



**MFA BC**

Municipal Finance Authority of BC

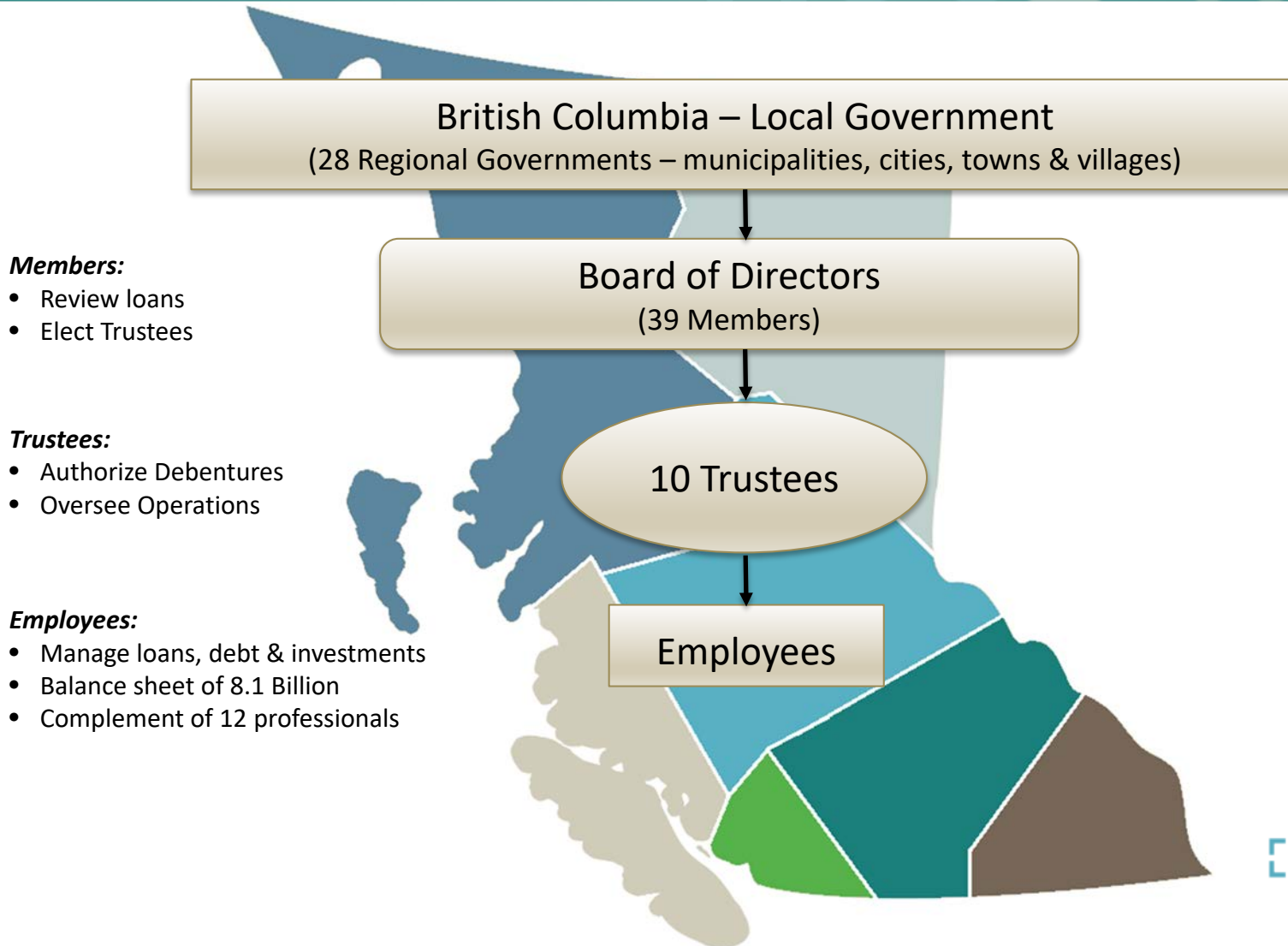
## **Financing Municipal Infrastructure in the Province of British Columbia Since 1970**

**Peter Urbanc, Chief Administrative Officer**

# INTRODUCTION

- Formed in 1970 under the ***Municipal Finance Authority of British Columbia Act***
- Independent of the Province of British Columbia
- Infrastructure financing to local government in the Province of British Columbia
  - Access to stable/low cost funding for sewer, water, roads, public works, parks, etc.
- Also provide competitive investment alternatives and quality financial education
- Profitable from operations
- Long term debt ratings of AAA/Aaa/AAA by S&P/Moody's/Fitch

# GOVERNANCE



# STRATEGIC INITIATIVES 2017 – 2018

## Our mission is to provide clients with:

- Access to stable and low cost funding
- Competitive investment alternatives
- High quality financial education

