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Ratings

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Municipal Finance Authority of British Columbia

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Municipal Finance Authority of British Columbia

Major Rating Factors

Issuer Credit Rating
AAA/Stable/A-1+

Overview

Strengths	Weaknesses
Municipal Finance Authority of British Columbia (MFABC) is the exclusive lender of long-term debt to municipalities in British Columbia (B.C.), with a unique legislatively enshrined taxing power	Lending to Metro Vancouver represents a notable concentration in the loan portfolio.
Strong institutional and fiscal policy framework of Canadian municipalities supports the creditworthiness of the B.C. municipal sector.	While management and governance policies are very strong, MFABC counts on a relatively small workforce.
Prudent risk management and capital policies underpin MFABC's capital base.	

Outlook

The stable outlook reflects MFABC's long history of prudent management and governance practices, conservative risk appetite, and sophisticated asset-liability management, all of which we expect will continue. S&P Global Ratings expects that the authority will maintain strong access to capital markets through a diversified investor base and that its funding and liquidity position will stay strong over the next two years. The stable outlook also underscores our expectation that MFABC will remain the exclusive lender of long-term debt to B.C. municipalities and will retain its legislatively enshrined ability to levy a provincewide tax to replenish any potential draw on its debt reserve fund (DRF).

Downside scenario

Although not our expectation, we could lower the rating in the next two years if MFABC's taxing powers were constrained, capital adequacy ratios declined significantly due to sustained operational losses, or the authority made a significant distribution of the strategic retention fund (SRF) to members. We could also consider a negative rating action if the authority was no longer the exclusive long-term lender to B.C. municipalities or if there was a sustained deterioration in the credit quality of B.C. local governments.

Rationale

Our long-term issuer credit and senior unsecured debt ratings on MFABC are 'AAA'.

MFABC's statutory public policy mandate is central to our very strong business position assessment. The authority is firmly positioned as the exclusive lender of long-term debt to B.C. municipalities, a key factor that we expect will continue. The pass-through nature of MFABC's business model, alongside the low-risk B.C. municipal sector, underpins the credit rating on MFABC. The B.C. municipal sector is low risk, in our view, due to its predictable institutional framework, prudent fiscal policy, and high financial resilience. Relative to peers, MFABC is a modestly sized organization, but mitigates this risk with a robust governance framework, a low-risk appetite with match-funded borrowing, and an experienced management team.

MFABC's capital framework promotes the maintenance of sufficient loss-absorbing capital. Capital scales up with new issuance and is bolstered annually by stable retained earnings. Funding and liquidity are strong, given prudent risk management practices that retain liquid investments in the authority's sinking funds, which stood at approximately C$4.0 billion at the end of 2022. We believe the pass-through nature of MFABC's operations, its plain vanilla funding, and robust cash and liquid investments support a strong overall financial risk profile.

The authority, unlike peer public sector funding agencies, has taxing powers. It has the unfettered ability to impose a provincewide levy on all taxable land and improvements to replenish its DRF, if needed. MFABC is already a claimant on annual local tax bills, which we believe would expedite its ability to collect on a special levy, if needed.

MFABC was established in 1970 to provide low-cost financing to B.C.'s municipal sector except to the City of Vancouver and South Coast British Columbia Transportation Authority. It is a not-for-profit, tax-exempt corporation without share capital controlled by its member municipalities. Despite its establishment by provincial statute, the authority has an arm's length relationship with the government, with minimal direct linkages and no provincial guarantee on its debt. As a result, we do not view it as a government-related entity.

Enterprise risk profile: Market position should remain stable with a very strong public policy mandate and experienced management team

- We expect the authority's business position will remain very strong based on its public policy mandate as the exclusive long-term lender to the B.C. municipal sector.
- Management policies and governance will remain very strong, with well-established and prudent management policies and practices, especially on asset-liability matching.
- We expect the municipal sector will remain low risk due to its well-balanced and predictable institutional framework, high economic resilience, and low financial system risk.

