FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - New York - 28 Apr 2020: Fitch Ratings affirmed the Municipal Finance Authority of British Columbia, Canada's (MFABC or the authority) Issuer Default Rating (IDR) at 'AAA'/Outlook Stable. The ratings for approximately C$8.1 billion in outstanding senior unsecured debentures have also been affirmed at 'AAA'.

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

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

KEY RATING DRIVERS

Risk Profile: 'Stronger'

Fitch has assessed MFABC's risk profile at 'Stronger', reflecting the authority's independent and essentially unlimited taxing power, minimal operating risks, carefully matched assets and liabilities, and strong liquidity position.

Revenue Robustness: 'Stronger'

MFABC has the independent ability to assess a special property tax on a broad and dynamic tax base consisting of all taxable property in the province of British Columbia.

Revenue Adjustability: 'Stronger'

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

Expenditure Sustainability: 'Stronger'

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

Expenditure Adjustability: 'Stronger'

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

Liabilities and Liquidity Robustness: 'Stronger'

Management of authority debt is both conservative, reflecting a low appetite for risk, and sophisticated, reflecting deep capital markets experience. MFABC issues bullet maturities and benefits from excellent access to capital, as demonstrated through credit facilities and frequent long- and short-term borrowings to finance client loans.

Liabilities and Liquidity Flexibility: 'Stronger'

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

Debt sustainability: 'aaa' category

MFABC's independent taxing power, combined with ample liquidity to cover the time between levying of a special property tax and receipt of property tax revenues, lends it substantial flexibility to address a downturn scenario as envisioned in Fitch's rating case analysis without materially affecting its debt sustainability profile. Fitch anticipates that in a downturn, MFABC's debt levels would likely grow in line with base case expectations, which derive from the authority's own forecasts. MFABC's long-term debt levels are driven by borrowing needs of its client governments and tied to their long-term capital project demands. Even with the current economic dislocation driven by the coronavirus pandemic, Fitch does not anticipate these will shift materially. During the 2008-2009 Great Recession, MFABC's debt levels increased, albeit at a somewhat reduced rate relative to preceding years as local governments were more cautious in pursuing new capital projects.

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

DERIVATION SUMMARY

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

KEY ASSUMPTIONS

Qualitative Assumptions and assessments:

Risk Profile: Stronger, unchanged

Revenue Robustness: Stronger, unchanged

Revenue Adjustability: Stronger, unchanged

Expenditure Sustainability: Stronger, unchanged

Expenditure Adjustability: Stronger, unchanged

Liabilities and Liquidity Robustness: Stronger, unchanged

Liabilities and Liquidity Flexibility: Stronger, unchanged

Debt sustainability: 'aaa' category, unchanged

Support: n/a

Asymmetric Risk: n/a

Sovereign Cap or Floor: n/a

Quantitative assumptions - issuer specific

Fitch's rating case scenario is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial- risk stresses. It is based on the 2015-2019 figures and 2020-2024 Fitch-projected ratios. The key assumptions for the scenario include:

- Long-term debt grows in line with base case expectations that derive from the MFABC's forecast.

- Property tax levy is available at an unlimited level to restore the DRF to the required level, if drawn upon.

- Operating expenditures are held flat given the authority's robust ability to manage non-core services spending.

- National real GDP growth assumed to decline 5.5% in fiscal 2020, as a result of the coronavirus pandemic, followed by a 3.4% recovery in 2021 and then stabilization at pre-pandemic (2019) 1.9% growth in 2022 and thereafter.

- National nominal GDP growth estimated from real GDP growth assumptions, given 2% annual inflation expectations derived from Fitch's late April 2020 Global Economic Outlook (GEO) for Canada. The GEO forecasts inflation through calendar year 2021 and the rating case extends those expectations through Fitch's full five-year forecast

RATING SENSITIVITIES

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

--Not applicable for a 'AAA' rating.

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

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

--Taxing Power and Economic Base: A change in the robust institutional framework, including the authority's unlimited taxing power, and the overall long-term trajectory of British Columbia's economy and MFABC's property tax base could lead to a downgrade.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CRITERIA VARIATION

The analysis supporting the 'AAA' rating on the MFABC includes a variation from the Rating Criteria for International Local and Regional Governments dated Sept. 13, 2019. A variation was made to the debt sustainability and scenarios analysis because of the statutory requirement to levy an unlimited property tax on a broad economic base to restore draws on the Debt Reserve Fund, and the matched nature of the authority's long-term debentures with loans made to borrower governments. The authority's taxing power and matched debt provides a mechanism to adjust its financial performance in Fitch's rating case that is not currently anticipated in determining debt sustainability and scenarios. The variation provides a means to assess the likely trajectory of financial metrics given these factors.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

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

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Rating Criteria for International Local and Regional Governments (pub. 13 Sep 2019) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Municipal Finance Authority of British Columbia	EU Endorsed

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