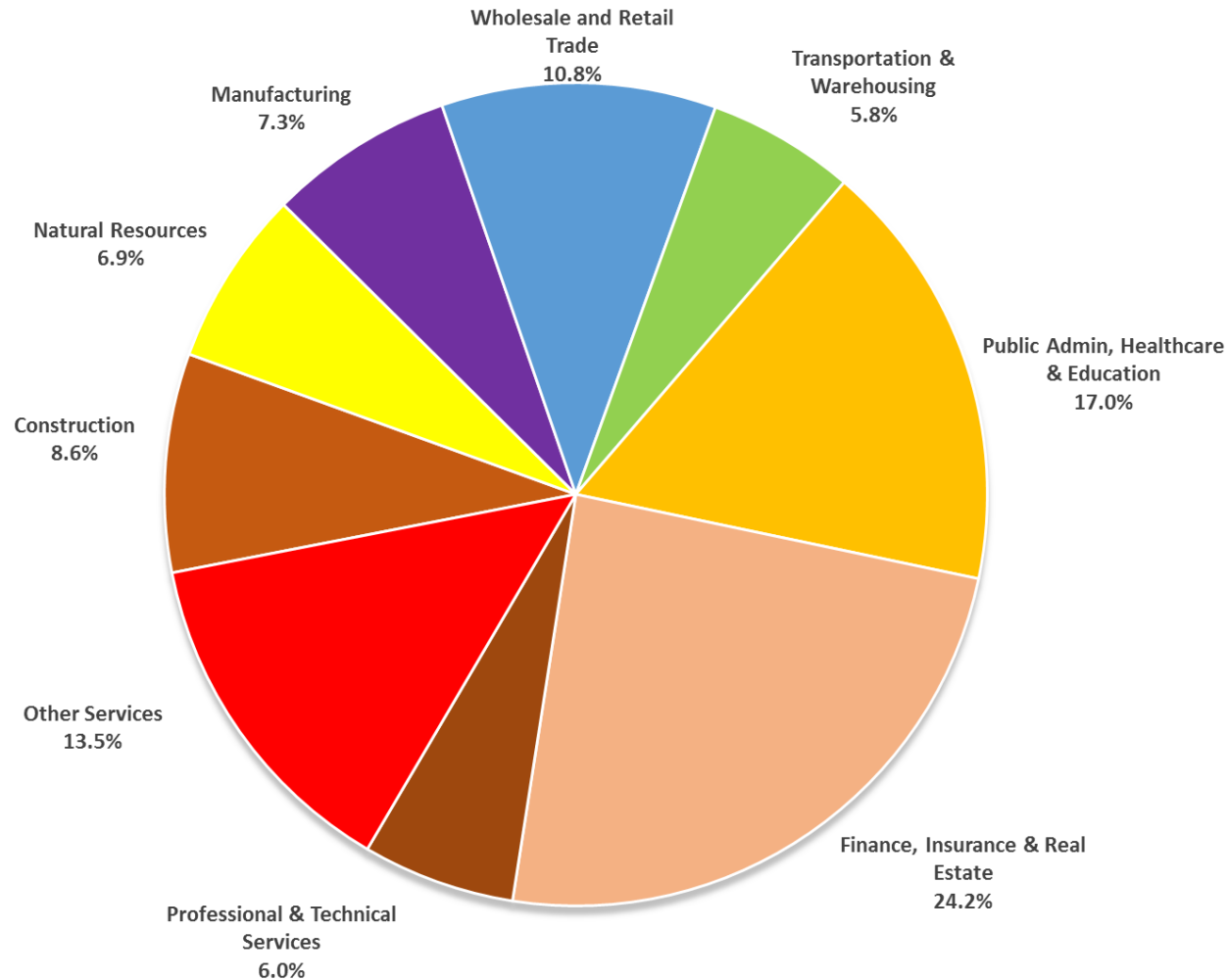
## 2017 key initiatives:

- 3 new positions: portfolio management, credit and compliance, and office support
- New product: PHISA
- Policy Review
- Syndicate Review
- Cybersecurity and pen testing

## 2018 priorities:

- Program development and enhancements
- Cybersecurity
- IT, Technology and process enhancements
- Recruiting
- Realignment initiatives: customer experience / programs, credit risk management, and IT
- Expand investor base
- Create formal policy on capital retention
- Alternate funding options

