FitchRatings

Public Finance
Local and Regional Governments
Canada

Municipal Finance Authority of British Columbia

Rating Derivation Summary: The 'AAA' Long-Term Issuer Default Rating (IDR) is based on the Municipal Finance Authority of British Columbia's (MFABC) independent and unlimited property taxing authority, which supports its mission of providing access to capital for local and regional governments (LRGs) within the Province of British Columbia (AA+/Stable). The affirmation reflects a standalone credit profile (SCP) of 'aaa', which combines assessments of MFABC's risk profile, at 'stronger', and debt sustainability, in the 'aaa' category. The debt sustainability assessment — and hence, the SCP — is also informed by a variation on Fitch Ratings' International LRG Rating Criteria, as detailed below.

Key Rating Drivers

Risk Profile — 'Stronger': MFABC's 'stronger' risk profile is based on its broad taxation power, small and predictable expense profile and solid liquidity and debt profile, which together support its mission of issuing debt for the capital financing needs of local governments 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. Likewise, interest rates on authority debt and loan repayments are largely matched, limiting MFABC's exposure to interest rate risk. 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: There are no support mechanisms for MFABC's liquidity or debt from the province. 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, 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 a 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 that 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.

Ratings

Foreign Currency

Long-Term Issuer Default Rating	AAA

Rating 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 British Columbia. MFABC provides loans to LRGs, primarily for capital purposes, most notably for water, wastewater, hospital, road, park and protective services. MFABC issues long-term debentures to fund these loans, with borrowers' loan repayments supporting MFABC debt service.

Financial Data Summary

(CADm)	2023	2028rc
Payback ratio (x)	20.1	11.3
Synthetic coverage (x)	0.6	1.0
Actual coverage (x)	0.1	0.2
Fiscal debt burden (%)	1,878.5	1,048.7
Net adjusted debt	5,463	4,896
Operating balance	272	433
Operating revenue	291	467
Debt service	1,828	1,895
Mortgage-style debt annuity	458	424

rc – Fitch's rating-case scenario
Source: Fitch Ratings, Fitch Solutions, MFABC

Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2021)

Related Research

Canada (July 2024)

Fitch Affirms Municipal Finance Authority of British Columbia, Canada at 'AAA'; Outlook Stable (July 2024)

Global Economic Outlook — June 2024 (June 2024)

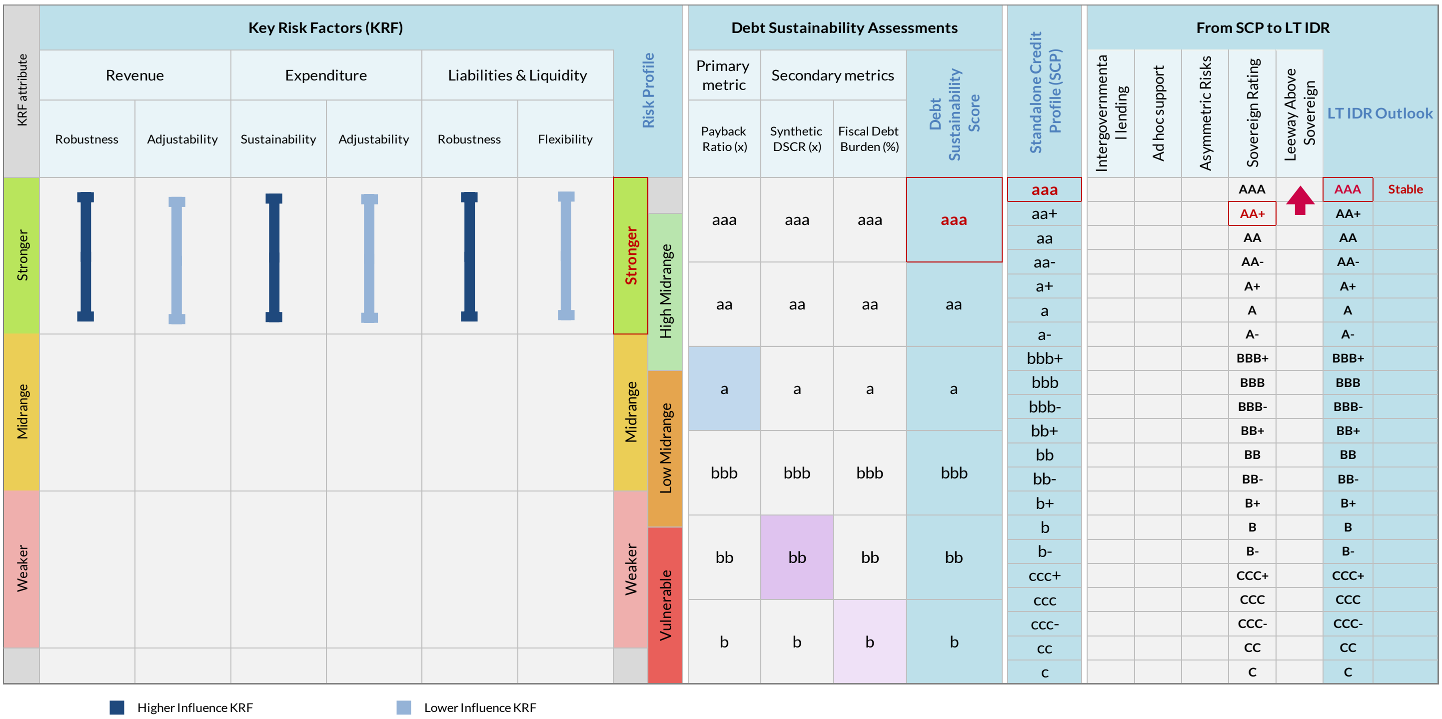
Supranationals, Subnationals and Agencies Handbook (September 2023)

