and does not perform capital planning or construction services. Within its narrow scope of activity, MFABC regularly runs small annual surpluses and has built up a sizable strategic retention fund (SRF), at CAD105 million in 2022, to supplement internal liquidity, indicating a track record of tight control over expenditure growth.

Real Total Expenditure and Revenue Growth



F – Forecast
Source: Fitch Ratings, Municipal Finance Authority of British Columbia

Expenditure Breakdown, 2022

(%)	Operating expenditure	Total expenditure
Administration	59.4	1.4
Other operating expenditure	40.6	0.9
Operating expenditure	**100.0**	**2.3**
Interest expenditure	–	97.7
Capex	–	0.0
Total expenditure	**–**	**100.0**

Source: Fitch Ratings, Fitch Solutions, Municipal Finance Authority of British Columbia

Expenditure Adjustability: 'Stronger'

The authority's primary expenses for interest on debt are matched by incoming borrower loan repayments. Secondary services to client governments, such as pooled fund offerings and financial risk training, including cyber risk, are demand-based and impose limited additional operating costs on MFABC. It has a small staff of 19.

Liabilities and Liquidity Robustness: 'Stronger'

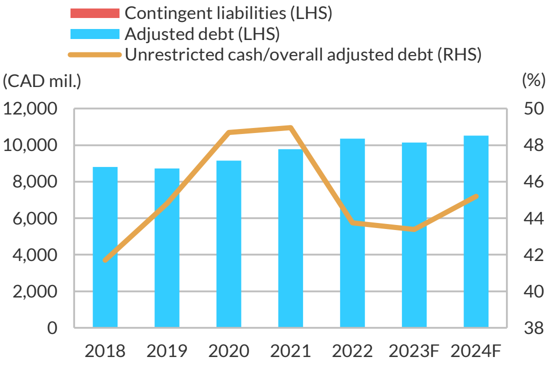
MFABC debt is issued at fixed rates and benefits from excellent access to capital markets, as demonstrated through consistently favorable spreads to provincial debt in Canada's highly liquid domestic market. Long-term debt outstanding totaled CAD9.8 billion in 2022, up from CAD9.3 billion in 2021. Long-term debt consists of debentures with bullet maturities at 5, 10 and 20 years. The weighted average maturity calculated by Fitch is about 5 years. In 2023, MFABC has issued CAD1.3 billion.

CP notes (not rated by Fitch) typically have maturities from 35 to 91 days and are limited by policy to a maximum of CAD700 million as of 2022. The balance stood at CAD600 million as of Dec. 31, 2022, compared with CAD500 million in 2021. CP notes are backstopped by two general corporate purpose facilities totalling CAD350 million with two Canadian chartered banks. CP note proceeds are used to provide liquidity to MFABC and interim financing for local governments, including for the initial phases of capital projects until taken out by long-term MFABC debentures. MFABC retains strong market access for the CP note program, implying limited rollover risk.

The authority's loan assets are matched with its debenture liabilities such that interest payments from client governments meet the annual interest obligations on debentures. Loans are fully amortized, with principal payments deposited in dedicated sinking funds invested by MFABC and used to retire debentures upon maturity. Loan maturities are not always matched to the corresponding maturities of debt issued by MFABC, although loan rates reset to reflect the rate on refunding debt.

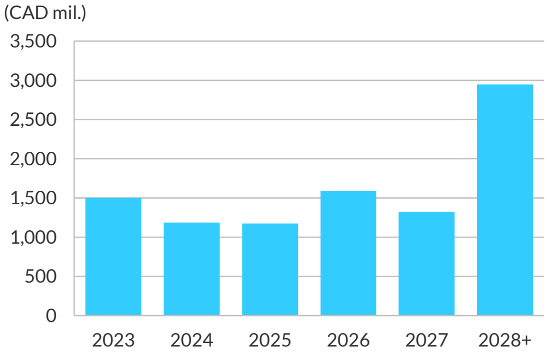
Borrowers are compensated for sinking funds accumulated and invested before the associated debenture matures, with the application of an actuarial reduction applied to each principal payment. The discount is covered through the earnings on sinking fund investments. The authority sets actuarial rates (between 1.75% and 5%) at the commencement of each loan and reviews them against actual investment performance. MFABC retains the right to adjust the actuarial assumption and has done so regularly. Earnings in excess of the actuarial rate are recorded as a surplus and are available to MFABC as liquidity until associated debenture maturity, when the authority distributes them to participating borrowers.