We expect MFABC will keep its strong public policy mandate as the exclusive lender of long-term debt to the municipal sector in B.C. We also expect that, as part of its mandate, the authority will continue to focus on its core business of provisioning low-cost, long-term funding to B.C.'s local and regional municipalities, by pooling bond issues and creating liquidity in bond markets. As an exclusive lender and unlike its peers, MFABC does not face competition, which provides a high level of customer and revenue stability, a key credit strength, in our view. The authority is one of the largest municipal lenders in the country. In addition to providing long-term lending, MFABC also provides short-term financing to its municipal clients. Despite revenues from this business being more variable, we believe that MFABC's provision of this lending strengthens its relationship with borrowers and reinforces its policy role. The authority also provides a suite of investment products to local governments through its pooled investment funds and pooled high interest savings accounts but faces competition from other financial institutions (namely banks and investment managers) in this space. As of year-end 2022, MFABC's pooled investments held C$5.3 billion in assets under management.

MFABC's very strong management and governance is strengthened by prudent policies and practices. The authority's business plan sets out annual goals, both financial and nonfinancial. The board tracks progress on outcomes in regular meetings with senior staff. Risk management policies reflect the organization's low-risk appetite, most notably the recent establishment of a capital policy outlining clear targets for on-balance-sheet risk capital, the retention of operating surpluses, and the ongoing management of capital. Committees must also approve both loan and investment decisions. Policies cover all key aspects of MFABC's operations, including asset-liability matching as a key risk management practice. The management team is experienced; key members have long tenure with the authority and management has a board-approved succession plan in place. Relative to peers, MFABC is a relatively small organization; however, the pass-through nature of its business and its plain vanilla funding mitigate potential risks relative to those of more complex peers, in our view. MFABC is nimble, does not need to compete for borrowers, and uses simple funding practices that do not expose it to higher market risks.

We view the B.C. municipal sector as very low risk. Our public sector industry and country risk assessment is very strong because of the sector's extremely predictable and supportive institutional framework, very high economic resilience, average leverage, and low financial system risk. Provincial-municipal intergovernmental arrangements are stable. B.C., like all other provinces, imposes a prudent fiscal policy framework on its municipalities. Leverage in the sector is moderate: Debt is forecast to remain near 75% of operating revenues and interest expense is low. The sector has very high economic resilience thanks to the province's high GDP per capita, which we expect will remain in line with the national average of about C$73,000. Canada's banking system is sound, and we view financial system risk for the B.C. municipal sector as low.

Financial risk profile: Strong capital policy framework, stable revenue levels, and prudent asset-liability management support MFABC's financial position

- The authority's capital management policy supports capital through disciplined retention of earnings.
- The scaling-up of the loss-absorbing DRF with each new debt issue, alongside powers to levy a tax on all taxable properties in B.C. to replenish the DRF, supports strong capital levels.
- MFABC's considerable holdings of liquid investments in its sinking funds (C$4.0 billion at year-end 2022), solid access to capital markets, and strong secondary market liquidity will sustain strong funding and liquidity.

We expect MFABC's capital adequacy policy and framework will continue to support strong capital. The authority set its own capital policy far above its legislated 1% DRF and manages this prudently. It has never reported a credit loss in its 50-year history. Furthermore, the authority neutralizes asset-liability risks by acting as a pass-through funding vehicle with minimal transformation risks, in our view. As of Dec. 31, 2022, total capital was C$225 million, nearly unchanged from the previous year. Capital consists of C$120 million in the DRF and C$105 million in the SRF (retained earnings). As of year-end 2022, the before-concentration RAC ratio increased modestly to 30.4% from 30.3%. The after-concentration RAC ratio fell slightly in 2022 to 6.9% from 7.3% a year earlier due to increased concentration risk; however, we believe this trend will reverse and the after-concentration RAC ratio will continue to build over the next two years. The loan portfolio has a notable concentration due to the authority's lending to Metro Vancouver, the province's largest population center.

MFABC does not take on any transformation risk because it uses fixed-rate domestic bonds to fund its lending, which supports our strong capital adequacy assessment. Risk management practices, which include very strict asset-liability matching, are sound, in our view.