Analysts

Douglas Offerman
+1 212 908-0889
douglas.offerman@fitchratings.com

Eric Kim
+1 212 908-0241
eric.kim@fitchratings.com

Rating Synopsis



Source: Fitch Ratings

Under Fitch's "International Local and Regional Governments 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 an SCP. The SCP, together with some additional factors not captured in SCP, such as extraordinary support or a rating cap, produce the IDR.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade

- Not applicable for a 'AAA' rating, as such ratings are at the highest level and cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade

- A downgrade could result from erosion of the authority's unrestricted liquidity available to cover debt service during the time between a borrower's failure to pay and the collection of offsetting property taxes. Additionally, any change in British Columbia's institutional framework that narrows the authority's independent and unlimited taxing power, or a structural shift in the province's favorable long-term economic and property valuation trends, could lead to a downgrade.

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 responsibility to establish the types and roles of municipal governments. Municipal government tiers in British Columbia include 161 municipalities within 28 regional districts.

MFABC Overview: MFABC is governed by regional districts that 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 debt are not consolidated with those of the province, 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, while municipalities specifically are subject to strict borrowing limits that include capping principal and interest (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 can be made 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. MFABC clients operate under a strict system of oversight of local governments. Local governments may not budget for deficits, have broad operating flexibility to adjust their finances and are subject to borrowing limits that include capping P&I at 25% of recurring revenues.

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. Throughout MFABC's 53-year history, there have been no instances of local government failure to repay loans. Pandemic-related disruptions in 2020–2021 and 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 is one of Canada's four largest provinces by population and GDP, representing almost 14% of Canada's population in 2023 and 14% of GDP in 2022. Most of the population and economic base is concentrated in the wealthy Lower Mainland region, including the city of Vancouver, and the province's capital of Victoria, located on Vancouver Island. Trade, finance, insurance and real estate activities and education and health services are significant economic drivers, although natural resources, including forestry, natural gas and mining, are important in the province's interior regions.

Fitch calculates real GDP per capita at 100% of the Canadian average as of 2022. Economic performance is sensitive to national and international trends. A higher share of British Columbia's trade is with Asia versus other provinces, although the U.S. remains the destination for most exports. Given close linkage with the U.S. economy, U.S. weakness or trade-related disruptions, such as recurring softwood lumber trade disputes, have quick and significant economic implications.

