



**Municipal Finance
Authority of BC**

CELEBRATING
50

“MFA 101”

Peter Urbanc, Chief Executive Officer

Shelley Hahn, Chief Services Officer

Your Partners in Finance

mfa.bc.ca

OVERVIEW

Vision & Mission

Our Services: Programs, Products & Education

Strategic Initiatives

Interpreting MFA's Financial Statements

MFA's Core Operation

MFA & The Capital Markets

MFA Model & Cost Savings for Borrowers

MFA Pooled Funds

Governance

Loan Approval Process

Other Member & Trustee Responsibilities

Support for Financial Education



Municipal Finance Authority of BC

The Municipal Finance Authority of BC is a world-class co-operative financial institution owned and governed by its Members for **the benefit of local governments throughout BC.**

We provide specialized local government long-term and short-term financing options, and are committed to maintaining the **highest quality investment products** to meet the needs of our Local Governments, helping them continue to build and maintain the communities that **result in a stronger British Columbia.**

**We are part of the fabric of
BC Local Government.**

MFABC | CELEBRATING 50 YEARS

Local Government Financial Support

We aim to offer municipalities the most **cost-effective, transparent and relevant products** while continuously evolving and improving our operations with a focus on reducing risks, enhancing our stability, and better serving our clients.

Financing

- Long-term
- Short-term
 - Temporary Borrowing
 - Short-term Capital
 - Revenue Anticipation
- Equipment Financing

Investing

- Fixed Income
- High Interest Savings Accounts
- Investment Policy Assistance
- Portfolio Guidance

Education

- Financial Education & Training
- Sponsorship & Support of the BC Local Government Community: UBCM, LGLA, GFOABC, LGMA

STRATEGIC INITIATIVES – Strategic Focus Areas

To achieve our Vision & Mandate, we have 5 Strategic Focus Areas:

STAKEHOLDER ENGAGEMENT - Increase connectivity with our stakeholders through collaboration, communication, and education to better understand their needs, add value, and reinforce our reputation as a trusted partner and a thought leader on local government finance-related issues

RESILIENCE & CAPACITY– Ensure stability of the organization and our ability to serve our stakeholders at all times while responding to external events that may impact our business

PROFESSIONAL FINANCIAL MANAGEMENT - Enhance our own professional practices in finance and accounting for improved efficiency, reduction of manual effort, enhanced reporting, and increased transparency

PROGRAM DEVELOPMENT & IMPROVEMENT - Ensure our products suite offers the best options for our clients through active collaboration and continuous development

TECHNOLOGY SUPPORT & SECURITY – Continuous enhancement of our technology systems and practices to reduce risks and add business value to both internal and external clients

STRATEGIC INITIATIVES – 2020 Highlights

- Hired additional Financial Analyst role to support critical functions
- Updated Pooled Investment Funds reporting to better meet customer needs
- Launched new Pooled Mortgage Investment Fund
- Launched new Fossil Fuel Free Short-Term Bond Fund
- Re-worked our Intermediate Fund into a new Government-Focused Ultra Short-term Bond Fund to meet COVID-19-related client demand
- Moved to cloud-based support for email and Financial Management System (FMS) to decrease location-based risk and reduce potential downtime
- Modernized our technology policies and standards
- Developed technology infrastructure to better support MFA operations and clients
- Mitigated technical debt in the FMS and general IT systems

STRATEGIC INITIATIVES – 2021 Key Priorities

- Assess our financial and other support to “colleague” organizations for education/conferences to confirm best alignment and convey most value
- Develop our rationale, messaging, and methodologies around Environmental Social and Governance (ESG) factors, “socially responsible investing” (SRI), green/social bond issues
- Launch new Pooled Diversified Growth Investment Fund
- Complete customer journey mapping to look for opportunities to simplify and automate processes, and better communicate with and educate our stakeholders
- Complete and test business continuity/disaster recovery/incident response plans
- Finalize move to cloud-based document management to decrease location-based risk and reduce potential downtime for key MFA information
- Enhance our client portal including additional reporting, user management, and online transaction initiation and approval
- Complete work to achieve defensible cybersecurity standard

INTERPRETING MFA'S FINANCIAL STATEMENTS

MUNICIPAL FINANCE AUTHORITY

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31

MILLIONS OF DOLLARS

	2020	
REVENUE		
Interest from loans to clients	\$ 232	Interest Paid on Loans by Clients
Investment income	141	Interest Earned on Investment Holdings
Other	24	
Total Revenue	398	
EXPENSE		
Interest on long-term debt	247	Interest Paid on Debt
Interest on bank and short-term indebtedness	4	
Other	15	
Total Expenditure	266	
Profit for year	131	
Other Comprehensive Income for the year		
Financial instruments at FVOCI:		
Net change in fair value	273	Fair Market Value Fluctuations on Investment Holdings
Reclassified to profit or loss	(2)	
Net remeasurement in loss allowance	0	
Other Comprehensive Income for the year	272	
Total Comprehensive (Loss) Income for the year, end of the year	\$ 403	