Overall Adjusted Debt Structure



F – Forecast
Source: Fitch Ratings, Municipal Finance Authority of British Columbia

Direct Debt Maturity Profile, YE 2022



Source: Fitch Ratings, Municipal Finance Authority of British Columbia

Liabilities and Liquidity Flexibility: 'Stronger'

MFABC has considerable flexibility in managing its liquidity, with recourse to a range of internal and external sources if needed. In the unexpected event that loan payments are not made, MFABC would cover interest first by drawing on the DRF, which held CAD120 million in 2022. If the DRF is drawn, MFABC can unilaterally impose a property tax to restore the draw. A tax must be levied if the DRF balance is drawn to less than 50% of the required level.

Beyond the DRF balance, additional sources of liquidity include the SRF, which held CAD105 million in 2022, and a CAD100 million revolving line of credit with Canadian Imperial Bank of Commerce (CIBC; AA–/Stable). Finally, MFABC can draw on the core sinking fund balance, which stood at CAD4.0 billion in 2022, equal to 41% of outstanding long-term debt, compared with CAD4.3 billion in 2021.

Sinking fund assets are invested under statutory requirements that limit holdings to Canadian or provincial securities or those guaranteed by them; securities of a local, municipal or regional government in Canada; investments guaranteed by a chartered bank; or deposits in a savings institution or non-equity or membership shares of a credit union. Statutory restrictions on the DRF are similar, except that those cannot be invested in securities of Canadian local, municipal or regional governments. MFABC has developed investment policies to provide further guidance in managing DRF and SRF assets.

Maximum annual interest on debentures have been less than CAD300 million for many years, indicating MFABC's resources are ample relative to potential interest demands. Short-term CP notes, which are a source of liquidity, totaled CAD600 million in 2022, with CAD3.7 billion issued during the year.

Debt Analysis

	2022
Fixed rate (% of direct debt)	100
Issued debt (% of direct debt)	100
Apparent cost of debt (%)	2.7
Weighted average life of debt (years)	5.0

Source: Fitch Ratings, Municipal Finance Authority of British Columbia

Liquidity

(CAD mil.)	2022
Total cash, liquid deposits and sinking funds	4,528
Restricted cash	0
Cash available for debt service	4,528
Undrawn committed credit lines	0

Source: Fitch Ratings, Municipal Finance Authority of British Columbia

Debt Sustainability Assessment

Debt Sustainability: 'aaa' Category

Debt Sustainability Metrics Summary

	Primary Metric	Secondary Metrics	
	Payback Ratio (x)	Coverage (x)	Fiscal debt burden (%)
aaa	X ≤ 5	X ≥ 4	X ≤ 50
aa	5 < X ≤ 9	2 ≤ X < 4	50 < X ≤ 100
a	**9 < X ≤ 13**	1.5 ≤ X < 2	100 < X ≤ 150
bbb	13 < X ≤ 18	1.2 ≤ X < 1.5	150 < X ≤ 200
bb	18 < X ≤ 25	**1 ≤ X < 1.2**	200 < X ≤ 250
b	X > 25	X < 1	**X >250**