Housing market strains have been considerable given rapid growth. Following a decline in housing starts and sales (both units sold and price) in 2022 and 2023, in response to the higher rate environment, the province is forecasting a notable rebound for most housing metrics. High underlying demand appears likely to sustain prices and drive starts in the near term. Fitch's "Canada Residential Mortgage Rating Criteria" calculates long-term sustainable home values to be 20% lower than current prices in British Columbia and 19% lower in metro Vancouver.

Socioeconomic Indicators

	Issuer	Sovereign
Population, 2023 (mil.)	5.5	40.1
GDP per capita, 2022 (CAD)	58,500	58,022
GDP growth, 2022 (%)	3.8	3.8
Inflation, 2023 (%)	6.9	6.8
Unemployment rate, 2023 (%)	5.2	5.4

Source: Fitch Ratings, Statistics Canada

Risk Profile Assessment

Risk Profile: Stronger

Fitch assesses MFABC's risk profile at 'stronger', reflecting a combination of the following six sub-assessments:

Risk Profile Assessment

Risk profile	Revenue robustness	Revenue adjustability	Expenditure sustainability	Expenditure adjustability	Liabilities & liquidity robustness	Liabilities & liquidity flexibility
Stronger	Stronger	Stronger	Stronger	Stronger	Stronger	Stronger

Source: Fitch Ratings

MFABC's 'stronger' risk profile is based on its broad taxation power, small and predictable expense profile and solid liquidity and debt profile, which together support its mission of issuing debt for the capital financing needs of local governments.

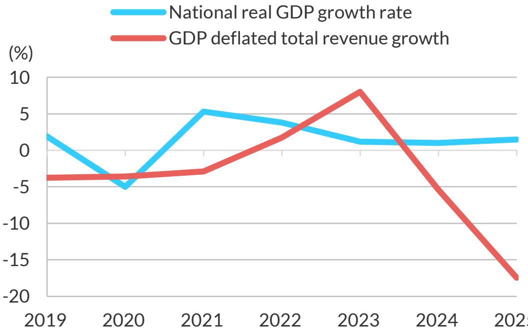
Revenue Robustness: Stronger

MFABC's total revenue stood at CAD486 million in 2023. Its largest revenue source is loan repayments from client governments, which generated CAD268 million in 2023; the second largest source is investment income from authority-managed assets, mainly sinking funds, which generated CAD195 million in 2023. A small operating levy included in every property owner's annual tax bill province-wide generated CAD609,000 in 2023, but has grown at a robust 8.8% annually in the five years through 2023. Maintaining a small annual levy ensures a functioning mechanism that would allow MFABC to exercise its powers to levy more, if needed, to address a borrower default.

The province's massive property tax base is assessed at almost CAD2.8 trillion as of the 2024 assessment. For purposes of MFABC's tax levy, the taxable value for hospital purposes totaling almost CAD2.5 trillion is available. Assessments are completed annually by BC Assessment, an independent provincial authority. Assessment trends over time have been strong, and Fitch expects further solid growth. The pandemic resulted in a 2.9% dip in assessed value in 2020, but the five-year CAGR (through 2024) for the assessment roll was 9.6%, 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 DRF replenishment compared with the total value of the provincial assessment roll. Despite near-term housing market strains, 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



Source: Fitch Ratings, Municipal Finance Authority

Revenue Breakdown, 2023

	Operating revenue (%)	Total revenue (%)
Property tax	0.2	0.1
Interest from loans	92.1	55.1
Amortization of premiums	6.4	3.8
Fees	1.3	0.8
Operating revenue	**100.0**	**59.8**
Interest revenue	–	40.2
Capital revenue	–	0.0
Total revenue	**–**	**100.0**

Source: Fitch Ratings, Fitch Solutions, Municipal Finance Authority

Revenue Adjustability: Stronger

The authority has the ability by a vote of its board of trustees to levy a province-wide property tax base following any draw on its DRF, if it determines that loan repayments will be insufficient to restore the DRF 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 at 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 rate, and no additional approvals are necessary from provincial or local authorities.