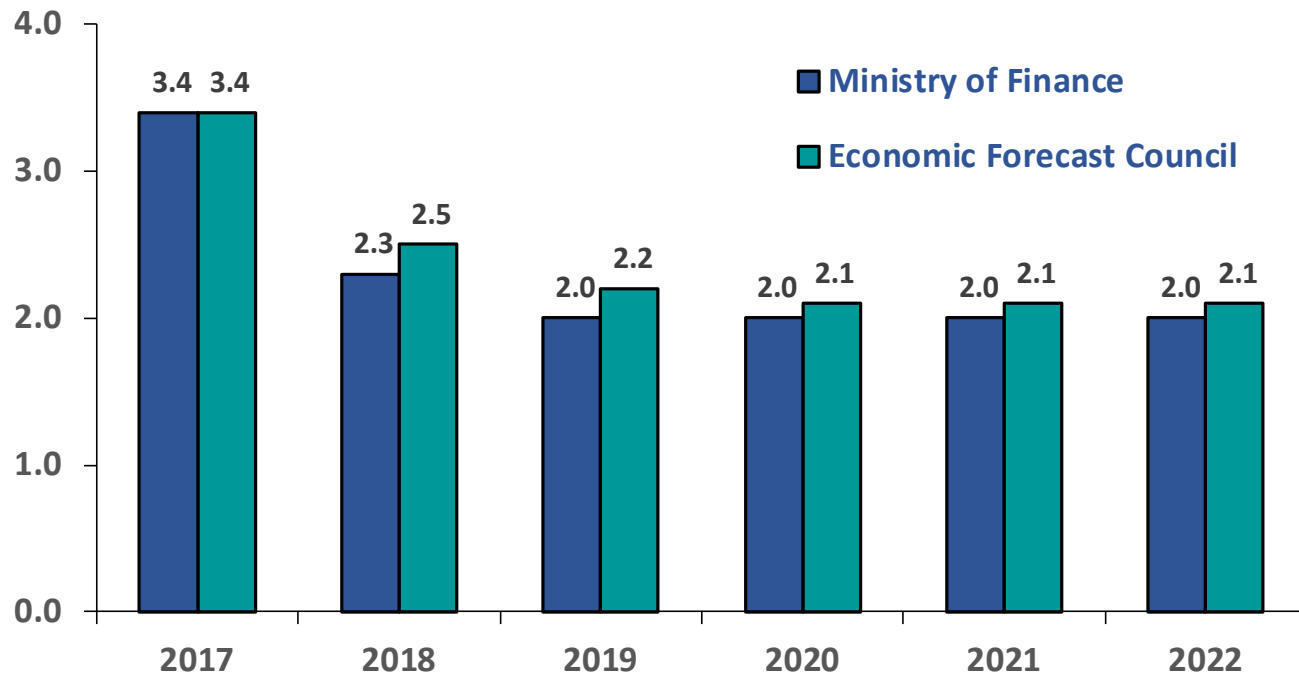
# BRITISH COLUMBIA'S DIVERSE ECONOMY



Source: Statistics Canada, May 2017

# BRITISH COLUMBIA'S GROWTH OUTLOOK

## BC real GDP (per cent change)



Sources: BC Ministry of Finance, Economic Forecast Council

# INSTITUTIONAL FRAMEWORK

## CREDIT STRENGTH

### **Debt Reserve Fund**

\$109 million in liquid investments for long-term debenture obligations

- 1.00% cash withheld from all loan requests
- Never been drawn against

### **Taxation Authority**

Taxable land and improvements to restore Debt Reserve Fund

- Senior-level government approval not required
- Property values at \$1.64 trillion
- Never been used

### Joint Liability

Borrowers' long-term debt with MFA is a Regional District liability

- Borrowers guarantee each other's debt in event of default
- Joint and several guarantees never been applied

### Investments

Sinking Fund Methodology

- Semi-annual billing of interest to match debenture coupons
- Annual billing of principal for debt retirement
- \$3.6 billion in investments (47% of gross debt)



## **Balanced Budgets**

- Under provincial legislation, municipalities may not plan for a deficit

## **Transparency and Disclosure**

- Audited financial statements - PSAB, by May 15
- Annual Report - presented to residents, by June 30

## **Long-Term Capital and Financial Planning**

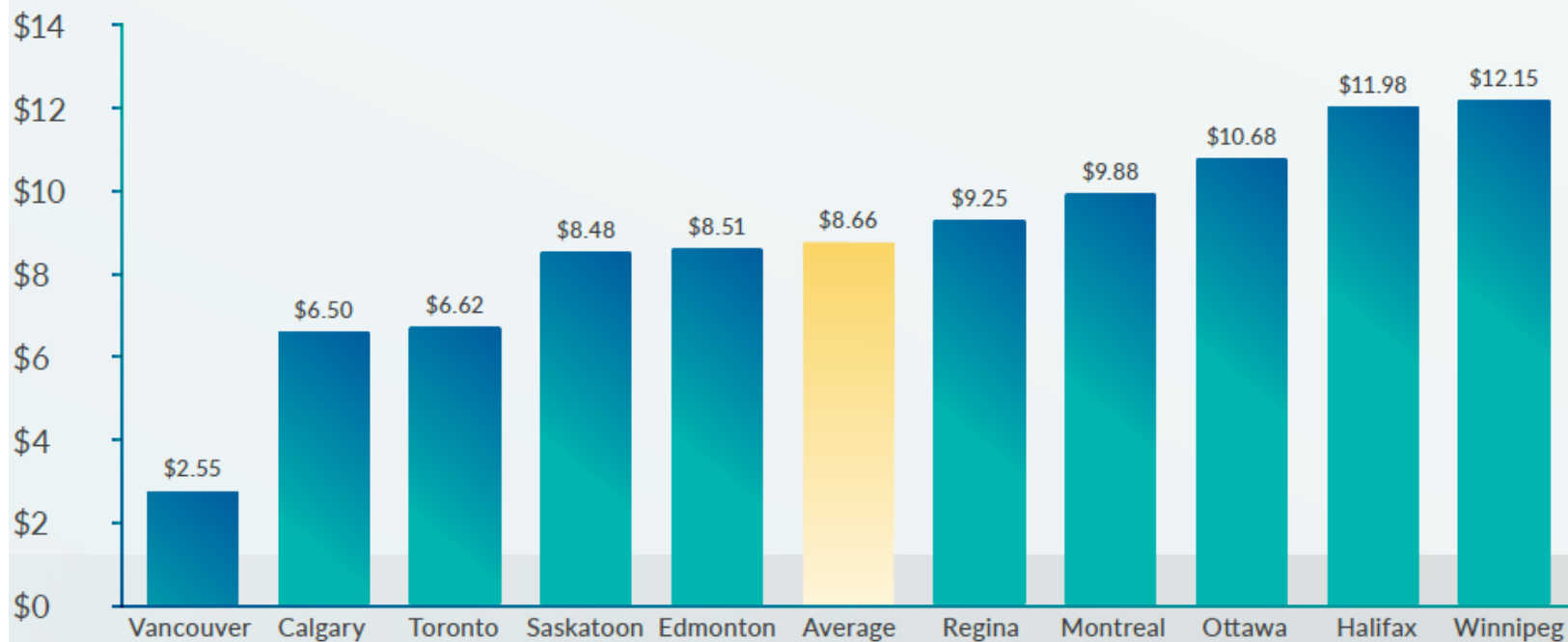
- Five year financial plans - public consultation, by May 15

# BORROWING FRAMEWORK

<b>Debt Limits</b>	Only 25% of <i>recurring</i> revenues eligible to service debt costs
<b>Taxpayer</b>	All long-term municipal debt in BC requires a public approval process
<b>Province of BC</b>	Legislation requires the Provincial Inspector to verify: <ul style="list-style-type: none"><li>• Borrowings are legal and within debt limits</li><li>• Municipalities have the financial ability to service debt</li></ul>
<b>Regional District</b>	Long-term debt is approved by the Regional District
<b>MFA</b>	Oversight and review <ul style="list-style-type: none"><li>• Due diligence and statutory reviews</li><li>• Management credit review</li><li>• Trustees and Members review loan requests</li><li>• Members authorize the sale of securities</li></ul>