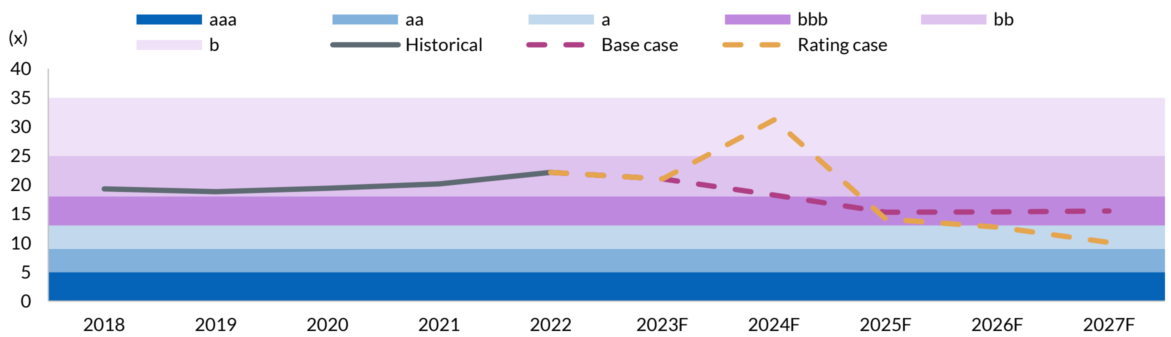
Note: Yellow highlights show metric ranges applicable to the issuer.
Source: Fitch Ratings

The 'aaa' category debt sustainability assessment is based on the criteria variation, under which the unlimited taxing power of MFABC provides substantially more protection than is captured in the debt sustainability metrics under a scenario in which borrowers fail to pay interest.

Fitch assesses debt sustainability using forward-looking metrics under two scenarios, a base case and a more stressed rating case. Under the rating case projection through 2027 that assumes the pledge of province-wide property taxes is triggered by successive draws on the DRF, the initial stress raises the payback ratio, measured as net adjusted debt/operating balance, but it gradually falls back to 10.1x, and the synthetic debt service coverage ratio, defined as operating balance/a mortgage-like payoff of debt service, rises to 1.1x as tax levy receipts replenish balances. The fiscal debt burden, measured as net adjusted debt/operating revenue, remains weak through the period but is not as relevant to the overall assessment, given the matched nature of MFABC's liabilities and assets over time.

Although this combination of factors suggests an assessment at the 'a' category level, additional liquidity beyond the DRF and the availability of the property tax levy, among other factors, offset the potential impacts of any reasonable stress that the rating case is intended to capture. This dynamic is captured in the criteria variation.

Payback Ratio — Fitch's Base and Rating Case Scenarios



F – Forecast
Source: Fitch Ratings, Municipal Finance Authority of British Columbia

Scenario Assumptions

Fitch designates MFABC as a Type B LRG under the *International LRG Rating Criteria* because it repays debt service from cash flow on an annual basis. Long-term debt in both the base and rating cases remains the same, relying on near-term MFABC expectations for borrowing, trended forward through 2027. Stresses in the rating case are intended to pressure operations to assess the impact on P&I repayments. Despite stresses, the requirement to levy a property tax to refill the DRF and the matched nature of loan repayments with interest on debt are unusually strong features that cushion weakness and are the basis of the criteria variation.

The rating case assumes modifications to loan repayments in 2024, 2025 and 2026 representing a widespread and extended failure to pay, equal to half of the combined DRF and SRF balances in 2023, one-third in 2024 and one-quarter in 2025. The draw from the DRF in 2024 triggers the province-wide property tax to replenish the DRF, with receipt of the levy lagged by one year; the rating case assumes the levy stays in place in 2026 and 2027 to cover subsequent DRF draws and rebuild the balance. The lag in receipt of the tax levy is reflected in the one-year deterioration of the payback ratio, which rapidly improves in subsequent years as tax levies are collected.

Population and GDP trends are less meaningful to the calculations of revenue and expenditure, but weaker GDP in the rating case provides context for the changing interest rate environment that affects MFABC's interest on debt but is offset by borrower loan repayments.

