

RATING ACTION COMMENTARY

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

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Fitch Ratings - New York - 24 Jun 2025: Fitch Ratings has affirmed the Issuer Default Rating (IDR) of the Municipal Finance Authority of British Columbia, Canada (MFABC) at 'AAA'. Fitch has also affirmed the long-term ratings on outstanding senior unsecured debentures at 'AAA'. The Rating Outlook is Stable.

The 'AAA' Long-Term IDR is based on the MFABC's 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+/Negative). The rating reflects a standalone credit profile (SCP) at 'aaa', which combines assessments of its risk profile at 'stronger', and its financial profile in the 'aaa' category. The financial profile assessment — and hence, the SCP — is informed by a variation on Fitch's "International LRG Rating Criteria," as detailed below.

KEY RATING DRIVERS

Risk Profile: 'Stronger'

The 'Stronger' risk profile is based on six 'Stronger' assessments, as detailed below.

Revenue Robustness: 'Stronger'

MFABC's total revenue stood at CAD496 million in 2024. Its largest revenue source is loan repayments from client governments, which generated CAD289 million; the second largest source is investment income from authority-managed assets, mainly sinking funds, which generated CAD183 million. A small operating levy included in every property owner's annual tax bill province-wide generated CAD637,000 but has grown at a robust 8.8% annually in the five years through 2024. Maintaining the annual levy ensures a functioning

mechanism that would allow MFABC to exercise its powers to collect more, if needed, to address a borrower default.

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 debt reserve fund (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 the province or local authorities.

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 CAD129 million as of 2024.

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 & 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 in Canada's highly

liquid domestic market. The weighted average maturity calculated by Fitch is about 4.6 years. Long-term debt outstanding in 2024 totaled CAD9.3 billion in debentures with bullet maturities typically at five, 10 and 20 years. In 2024, MFABC issued CAD1.3 billion in long-term debt.

Commercial paper (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 at CAD598 million in 2024. The authorized limit 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 active program. CP notes are backstopped by three general corporate purpose facilities totaling CAD350 million with three 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.

Liabilities & 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 CAD124 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 CAD129 million in 2024, 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 CAD3.9 billion in 2024, equal to 42% of outstanding long-term debt.

Financial Profile: 'aaa category'

The 'aaa' category financial profile assessment is based on a criteria variation, under which the unlimited taxing power of MFABC provides protection against potential downside risks captured under a rating case scenario. Features supporting MFABC's credit strength, including its unrestricted authority to tax the province's massive assessment base and substantial liquid resources, provide multiples of coverage for interest and scheduled

maturities during an unprecedented disruption in borrower repayments. The scenario envisions a widespread borrower failure to pay interest resulting in a greater than 50% draw on the DRF, automatically triggering the province-wide property tax to replenish the DRF. Ample liquidity covers authority obligations until property taxes are collected.

In the scenario, payback ratio (net adjusted debt/operating balance) gradually falls to 12x through 2029, versus 17x in the base case, as the tax levy generates additional receipts. The synthetic debt service coverage ratio (operating balance to a 15-year mortgage-like payoff of debt service) rises to 1x, versus 0.7x in the base case, given the levy of additional property tax. The fiscal debt burden (net adjusted debt/operating revenue) remains weak through the period, although is not as relevant to the overall assessment given the matched nature of MFABC's liabilities and assets over time.

Although this combination of financial profile metrics suggests an assessment at the 'a' category level, the triggering of MFABC's taxation powers in a stress scenario generates an improvement of metrics relative to the base case and historical experience, when taxation powers beyond the small operating level remain unused. The essentially unlimited nature property tax relative to authority obligations and high liquid balances offsets the potential impacts of any reasonable stress that the rating case is intended to capture.

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 financial profile metric for type B LRGs in a rating case projection is the payback ratio.

DERIVATION SUMMARY

The criteria variation considers both the statutory power to raise property taxes to restore debt reserve fund draws, and the matched nature of MFABC's debt liabilities with related loan and sinking fund assets. Ample sources of liquidity include designated reserves and the sinking fund assets. These factors allow MFABC to modify its financial performance in a way that fully offsets the effect of stresses tested in the rating case stemming from borrower defaults and interest rate shifts.

Fitch does not cap the IDR of MFABC at the 'AA+' IDRs of Canada or British Columbia, as provinces have responsibility for local governments under Canada's institutional framework, shielding MFABC from federal interference, and the province has statutorily delegated financial autonomy and taxing power to the authority.

Short-Term Ratings

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

Criteria Variation

A variation was made to the financial profile assessment because of the statutory requirement to levy an unlimited property tax on a broad economic base to restore draws on the 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 scenario.

KEY ASSUMPTIONS

Qualitative assumptions - issuer specific:

Risk Profile: 'Stronger'

Revenue Robustness: 'Stronger'

Revenue Adjustability: 'Stronger'

Expenditure Sustainability: 'Stronger'

Expenditure Adjustability: 'Stronger'

Liabilities and Liquidity Robustness: 'Stronger'

Liabilities and Liquidity Flexibility: 'Stronger'

Financial Profile: 'aaa'

Asymmetric Risk: 'N/A'

Support (Budget Loans): 'N/A'

Support (Ad Hoc): 'N/A'

Rating Cap (LT IDR): 'N/A'

Rating Cap (LT LC IDR) 'N/A'**Rating Floor: 'N/A'****Quantitative assumptions - Issuer Specific**

Fitch's rating case is a through-the-cycle scenario which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2020-2024 actual figures and 2025-2029 Fitch-projected ratios. The key assumptions for the scenario include:

--Base and rating case long-term debt matches MFABC's forecast in the 2024-2026 period, then rises an average of 5% annually through 2029. Short-term is held at CAD700 million in both base and rating cases;

--Base case cost of debt remains steady at 2.9%. Rating case cost of debt rises to 3.5% in 2026 and remains at that level through 2029;

--Revenue from loan repayments and earnings on sinking funds are calculated using base and rating case interest rates. For sinking fund balances, Fitch relies on MFABC's estimates through 2027 and assumes that cash, liquid deposits and the sinking fund balance thereafter equal 45% of outstanding debt, consistent with the ratio in 2024;

--The rating case assumes unprecedented draws on equal to 50%, 33% and 25% of the combined DRF and SRF balances in 2025-2027, triggering offsetting property tax levies on a one-year lagged basis over the 2026-2029 period to replenish reserves;

--Revenue from MFABC's small operating levy rises 3.2% annually in the base case. In the rating case, reserve draws beginning in 2026 automatically trigger a sharp rise in property tax, in 2027, with a sharp decline through 2029 as reserves are replenished.

Issuer Profile

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.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--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;

--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.

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.

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>.

DISCUSSION NOTE

There was an appropriate quorum at the committee and the members confirmed that they were free from recusal. It was agreed that the data was sufficiently robust relative to its materiality. During the committee no material issues were raised that were not in the original committee package. The main rating factors under the relevant criteria were discussed by the committee members. The rating decision as discussed in this rating action commentary reflects the committee discussion.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Municipal Finance Authority of British Columbia	LT IDR	AAA	Affirmed	AAA
senior unsecured	LT	AAA	Affirmed	AAA

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APPLICABLE CRITERIA

[International Local and Regional Governments Rating Criteria \(pub. 16 Aug 2024\)](#)
(including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

- [Dodd-Frank Rating Information Disclosure Form](#)
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Municipal Finance Authority of British Columbia

EU Endorsed, UK Endorsed

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