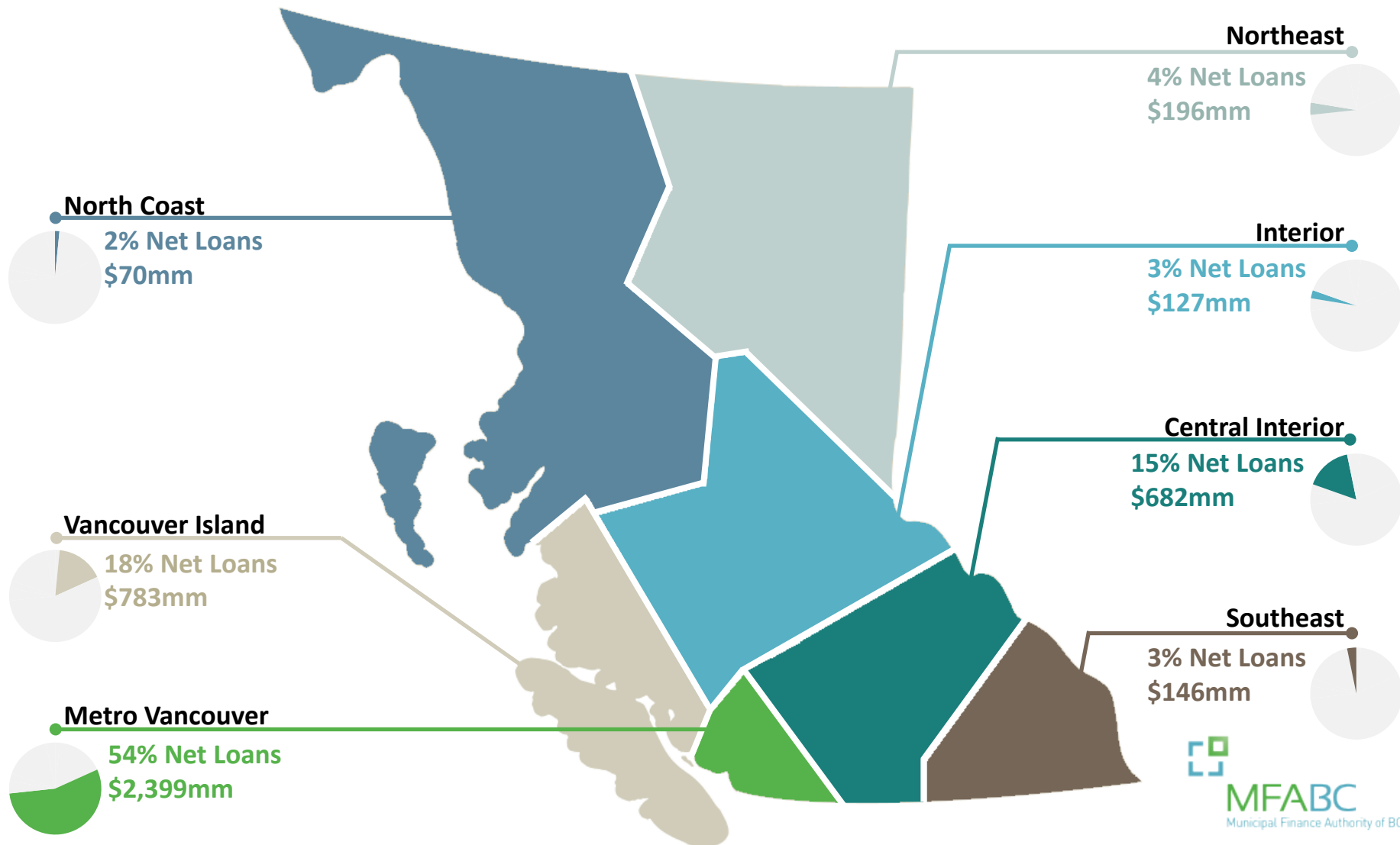
# BUDGET FLEXIBILITY LOCAL GOVERNMENT

## // 2017 Residential Property Taxes Per \$1,000 of Assessment



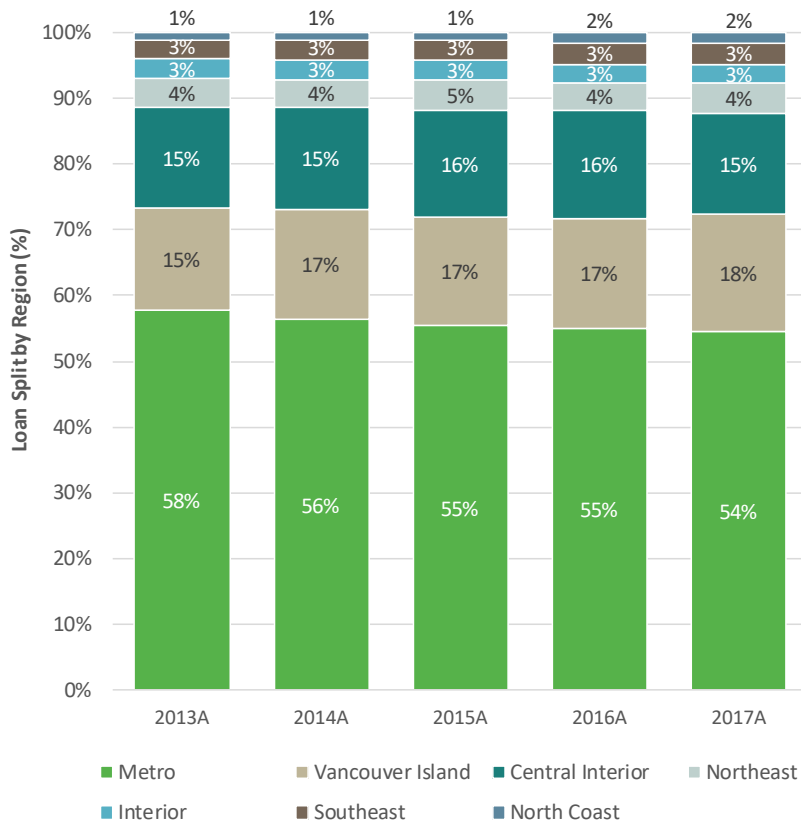
FIGURES IN THIS CHART ARE CALCULATED BY MULTIPLYING THE RESIDENTIAL TAX RATE BY 1000 TO GIVE THE TAXES PAID PER \$1,000 OF ASSESSMENT. WHERE MILL RATES ARE APPLICABLE, THE MILL RATE IS MULTIPLIED BY THE MILL RATE FACTOR BEFORE CALCULATING THE RATIO.