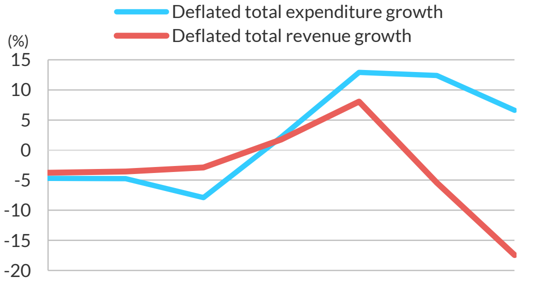
British Columbia's tax base appears exceptionally robust relative to a potential additional tax levy that would be needed to support MFABC. Although actual property tax revenue data are lagged, 2023 total property taxes and charges were CAD12.7 billion, of which variable-rate taxes were CAD10.3 billion. By comparison, in 2023 MFABC's operating levy was CAD609,000, its DRF balance was CAD122 million, interest on long-term debt was CAD274 million and loan repayments by clients were CAD537 million, suggesting more than sufficient tax leeway to absorb a higher levy, if triggered. Compared to 2021 household income of CAD212 billion, based on provincial data, interest on long-term debt measures a small 0.13%, implying ample affordability with respect to additional taxation.

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 Aug. 1. Debenture debt service falls either in June and December, or April and October, leaving a maximum gap of nearly one 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 services to client governments, including asset management. Rising interest rates on debt over time are passed through to borrowers in the form of higher loan repayments, insulating MFABC from interest rate risk. MFABC 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, indicating tight control over expenditure growth, and has built up a sizable strategic retention fund (SRF) at CAD117 million as of 2023.

Real Total Expenditure and Revenue Growth



Source: Fitch Ratings, Municipal Finance Authority

Expenditure Breakdown, 2023

	Operating expenditures (%)	Total expenditures (%)
Administration	23.8	1.4
Other operating expenditures	76.2	4.4
Operating expenditures	**100.0**	**5.7**
Interest expenditures	–	94.3
Capex	–	0.0
Total expenditures	**–**	**100.0**

Source: Fitch Ratings, Fitch Solutions, Municipal Finance Authority

Expenditure Adjustability: Stronger

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

Liabilities and Liquidity Robustness: Stronger

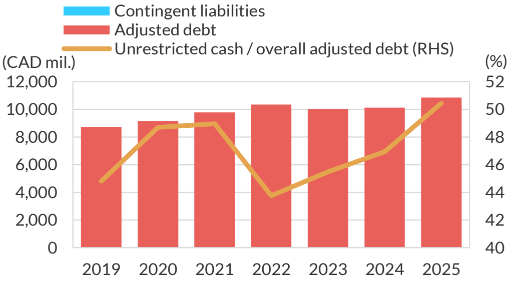
MFABC's debt is issued at fixed rates and benefits from excellent access to capital markets, as demonstrated by favorable spreads for five- and 10-year issuance consistently 4bps to 8bps above Ontario debt in Canada's highly liquid domestic market. The weighted average maturity calculated by Fitch is about 4.6 years. Long-term debt outstanding in 2023 totaled CAD9.3 billion in debentures with bullet maturities typically at five, 10 and 20 years. In 2023, MFABC issued CAD1.1 billion in long-term debt.

CP notes (not rated by Fitch) with maturities of one, three and six months have an active program maximum of CAD700 million, with the outstanding balance just under that level in 2023. The maximum authorization was increased to CAD1.25 billion during the pandemic to address possible liquidity needs, and that authorization remains in place in the event loan growth necessitates expansion beyond the CAD700 million policy cap. CP notes are backstopped by two general corporate purpose facilities totaling 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 initial capital project financing, until refunded 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 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 tied to capital projects are not always matched to the corresponding debt maturities, although the loan rates reset to reflect the rate on refunding debt.

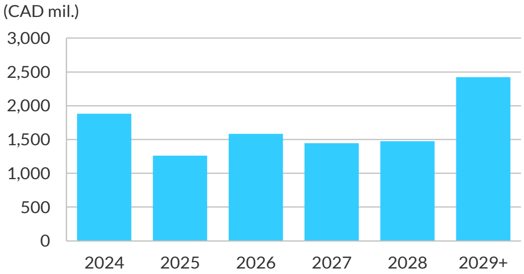
Borrowers are compensated for sinking funds accumulated and invested before the associated debenture matures, with the application of an actuarial reduction applied to each principal payment. The discount is covered through earnings on sinking fund investments. The authority sets actuarial rates (between 1.75% and 5%) at the commencement of each loan and reviews them against actual investment performance. The authority 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



Source: Fitch Ratings, Municipal Finance Authority

Debt Maturity Profile



Source: Fitch Ratings, Municipal Finance Authority

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 of a borrower's failure to pay, the authority would cover interest first by drawing on the CAD122 million DRF balance. If the DRF is drawn, the MFABC can unilaterally impose a property tax to restore the draw; a tax must be imposed if the DRF balance is drawn to less than 50% of the required level.