Scenario Assumptions Summary

Assumptions	Five-Year Historical Average	2023–2027 Average	
		Base Case	Rating Case
Operating revenue growth (%)	-1.3	5.5	14.7
Tax revenue growth (%)	4.6	7.4	165.9
Current transfers received growth (%)	-	-	-
Operating expenditure growth (%)	-7.4	13.1	12.6
Net capex (average per year; mil.)	0	0	0
Apparent cost of debt (%)	2.9	3.2	3.5

Outcomes	2022	2027	
		Base Case	Rating Case
Payback ratio (x)	22.2	15.5	10.1
Overall payback ratio (x)	22.2	15.5	10.1
Actual coverage ratio (x)	0.2	0.2	0.3
Synthetic coverage ratio (x)	0.6	0.8	1.1
Fiscal debt burden (%)	2,162.7	1,498.0	985.6

Source: Fitch Ratings, Municipal Finance Authority of British Columbia

Under Fitch's calculation, direct debt was just under CAD10.4 billion in 2022, consisting of CAD9.8 billion in long-term debentures and CAD600 million in short-term CP notes. Net adjusted debt is CAD5.8 billion, after netting CAD4.5 billion in cash, cash equivalents and investments, chiefly sinking funds. MFABC has no contingent liabilities. MFABC's direct debt is used solely to fund loans to borrower governments. Loans outstanding, both long- and short-term, typically represent 55%–58% of outstanding debt, with the remainder consisting of investments, typically accumulated sinking fund deposits and earnings. Loan terms often exceed the maturity of associated debt, with loan repayments subject to reset when maturing debt is refunded.

SCP Positioning and Peer Comparison

SCP Positioning Table

Risk Profile	Debt Sustainability					
Stronger	aaa or aa	a	bbb	bb	b	
High Midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low Midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested Analytical Outcome (SCP)	**aaa**	**aa**	**a**	**bbb**	**bb**	**b**

SCP – Standalone Credit Profile
Source: Fitch Ratings

MFABC has no directly comparable Fitch-rated peers. The two most similar entities are government-related entities, the New Zealand Local Government Funding Agency Limited (LGFA; AA+/Stable) and Cassa del Trentino S.p.A. (A–/Stable) in Italy. Both provide financing to local governments, but neither has independent, unlimited taxing authority supported by the joint and several pledge of local borrowers. Fitch rates them under its *Government-Related Entities Rating Criteria* and equalizes the rating with their sponsoring governments, New Zealand and the Autonomous

Province of Trento, respectively, reflecting the support available to them. As a result, no SCP is assessed for either entity.

Less comparable entities include French intermunicipal groupings such as Aix-Marseille-Provence Metropolis (A+/Stable) and Strasbourg Eurometropole (AA–/Stable), which directly deliver public services across multiple municipalities, such as transit and wastewater, and have tax and borrowing powers necessary to fund services. MFABC does not provide direct services.

Long Term Rating Derivation

From SCP to IDR/CO: Factors Beyond the SCP

		Support						
SCP	Sovereign	Intergovernmental financing	Ad hoc support	Floor	Asymmetric risks	Cap	Notches above the sovereign	IDR/CO
aaa	AA+	—	—	—	—	—	1	AAA

SCP – Standalone Credit Profile. IDR – Issuer Default Rating. CO – Credit opinion.
Source: Fitch Ratings

Short Term Rating Derivation

Fitch does not rate the short-term debt of MFABC.

Criteria Variation

The analysis supporting MFABC's 'AAA' rating includes a variation from the *International LRG Rating Criteria* dated Sept. 3, 2021, related to the debt sustainability analysis. The statutory requirement to levy a property tax on a broad economic base to restore draws on the DRF provides substantial offset to an event in which borrowers fail to pay, and the matched nature of the MFABC's long-term debentures by loans made to borrower governments offsets other stresses, such as interest rates. These factors allow MFABC to adjust its financial performance in a manner that offsets potential stresses imposed by Fitch under the rating case. The variation recognizes these features and provides a means to consider the likely trajectory of financial metrics under these circumstances.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Appendix A: Financial Data