MFABC holds considerable liquid investments in its sinking funds (C$4.0 billion at year-end 2022); these are the foundation of the authority's very strong liquidity position. For 2022, the funding ratio of assets to liabilities was 1.1x and the one-year liquidity ratio was 1.7x. The Canadian bond market, which we consider deep and diversified, provides 100% of MFABC's funding, making its funding sources slightly concentrated compared with those of peers; however, the authority has issued internationally in its history and can access those markets if needed. Although investor diversification is strong and continues to improve, we view the authority's investor base as slightly weaker than that of peers. Nevertheless, MFABC has unfettered access to the Canadian capital market, as has been demonstrated by oversubscribed public debt issuance during the financial crisis in 2008 and the height of the COVID-19 pandemic's market volatility in 2020. The authority's liquidity position is also boosted by committed lines of credit totaling C$350 million.

The authority, unlike peers, has the unencumbered ability to impose a provincewide levy on all taxable land (assessed at approximately C$2.4 trillion in 2022) and improvements, if needed, to replenish its DRF. We view this as a key credit strength. If the DRF falls to below 50% of its required level, MFABC must exercise this authority and levy the property tax. The board can immediately invoke taxing powers at its discretion and needs no approval from its municipal members or any higher level of government. The authority is already a claimant on annual local tax bills, and we believe this supports its ability to collect on a special levy. MFABC has never reported a DRF deficiency or enacted a special levy. We consider this taxing power a key strength underpinning the 'AAA' rating.

Key Statistics

Table 1

Municipal Finance Authority of British Columbia -- Selected Indicators						
(Mil. C$)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Business position						
Total assets*	10,388.6	10,490.8	10,083.3	9,358.0	9,244.0	8,845.0
Customer loans (gross)	5,764.5	5,617.7	4,946.7	4,914.0	4,972.0	4,681.0
Growth in loans (%)	2.6	13.6	0.7	-1.2	6.2	1.6
Net interest revenues	141.3	128.4	121.8	121	119	115
Noninterest expenses	3.8	3.7	3.6	3.5	3.3	3.2
Capital and risk position						
Total liabilities*	10,516.6	9,948.9	9,303.3	8,866.0	8,953.8	8,494.2
Total adjusted capital	225	225	216	195	181	173
Assets/capital (%)	46.3	46.6	46.7	48	51.2	51.7
RAC ratio before diversification	30.4	30.3	17.6	16.1	14.8	14.3
RAC ratio after diversification	6.9	7.3	8.0	7.9	6.8	7.4
Gross nonperforming assets/gross loans	N.M.	N.M.	N.M.	N.M.	N.M.	N.M.
Funding and liquidity (x)						
Liquidity ratio with loan disbursement (1 year)§	1.7	2.6	1.4	1.6	1.8	1.2
Liquidity ratio without loan disbursement (1 year)§	1.7	2.6	2.1	2.5	1.8	1.7

Table 1

Municipal Finance Authority of British Columbia -- Selected Indicators (cont.)						
(Mil. C$)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Funding ratio (1 year)§	1.1	1.1	1.2	1.0	1.2	0.5

*As per balance sheet. §Includes sinking funds. RAC--Risk-adjusted capital. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

Municipal Finance Authority of British Columbia -- Ratings Score Snapshot	
Issuer Credit Rating	**AAA/Stable/A-1+**
SACP	aa+
Enterprise risk profile	Very strong (1)
PICRA	Very strong (1)
Business position	Very strong (1)
Management & governance	Very strong (1)
Financial risk profile	Strong (2)
Capital adequacy	Strong (2)
Funding	Neutral
Liquidity	Very strong (1)
Support	0
GRE support	0
Group support	0
Additional factors	1

PICRA--Public sector industry and country risk assessment. GRE--Government-related entitiy.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Public-Sector Funding Agencies: Methodology And Assumptions, May 22, 2018
- Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of May 16, 2023)*	
Municipal Finance Authority of British Columbia	
Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Canada National Scale Commercial Paper	A-1(HIGH)
Senior Unsecured	AAA

Ratings Detail (As Of May 16, 2023)*(cont.)		
Issuer Credit Ratings History		
19-Mar-2008	*Foreign Currency*	AAA/Stable/A-1+
29-Aug-2007		AA+/Positive/A-1+
21-Feb-2006		AA+/Stable/A-1+
19-Mar-2008	*Local Currency*	AAA/Stable/A-1+
29-Aug-2007		AA+/Positive/A-1+
21-Feb-2006		AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.