Beyond the DRF balance, additional liquidity sources include the SRF, which held CAD117 million in 2023, and a CAD100 million revolving line of credit with Canadian Imperial Bank of Commerce (AA–/Stable). Finally, MFABC can draw on its sinking fund balance, which stood at CAD4.1 billion in 2023, equal to 44% of outstanding long-term debt.

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 obligations on debentures have been less than CAD300 million for many years, indicating that MFABC's resources are ample relative to potential interest demands. Short-term CP notes outstanding in 2023 were CAD696 million; CAD4.2 billion was issued during the year. The active CP note program is CAD700 million. To backstop the CP note program, MFABC has three dedicated lines of credit: CAD150 million with CIBC (AA–/Stable), CAD125 million with National Bank of Canada (A+/Stable) and CAD75 million with Bank of Montreal (AA–/Stable).

Debt Analysis

	2023
Fixed rate (% of direct debt)	100.0
Debt in foreign currency (% of direct debt)	0.0
Apparent cost of debt (%)	3.0
Weighted average life of debt (years)	4.6

Source: Fitch Ratings, Municipal Finance Authority

Liquidity

(CADm)	2023
Total cash, liquid deposits and sinking funds	4,555
Restricted cash	0
Cash available for debt service	4,555
Undrawn committed credit lines	100

Source: Fitch Ratings, Municipal Finance Authority

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 < 2.0	100 < X ≤ 150
bbb	13 < X ≤ 18	1.2 ≤ X < 1.5	150 < X ≤ 200
bb	18 < X ≤ 25	1.0 ≤ X < 1.2	200 < X ≤ 250
b	X > 25	X < 1	X > 250

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

The 'aaa' category debt sustainability assessment is based on a criteria variation under which the unlimited taxing power of MFABC and the offsetting nature of its interest obligations, with interest on loans and investment income, protects it against potential downside risks captured under a rating case scenario. Fitch's scenario envisions an unprecedented borrower failure to pay interest in a higher interest rate environment. Borrower default automatically triggers the province-wide property tax to replenish reserves, with ample liquidity covering authority obligations until property taxes are collected. Higher rates on MFABC obligations are offset by higher loan rates and investment income.

Fitch views MFABC as a 'type B' LRG under its criteria, with the obligation to cover debt service from cash flows on an annual basis, consistent with most local governments in Canada and globally. The primary debt sustainability metric for type B LRGs in a rating case projection is the payback ratio (net adjusted debt/operating balance). For MFABC, the payback ratio through 2028 gradually falls to 11.3x, versus 13.8x in the base case, as the tax levy generates additional revenue. The synthetic debt service coverage ratio (operating balance to a 15-year mortgage-like payoff of debt service) rises to 1.0x, versus 0.8x in the base case, given additional property tax collections. The fiscal debt burden (net adjusted debt/operating revenue) remains weak through the period, although it is not as relevant to the overall assessment given the factors captured in the criteria variation.

Although this combination of metrics suggests an assessment at the 'a' category level, the essentially unlimited nature of the property tax relative to authority obligations, high liquid balances and the matched nature of interest rate changes on assets and liabilities offsets the potential impacts of any reasonable stress that the rating case is intended to capture, reflected in the 'aaa' category assessment.