# LOANS TO CLIENTS DIVERSIFICATION OF PORTFOLIO BY REGION

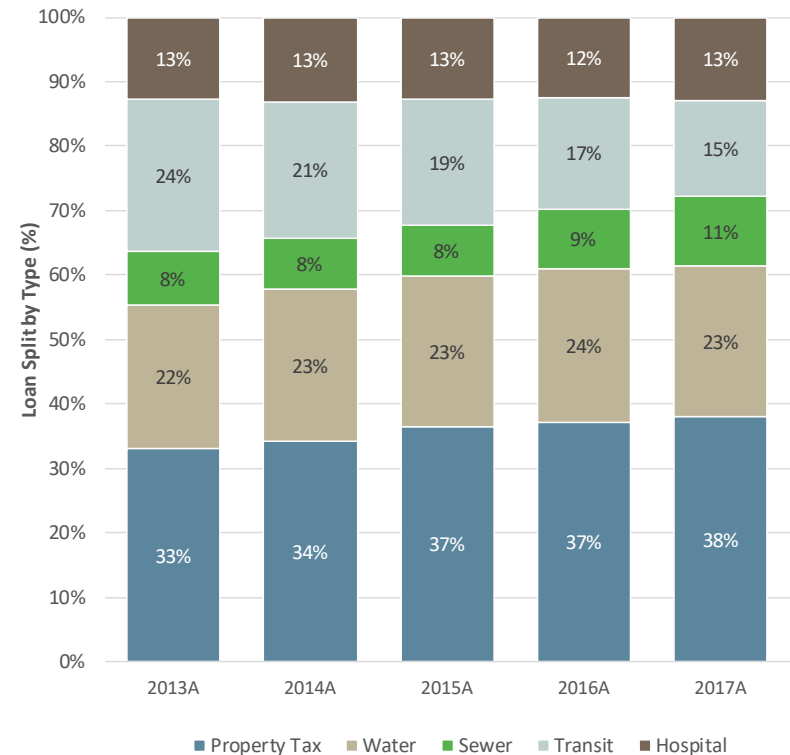


# LOANS TO CLIENTS COMPOSITION

## Loans by Region



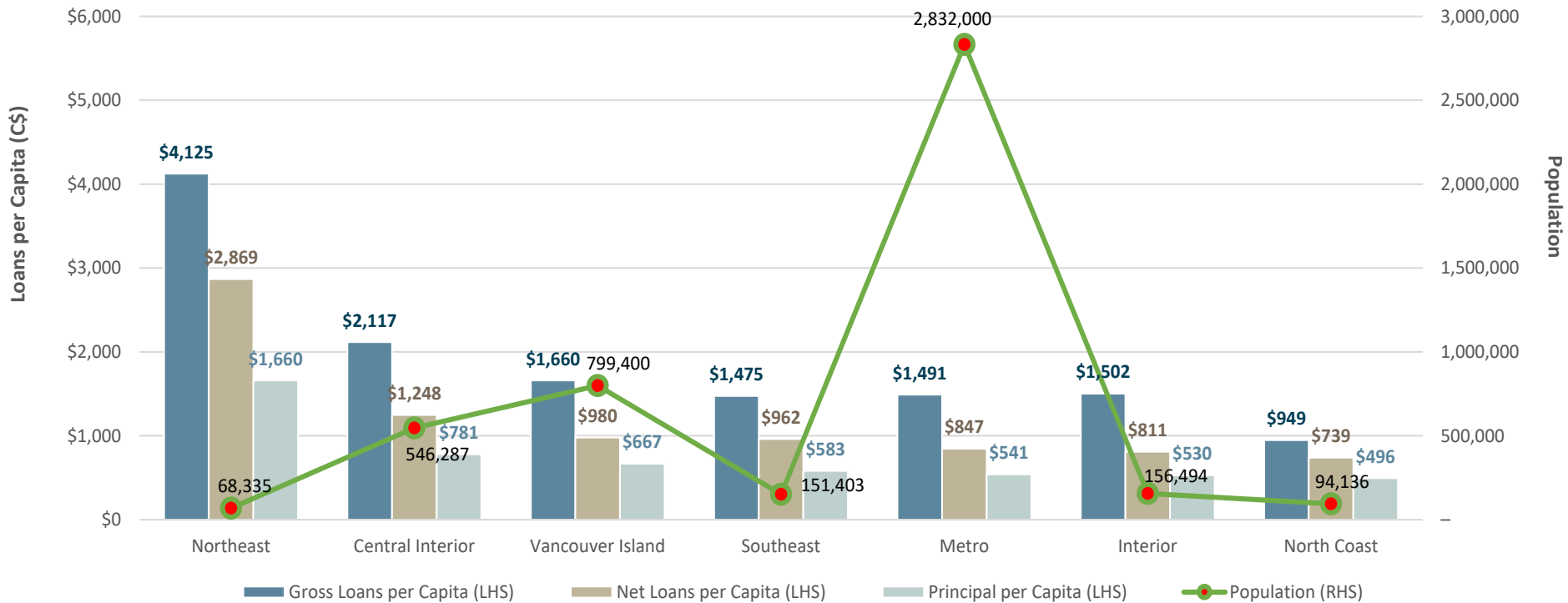
## Loans by Type



Regional borrowing split remains steady. Transit borrowing expires in 2036 with \$406M in 2021, and \$65M in 2026.

