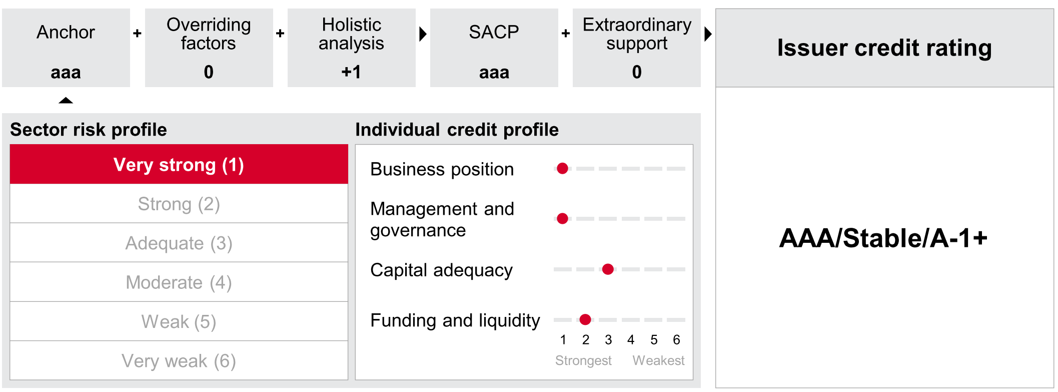
Research Update:

Municipal Finance Authority of British Columbia Ratings Affirmed At 'AAA'; Outlook Is Stable

May 22, 2025



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Overview

- Municipal Finance Authority of British Columbia (MFABC) has a very strong sector risk profile that benefits from lending to municipalities in the Province of British Columbia (B.C.) and has a unique legislatively enshrined taxing power.
- On the other hand, lending to Metro Vancouver represents a notable concentration in the loan portfolio and the authority is a relatively small organization compared with peers.
- S&P Global Ratings affirmed its ratings on MFABC, including its 'AAA' long-term issuer credit rating.
- The stable outlook reflects our expectation that, in the next two years, the authority will continue to be the exclusive lender of long-term debt to B.C. municipalities, retain its taxing power, and maintain its strong funding and liquidity position and prudent risk management practices.

Rating Action

On May 22, 2025, S&P Global Ratings affirmed its 'AAA' long-term issuer credit and senior unsecured debt ratings on MFABC, the exclusive lender of long-term debt to B.C. municipalities. At the same time, S&P Global Ratings affirmed its 'A-1+' short-term issuer credit rating, and its 'A-1+' global scale and 'A-1(High)' Canada scale ratings on the authority's commercial paper. The outlook is stable.

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. We expect that the authority will maintain strong access to capital markets through a diversified investor base and that its funding and liquidity 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 became constrained and:

- The authority was no longer the exclusive long-term lender to B.C. municipalities,
- It experienced sustained operational losses,
- It abandoned its prudent risk management practices, or
- Liquidity weakened.

Rationale

MFABC benefits from the low risk of lending to municipalities in B.C., owing to their extremely predictable and supportive institutional framework. The authority's statutory public policy mandate is central to our very strong business position assessment. MFABC is firmly positioned as the exclusive lender of long-term debt to B.C. municipalities, a key factor that we expect will continue. Relative to peers, MFABC is modest in size, but mitigates this risk with a robust governance framework, a low risk appetite with match-funded borrowing, and an experienced management team. The pass-through nature of MFABC's operations, its plain vanilla funding, and robust cash and liquid investments also support the rating. In addition, 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 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.

Sector risk profile: MFABC benefits from the low risk of lending to municipalities in B.C.

Canadian municipalities benefit from an extremely predictable and supportive institutional framework that has demonstrated high institutional stability and evidence of systemic extraordinary support in times of financial distress. Most recently through the pandemic, senior levels of government provided operating and transit-related grants to municipalities, in addition to direct support to individuals and businesses. Although provincial governments mandate a significant proportion of municipal spending, they also provide operating fund transfers and impose fiscal restraint through legislative requirements to pass balanced operating budgets. Municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be intensive. Any operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations) through reserve contributions. Municipalities have demonstrated a track record of strong budget results; debt burdens, on average, are low compared with those of global peers and growth over time has been modest.