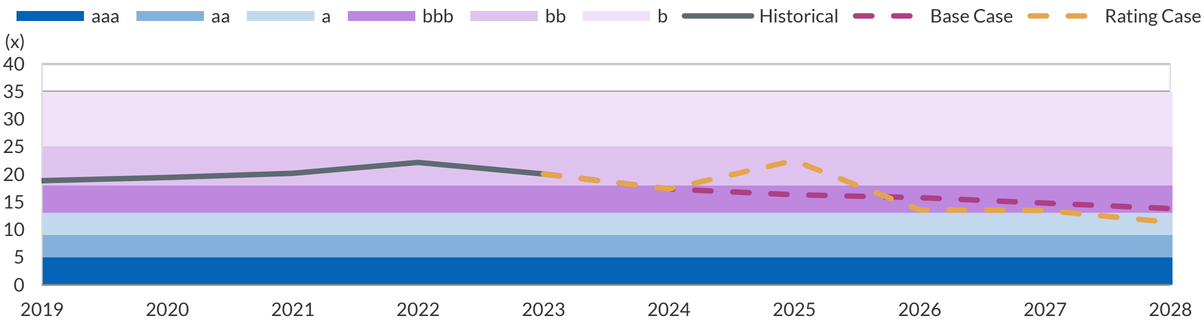
Scenario Assumptions

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 form 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 improves rapidly in subsequent years as tax levies are collected.

Population and GDP trends are less meaningful to the revenue and expenditure calculations, 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.

Payback Ratio - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, Municipal Finance Authority

Scenario Assumptions

Fitch designates MFABC as a type B LRG under the LRG 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, using the MFABC forecast to 2026, trended forward to 2028. While the debt sustainability analysis focuses primarily on the effects of economic cycles on an LRG’s revenue, expense and liquidity trends, for MFABC cyclical stress would manifest through a recession or other event severe enough to create multiple borrower defaults, a particularly severe stress. Despite the magnitude of the stresses, unusually strong features including the required increase in property taxes sufficient to refill DRF draws and the matched nature of loan repayments with interest on debt cushion potential weakness and are the basis of the criteria variation.

Scenario Assumptions Summary

		2024–2028 Average	
Assumptions	**5-year historical average**	**Base case**	**Rating case**
Operating revenue growth (%)	1.0	5.9	9.9
Tax revenue growth (%)	8.4	4.4	157.7
Current transfers received growth (%)	—	—	—
Operating expenditure growth (%)	11.0	11.0	13.0
Apparent cost of debt (%)	2.8	3.4	3.5
		2028	
Outcomes	**2023**	**Base case**	**Rating case**
Payback ratio (x)	20.1	13.8	11.3
Actual coverage ratio (x)	0.1	0.2	0.2
Synthetic coverage ratio (x)	0.6	0.8	1.0
Fiscal debt burden (%)	1,878.5	1,272.6	1,053.3

Source: Fitch Ratings, Municipal Finance Authority

Net Adjusted Debt

Direct debt was just over CAD10 billion in 2023, comprising CAD9.3 billion in long-term debentures and CAD696 million in short-term CP notes. Net adjusted debt is CAD5.5 billion, after netting CAD4.6 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, represent 55%–58% of outstanding debt, with the rest consisting of investments, mostly 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**

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 (AA+/Stable) and Cassa del Trentino S.p.A. (A–/Stable) in Italy. Although both entities provide financing to local governments, neither has independent, unlimited taxing authority and borrowing supported by a joint and several pledge of local borrowers. Instead, both have access to support from their sponsoring governments. Fitch rates them under its "Government-Related Entities Rating Criteria" and equalizes the ratings with their sponsors, New Zealand and the Autonomous Province of Trento, respectively, rather than assessing a standalone credit profile.

Less comparable LRGs include French intermunicipal groupings such as Aix-Marseille-Provence Metropolis (AA–/Stable) and Eurometropole Strasbourg (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. By contrast, MFABC does not provide direct services.

Long-Term Rating Derivation

From SCP to Long-Term IDR: Factors Beyond the SCP

SCP	Sovereign Long-Term Foreign Currency IDR	Support: Intergovernmental financing	Support: Ad hoc support	Support: Floor	Asymmetric risks	Rating cap	Leeway above sovereign (notches)	Long-Term Foreign Currency IDR
aaa	AA+	—	—	—	—	—	1	AAA

Source: Fitch Ratings, Municipal Finance Authority

The 'AAA' IDR is based on a 'aaa' SCP, reflecting both the stronger risk profile and a 'aaa' debt sustainability assessment. Fitch does not cap the IDR of MFABC at the 'AA+' IDRs of Canada or British Columbia. The province has responsibility for local governments under its institutional framework, shielding MFABC from federal interference, in Fitch's view. Additionally, the province has statutorily delegated broad financial autonomy and taxing powers to the authority. The ability of MFABC to be rated above the province and the sovereign is tempered by the likelihood that factors affecting provincial or sovereign credit quality ultimately would affect the authority's operating environment.