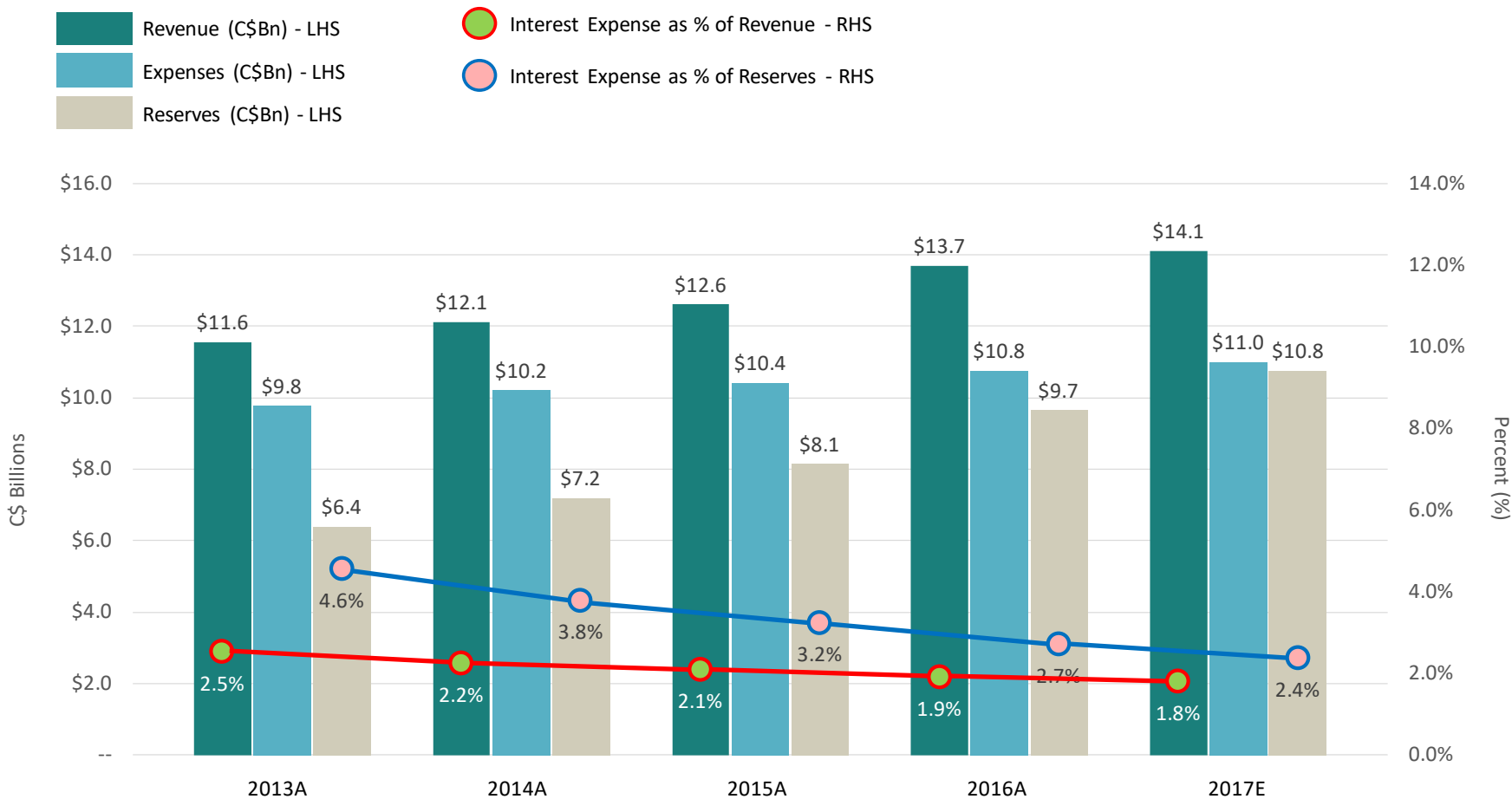
# LOANS PER CAPITA

Net Loans (\$MM)	\$196	\$682	\$783	\$146	\$2,399	\$127	\$70
Net Loans (%)	4.5%	15%	18%	3%	54%	3%	2%



Northeast region represents less than 4.5% of total outstanding Net Loans, supporting strong province wide per capita credit metrics.

# LOAN SERVICING ABILITY



Interest expense as a percentage of revenue & reserves continues to decrease year over year.

# 2017 BORROWING PROGRAM COMPLETED

## Access to financial markets remains strong

- \$956 million, 5 long-term debenture issues
  - 200 million, 10-year debenture 2.686% (re-opening)
  - 160 million, 10-year debenture 2.995% (re-opening)
  - 500 million, 5-year debenture 2.161% (new issue)
  - 35 million, 7-year debenture 2.719% (re-opening)
  - 61 million, 25-year debenture 3.505% (private placement)
- \$60 to \$170 million short-term issuance
  - Issued weekly
  - Average yield of 0.81% and term of 56 days

## Active investor relations

- Lowest cost of funds in Canada, benchmarked against our peers
- Approximately 25% of the Canadian municipal index



# ANTICIPATED BORROWINGS 2018 – 2021

Year:	5 Year (\$MM)	10 Year (\$MM)	Total (\$MM)
2018	1,060	500	\$ 1,560
2019	800	650	\$ 1,450
2020	480	300 - 600	\$ 780 – 1,080
2021	900	300 - 600	\$ 1,200 – 1,500