Individual credit profile: The business position benefits from MFABC's public policy mandate.

We expect MFABC will keep its 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 providing 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 high 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 provides short-term financing to its municipal clients. Despite revenues from this business being more variable, we believe that this lending strengthens the authority's relationship with borrowers and reinforces its policy role.

The authority also provides investment products to local governments through its pooled investment funds and pooled high-interest savings accounts. However, it faces competition from other financial institutions (banks and investment managers) in this space. In 2024, MFABC's pooled investments ended the year with C$6.4 billion in assets under management.

MFABC's prudent policies and practices support its management and governance. 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, including its 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.

Compared with peers, MFABC is small. 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 assess MFABC's capital adequacy as adequate, given its pass-through nature. While the loan portfolio has notable concentration to Metro Vancouver, the province's largest population center, at about 60% of long-term loans, the authority'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. The authority set its own capital policy far above its legislated 1% DRF and manages this prudently. As of Dec. 31, 2024, total capital was C$253 million, up 5.9% from the year before. Capital consists of C$124 million in the DRF and C$129 million in the strategic retention fund (retained earnings).

MFABC has never reported a credit loss in its 50-plus-year history. It does not take on any transformation risk because it uses fixed-rate domestic bonds to fund its lending. 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$3.9 billion at year-end 2024), which are the foundation of its robust liquidity. The current one-year funding and liquidity ratios are 1x and 1.9x, respectively.

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.

MFABC's investor base is diversified and the authority has unfettered access to the Canadian capital market, as demonstrated by its oversubscribed public debt issuance during the financial crisis in 2008 and the height of the pandemic's market volatility in 2020.

The authority's committed lines of credit totaling C$350 million also support its liquidity.

Holistic approach: MFABC has a unique legislatively enshrined taxing power.

The authority, unlike peers, has the unencumbered ability to impose a provincewide levy on all taxable land (assessed at approximately C$2.5 trillion in 2024) 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.

Table 1

Municipal Finance Authority of British Columbia -- Selected indicators

(Mil. C$)	2024	2023	2022	2021	2020	2019
Business position						
Total assets*	10,177.4	10,205.1	10,388.6	10,490.8	10,083.3	9,358.0
Customer loans (gross)	5,913.5	5,547.1	5,764.5	5,617.7	4,946.7	4,914.0
Growth in loans (%)	6.6	-3.8	2.6	13.6	0.7	-1.2
Net interest revenues	158.1	157.6	141.3	128.4	121.8	121
Noninterest expenses	4.9	4.4	3.8	3.7	3.6	3.5

Table 1

Municipal Finance Authority of British Columbia -- Selected indicators (cont.)

(Mil. C$)	2024	2023	2022	2021	2020	2019
Capital and risk position						
Total liabilities*	10,110.5	10,185.8	10,516.6	9,948.9	9,303.3	8,866.0
Total adjusted capital	252.9	238.5	225.0	225.0	216.0	195.0
Assets/capital (%)	40.2	42.8	46.3	46.6	46.7	48
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 (one year)§	1.9	1.9	1.7	2.6	1.4	1.6
Liquidity ratio without loan disbursement (one year)§	1.9	1.9	1.7	2.6	2.1	2.5
Funding ratio (one year)§	1.0	1.1	1.1	1.1	1.2	1.0

*As per balance sheet. §Includes sinking funds. 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+
Sector risk profile	Very strong
Individual credit profile	
Business position	Very strong
Management & governance	Very strong
Capital adequacy	Adequate
Funding & liquidity	Strong
Anchor	aaa
Overriding factors and caps	0
Holistic analysis	1
Stand-alone credit profile	aaa
Extraordinary support	0

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Non-U.S. Public-Sector Funding Agencies, July 26, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- S&P Global Ratings Definitions, Dec. 02, 2024
- Institutional Framework Assessment: Canadian Municipalities Employ Flexibilities Within Fiscal Framework To Temper Cost Pressures, April 2, 2024

Ratings List

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.