Municipal Finance Authority of British Columbia

(CAD mil.)	2018	2019	2020	2021	2022	2023[a]	2024[a]	2025[a]	2026[a]	2027[a]
Fiscal Performance										
Taxes	0	0	0	0	1	1	1	124	88	66
Transfers received	0	0	0	0	0	0	0	0	0	0
Fees, fines and other operating revenues	277	268	256	255	269	283	195	283	352	468
Operating revenue	277	268	256	255	269	284	196	407	440	534
Operating expenditure	-11	-13	-15	-8	-6	-11	-11	-11	-11	-12
Operating balance	266	255	241	247	263	273	185	396	429	522
Interest revenue	140	141	141	144	164	117	124	144	148	144
Interest expenditure	-274	-265	-251	-246	-270	-307	-336	-382	-434	-484
Current balance	132	132	132	146	157	83	-27	158	143	183
Capital revenue	0	0	0	0	0	0	0	0	0	0
Capex	0	0	0	0	0	0	0	0	0	0
Capital balance	0	0	0	0	0	0	0	0	0	0
Total revenue	417	409	398	399	433	401	320	551	588	678
Total expenditure	-285	-277	-266	-253	-276	-318	-347	-393	-445	-495
Surplus (deficit) before net financing	132	132	132	146	157	82	-27	159	143	183
New direct debt borrowing	1,733	1,210	1,041	2,010	1,292	0	0	0	0	0
Direct debt repayment	-1,223	-1,176	-643	-1,245	-811	0	0	0	0	0
Net direct debt movement	510	34	398	765	482	-211	385	777	530	557
Overall results	641	166	530	911	639	-128	358	935	673	740
Debt and Liquidity										
Short-term debt	674	564	610	500	598	700	700	700	700	700
Long-term debt	8,136	8,153	8,535	9,284	9,753	9,439	9,824	10,601	11,131	11,668
Intergovernmental debt	0	0	0	0	0	0	0	0	0	0
Direct debt	8,810	8,718	9,145	9,784	10,350	10,139	10,524	11,301	11,831	12,368
Other Fitch-classified debt	0	0	0	0	0	0	0	0	0	0
Adjusted debt	8,810	8,718	9,145	9,784	10,350	10,139	10,524	11,301	11,831	12,368
Guarantees issued (excluding adjusted debt portion)	0	0	0	0	0	0	0	0	0	0
Majority-owned GRE debt and other contingent liabilities	0	0	0	0	0	0	0	0	0	0
Overall adjusted debt	8,810	8,718	9,145	9,784	10,350	10,137	10,524	11,301	11,831	12,368
Total cash, liquid deposits and sinking funds	3,674	3,906	4,453	4,790	4,528	4,399	4,757	5,693	6,366	7,104
Restricted cash	0	0	0	0	0	0	0	0	0	0
Unrestricted cash	3,674	3,906	4,453	4,790	4,528	4,399	4,757	5,693	6,366	7,104
Net adjusted debt	5,136	4,812	4,692	4,994	5,822	5,740	5,767	5,608	5,465	5,264
Net overall debt	5,136	4,812	4,692	4,994	5,822	5,740	5,767	5,608	5,465	5,264
Enhanced net adjusted debt	5,136	4,812	4,692	4,994	5,822	5,740	5,767	5,608	5,465	5,264
Enhanced net overall debt	5,136	4,812	4,692	4,994	5,822	5,740	5,767	5,608	5,465	5,264

[a]Fitch's rating case scenario. GRE – Government-related entity.
Source: Fitch Ratings, Fitch Solutions, Municipal Finance Authority of British Columbia