**New issues traditionally come in spring (April) and fall (October):**

- 2018 program 37% complete
- April 2018 completed \$410mm 5yr and \$170mm 10yr new-issues

## RECENT CANADIAN DOLLAR DEBENTURE ISSUES

C\$MM	Issued	Term
\$410	April 10, 2018	5
\$170	April 10, 2018	10
\$500	Nov 21, 2017	5
\$35	Sep 27, 2017	7
\$160	Sep 27, 2017	10
\$200	Mar 31, 2017	10
\$61	Jan 12, 2017	25
\$50	Nov 08, 2016	2
\$130	Sep 28, 2016	10
\$380	May 12, 2016	5
\$480	Apr 19, 2016	10

# ENHANCING MARKET TRANSPARENCY AND LIQUIDITY OF OUR PUBLIC DEBENTURE ISSUES

Throughout 2017 MFABC has focused on a number of initiatives intended to enhance transparency and liquidity in the Canadian municipal bond market:

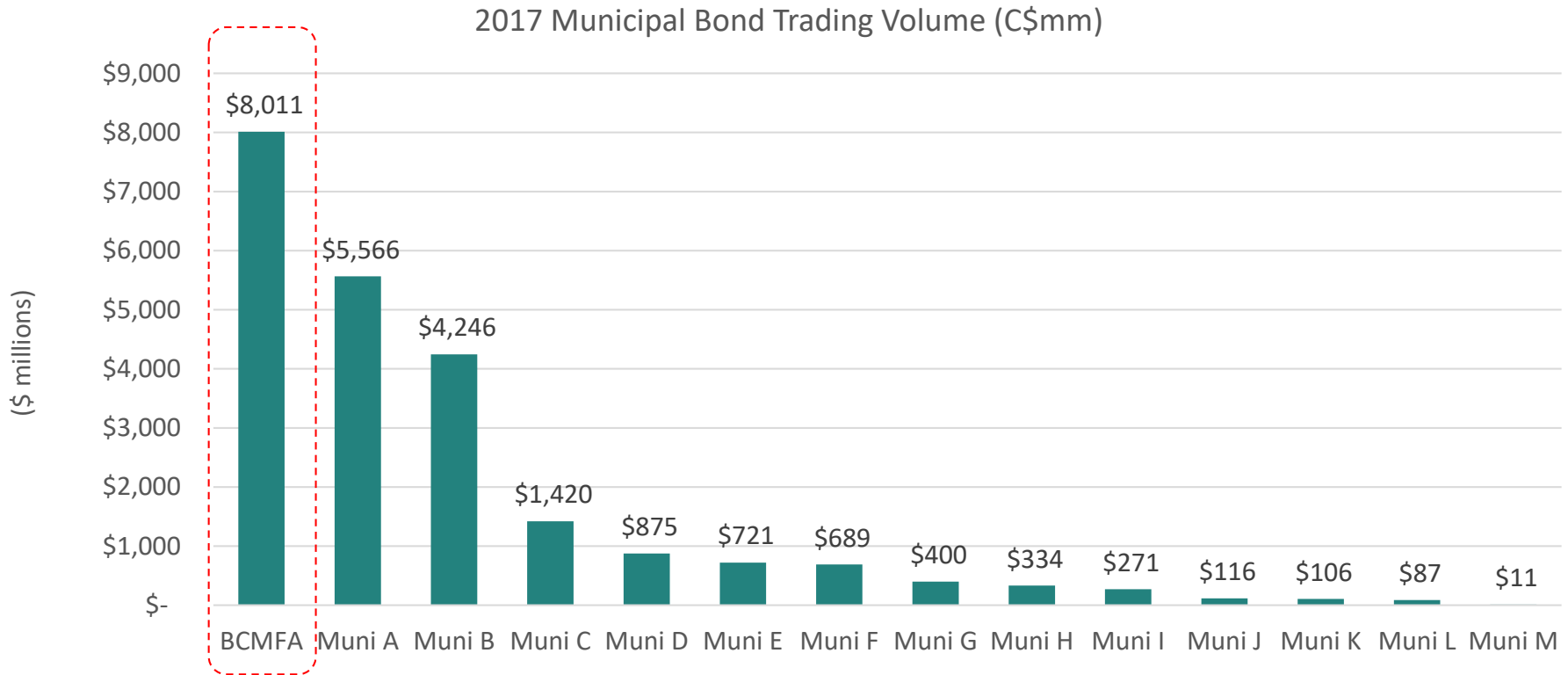
## “Underwritten Firm Bonds” vs. “Agented Book Build” deal structure

- MFABC has transitioned from an Underwritten Firm Bonds format to an “Agented Book Build” format when issuing new debt.
- This format promotes greater market transparency and liquidity: 1) greater number of potential investors involved in every transaction; 2) new issues price at a true market clearing level; and 3) by disclosing the final buyer’s list to entire syndicate.

## Mandatory Municipal Bond Trading Volume Reporting

- MFABC has made it mandatory for its relationship banks to provide detailed municipal bond trading volume data. MFABC is sharing this data with dealers in order to promote market liquidity and transparency

# CANADIAN MUNICIPAL BOND TRADING VOLUMES



**Note:** The 13 unnamed municipalities shown above include: Edmonton, First Nations Finance Authority, Halton, Montreal, Ottawa, Peel, Quebec, TransLink, Toronto, Vancouver, Winnipeg, Waterloo and York, with combined trading volume of \$22.9bn in 2017. Total Canadian municipal trading volume in 2017 of \$30.3bn includes primary issuance of unrated municipal debt.