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. A variation was made to the debt sustainability because of the statutory requirement to levy an unlimited property tax on a broad economic base to restore draws on the authority's DRF, as well as the matched nature of MFABC's long-term debentures by loans made to borrower governments. These factors result in MFABC adjusting its financial performance in a manner that fully offsets potential stresses imposed by Fitch under the rating case, a situation that is not anticipated in determining the rating case scenario. The variation provides a means to assess the broad ability of the entity to respond to these stresses and the likely trajectory of financial metrics under these scenarios.

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, due to either 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.)	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
Fiscal performance										
Taxes	0	0	0	1	1	1	1	129	91	68
Transfers received	0	0	0	0	0	0	0	0	0	0
Fees, fines and other operating revenues	268	256	255	269	290	329	240	281	317	399
Operating revenue	268	256	255	269	291	330	241	410	408	467
Operating expenditures	–13	–15	–8	–6	–19	–21	–24	–27	–30	–34
Operating balance	255	241	247	263	272	309	217	383	378	433
Interest revenue	141	141	144	164	195	141	156	142	158	164
Interest expenditures	–265	–251	–246	–270	–306	–352	–382	–388	–400	–413
Current balance	132	132	146	157	162	98	–9	137	136	184
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	**409**	**398**	**399**	**433**	**486**	**471**	**397**	**552**	**566**	**631**
Total expenditures	**–277**	**–266**	**–253**	**–276**	**–324**	**–373**	**–406**	**–415**	**–430**	**–447**
Surplus (deficit) before net financing	132	132	146	157	162	98	–9	137	136	184
New direct debt borrowing	1,210	1,041	2,010	1,292	1,102	1,300	1,888	2,087	1,983	2,040
Direct debt repayment	–1,176	–643	–1,245	–811	–1,523	–1,206	–1,160	–1,593	–1,451	–1,482
Net direct debt movement	34	398	765	482	–421	94	728	494	532	558
Overall results	166	530	911	639	–259	192	719	631	668	742
Debt and liquidity										
Short-term debt	564	610	500	598	696	700	700	700	700	700
Long-term debt	8,153	8,535	9,284	9,753	9,322	9,412	10,140	10,634	11,166	11,724
Intergovernmental debt	0	0	0	0	0	0	0	0	0	0
Direct debt	8,718	9,145	9,784	10,350	10,018	10,112	10,840	11,334	11,866	12,424
Other Fitch-classified debt	0	0	0	0	0	0	0	0	0	0
Adjusted debt	8,718	9,145	9,784	10,350	10,018	10,112	10,840	11,334	11,866	12,424
Guarantees issued (excl. 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	8,718	9,145	9,784	10,350	10,018	10,112	10,840	11,334	11,866	12,424
Total cash, liquid deposits and sinking funds	**3,906**	**4,453**	**4,790**	**4,528**	**4,555**	**4,747**	**5,466**	**6,119**	**6,786**	**7,528**
Restricted cash	0	0	0	0	0	0	0	0	0	0
Unrestricted cash	3,906	4,453	4,790	4,528	4,555	4,747	5,466	6,119	6,786	7,528
Net adjusted debt	4,812	4,692	4,994	5,822	5,463	5,365	5,374	5,215	5,080	4,896
Net overall debt	4,812	4,692	4,994	5,822	5,463	5,365	5,374	5,215	5,080	4,896
Enhanced net adjusted debt	4,812	4,692	4,994	5,822	5,463	5,365	5,374	5,215	5,080	4,896
Enhanced net overall debt	4,812	4,692	4,994	5,822	5,463	5,365	5,374	5,215	5,080	4,896
Memo:										
Debt in foreign currency/direct debt (%)	0	0	0	0	0	—	—	—	—	—
Issued debt/direct debt (%)	100	100	100	100	100	—	—	—	—	—
Floating interest rate debt/direct debt (%)	0	0	0	0	0	—	—	—	—	—