Appendix B: Financial Ratios

Municipal Finance Authority of British Columbia

	2018	2019	2020	2021	2022	2023[a]	2024[a]	2025[a]	2026[a]	2027[a]
Fiscal Performance Ratios										
Operating balance/operating revenue (%)	96.0	95.3	94.2	97.1	97.6	96.1	94.4	97.3	97.5	97.8
Current balance/current revenue (%)	31.6	32.2	33.1	36.5	36.3	20.7	-8.4	28.7	24.3	26.8
Operating revenue growth (annual % change)	-3.6	-3.4	-4.4	-0.5	5.6	5.5	-31.0	107.7	8.1	21.4
Operating expenditure growth (annual % change)	17.0	15.5	16.5	-49.3	-14.7	71.9	0.0	0.0	0.0	9.1
Surplus (deficit) before net financing/total revenue (%)	31.6	32.2	33.1	36.5	36.3	20.7	-8.4	28.7	24.3	26.8
Surplus (deficit) before net financing/GDP (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total revenue growth (annual % change)	-1.8	-1.9	-2.8	0.3	8.7	-7.5	-20.2	72.2	6.7	15.3
Total expenditure growth (annual % change)	-2.2	-2.8	-4.0	-4.8	9.1	15.1	9.1	13.3	13.2	11.5
Debt Ratios										
Primary Metrics (x)										
Payback ratio (net adjusted debt to operating balance)	19.3	18.9	19.4	20.2	22.2	21.0	31.2	14.2	12.7	10.1
Enhanced payback ratio	19.3	18.9	19.4	20.2	22.2	21.0	31.2	14.2	12.7	10.1
Overall payback ratio	19.3	18.9	19.4	20.2	22.2	21.0	31.2	14.2	12.7	10.1
Enhanced overall payback ratio	19.3	18.9	19.4	20.2	22.2	21.0	31.2	14.2	12.7	10.1
Secondary Metrics										
Fiscal debt burden (%) (net debt-to-operating revenue)	1,852.8	1,796.0	1,832.1	1,959.3	2,162.7	2,021.1	2,942.3	1,377.9	1,242.1	985.6
Synthetic debt service coverage ratio (x)	0.6	0.6	0.6	0.6	0.6	0.0	0.0	0.0	0.9	1.1
Actual debt service coverage ratio (x)	0.2	0.2	0.3	0.2	0.2	0.1	0.1	0.3	0.2	0.3
Other Debt Ratios										
Liquidity coverage ratio (x)	2.6	2.7	4.6	3.2	4.7	2.6	3.0	3.3	3.0	3.8
Direct debt maturing in one year/total direct debt (%)	21.0	13.8	20.3	13.4	20.5	6.9	6.7	6.2	5.9	5.7
Direct debt (annual % change)	5.6	-1.1	4.9	7.0	5.8	-2.0	3.8	7.4	4.7	4.5
Apparent cost of direct debt (interest paid/direct debt) (%)	3.2	3.0	2.8	2.6	2.7	3.0	3.3	3.5	3.8	4.0
Revenue Ratios (%)										
Tax revenue/total revenue	0.1	0.1	0.1	0.1	0.1	0.2	0.3	22.5	15.0	9.7
Current transfers received/total revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest revenue/total revenue	33.5	34.5	35.6	36.1	37.9	29.2	38.8	26.1	25.2	21.2
Capital revenue/total revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure Ratios (%)										
Staff expenditure/total expenditure	—	—	—	—	—	—	—	—	—	—
Current transfers made/total expenditure	—	—	—	—	—	—	—	—	—	—
Interest expenditure/total expenditure	96.1	95.4	94.4	97.0	97.7	96.5	96.8	97.2	97.5	97.6
Capex/total expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

[a]Fitch's rating case scenario
Source: Fitch Ratings, Fitch Solutions, Municipal Finance Authority of British Columbia

Appendix C: Data Adjustments

Specific Adjustments

Minor adjustments have been made to MFABC's financial statement to calculate metrics under Fitch's criteria and to facilitate comparisons across Canadian and international LRGs. The debt data reflect calculations of direct debt and unrestricted liquidity, as defined in Fitch criteria and detailed above.

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