MFABC is the most liquid name in the Canadian municipal bond market, accounting for 35% of municipal trading volume in 2017



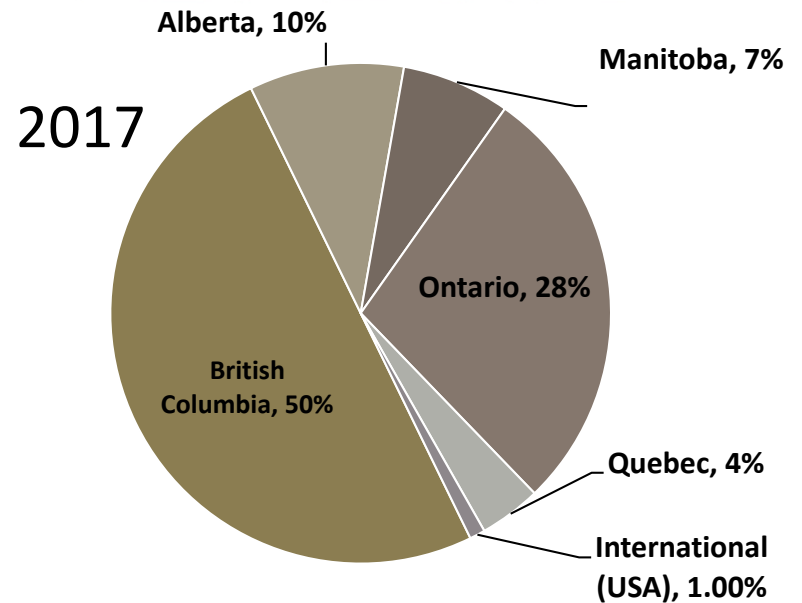
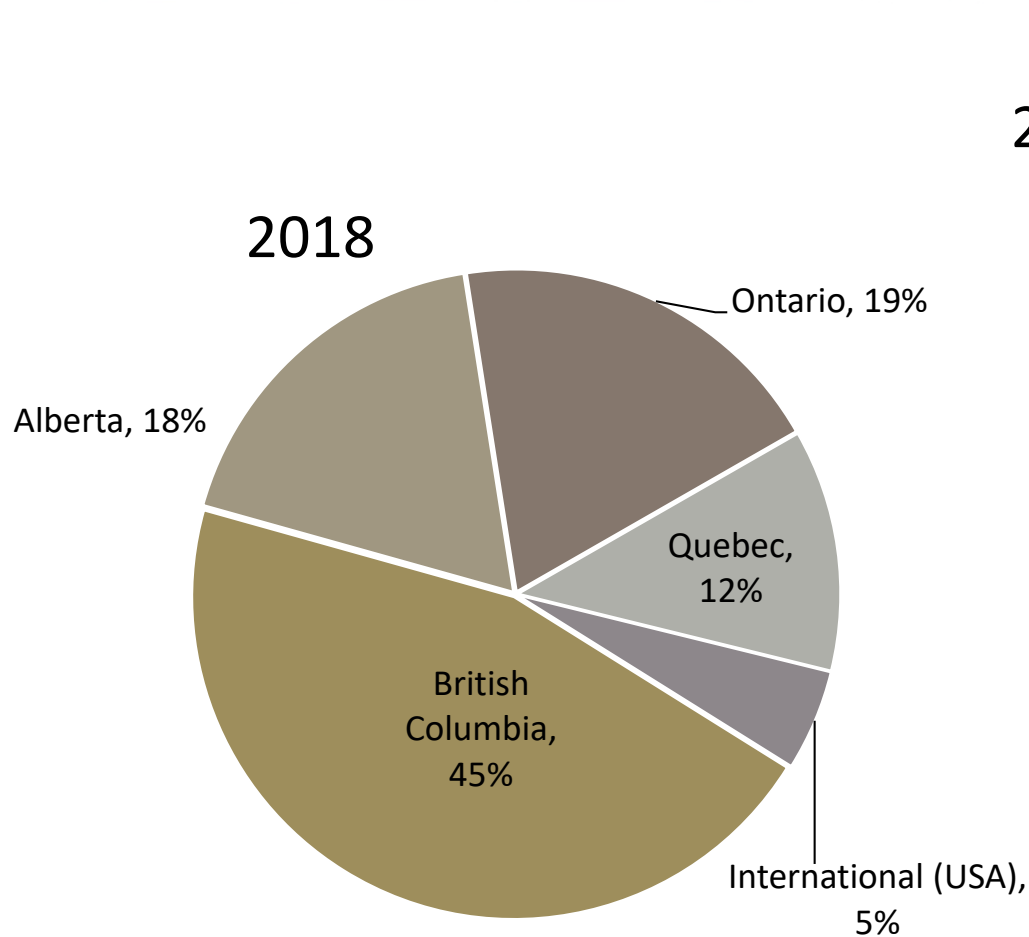
**Source:** BMO Capital Markets, Scotia Capital, Casgrain Capital Markets, CIBC World Markets, Laurentian Bank Securities, National Bank Financial, RBC Capital Markets, TD Securities and IIROC.

## Continued strong access to the markets

- \$700 million issued – strong investor demand
- Solid dealer network of 7 (3 BC, 1 Quebec, 3 Ontario)
- 5 to 8 basis points back of Provincial issuance – no dealer subsidy
- \$230 million or 33% of outstanding at a 91 day term
  - reduces concentrated roll over risk
  - access to wider investor base
- Average term of 53 days and yield of 1.36%

As at February 28, 2018

# COMMERCIAL PAPER GEOGRAPHICAL DISTRIBUTION



By Investor Type...	<u>2018</u>	<u>2017</u>
Government	2.7%	39.5%
Corporates	10.0%	3.3%
Investment Managers	28.7%	19.6%
Pension Asset Managers	58.6%	37.6%
	<u>100.0%</u>	<u>100.0%</u>

As at February 28, 2018 and 2017

# CREDIT RATING

Long Term Ratings:	
Moody's	Aaa
Fitch	AAA
S&P	AAA

Commercial Paper Ratings:	
Moody's	P-1
S&P	A-1+

# CONTACT INFORMATION

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