rc – rating case
Source: Fitch Ratings, Municipal Finance Authority

Appendix B: Financial Ratios

Municipal Finance Authority

	2019	2020	2021	2022	2023	2024rc	2025rc	2026rc	2027rc	2028rc
Fiscal performance ratios										
Operating balance/operating revenue (%)	95.3	94.2	97.1	97.6	93.6	93.6	90.0	93.4	92.7	92.7
Current balance/current revenue (%)	32.2	33.1	36.5	36.3	33.3	20.8	−2.3	24.8	24.0	29.2
Operating revenue annual growth (%)	−3.4	−4.4	−0.5	5.6	8.0	13.5	−27.0	70.1	−0.5	−99.9
Operating expenditure annual growth (%)	15.5	16.5	−49.3	−14.7	189.1	13.5	14.3	12.5	11.1	−99.9
Surplus (deficit) before net financing/total revenue (%)	32.2	33.1	36.5	36.3	33.3	20.8	−2.3	24.8	24.0	29.2
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 annual growth (%)	−1.9	−2.8	0.3	8.7	12.2	−3.1	−15.7	39.0	2.5	−99.9
Total expenditure annual growth (%)	−2.8	−4.0	−4.8	9.1	17.3	15.1	8.9	2.2	3.6	−99.9
Debt ratios										
Primary metrics										
Payback ratio (x) (net adjusted debt to operating balance)	18.9	19.4	20.2	22.2	20.1	17.4	24.8	13.6	13.4	11.3
Enhanced payback ratio (x)	18.9	19.4	20.2	22.2	20.1	17.4	24.8	13.6	13.4	11.3
Overall payback ratio (x)	18.9	19.4	20.2	22.2	20.1	17.4	24.8	13.6	13.4	11.3
Enhanced overall payback ratio (x)	18.9	19.4	20.2	22.2	20.1	17.4	24.8	13.6	13.4	11.3
Secondary metrics										
Fiscal debt burden (%) (net debt to operating revenue)	1,796.0	1,832.1	1,959.3	2,162.7	1,878.5	1,625.8	2,229.9	1,272.0	1,245.1	1,048.4
Synthetic debt service coverage ratio (x)	0.6	0.6	0.6	0.6	0.6	0.0	0.0	0.9	0.9	1.0
Actual debt service coverage ratio (x)	0.2	0.3	0.2	0.2	0.1	0.2	0.1	0.2	0.2	0.2
Other debt ratios										
Liquidity coverage ratio (x)	2.7	4.6	3.2	4.7	2.6	3.1	3.2	3.0	3.5	3,581.2
Direct debt maturing in one year/total direct debt (%)	13.8	20.3	13.4	20.5	19.0	6.9	6.5	6.2	5.9	5.6
Direct debt (annual % change)	−1.1	4.9	7.0	5.8	−3.2	0.9	7.2	4.6	4.7	−99.9
Apparent cost of direct debt (interest paid/direct debt) (%)	3.0	2.8	2.6	2.7	3.0	3.5	3.7	3.5	3.5	0.0
Revenue ratios										
Tax revenue/total revenue (%)	0.1	0.1	0.1	0.1	0.1	0.2	0.3	23.4	16.1	10.8
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 (%)	34.5	35.6	36.1	37.9	40.2	29.9	39.3	25.7	27.9	26.0
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 (%)	95.4	94.4	97.0	97.7	94.3	94.4	94.1	93.5	93.0	92.4
Capex/total expenditure (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

rc – rating case
Source: Fitch Ratings, Municipal Finance Authority

Appendix C: Data Adjustments

Specific Adjustments

Adjustments have been made to MFABC's public account data and projections to calculate historical, base and rating case metrics under Fitch's LRG criteria and to facilitate comparisons across Canadian and international LRGs. Reported consolidated data are modified to reflecting operating and interest revenues and expenditures; there are no capital transactions. The debt data reflect calculations of direct debt and unrestricted liquidity as defined in Fitch criteria and detailed above.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.