INTERPRETING MFA'S FINANCIAL STATEMENTS

MUNICIPAL FINANCE AUTHORITY
Consolidated Statement of Financial Position
 December 31, 2020
 MILLIONS OF DOLLARS

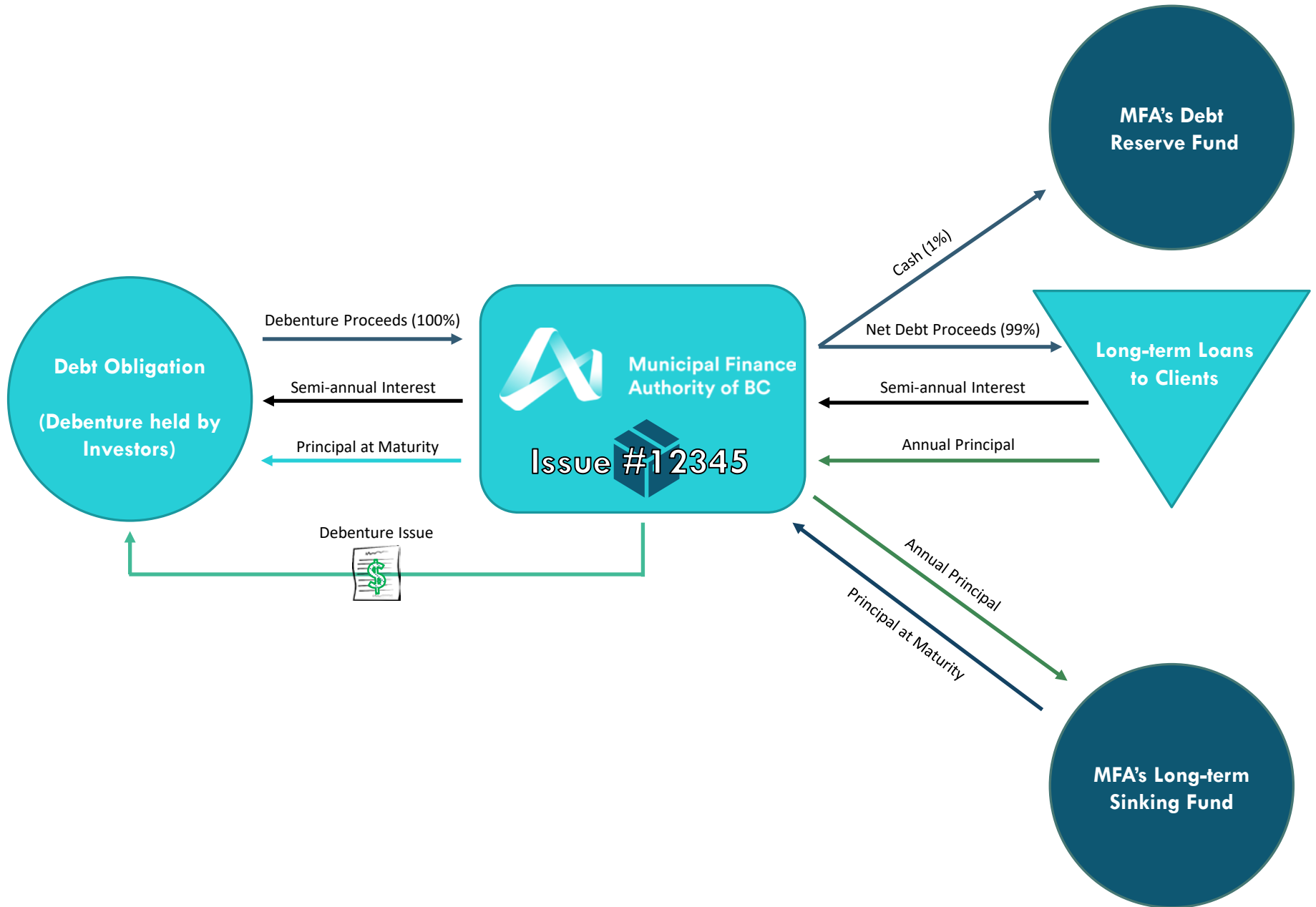
	<u>2020</u>	
ASSETS		
Cash and cash equivalents	\$ 701	Strategic Retention Fund, Debt Reserve Fund, ST Fund & LT Sinking Fund
Investments	4,359	
Short-term loans to clients	143	Short-term, Equipment Financing & Long-term Loans
Long-term loans to clients	4,803	
Other	77	
Total Assets	\$ 10,083	
LIABILITIES		
Bank and short-term indebtedness	\$ 610	Debt: Commercial Paper & Debentures
Due to clients	120	
Other	38	
Long-term debt	8,535	
Total Liabilities	\$ 9,303	
EQUITY		
Accumulated and other comprehensive income	693	Fair Market Value Fluctuations on Investment Holdings
Retained earnings	87	
Total Equity	780	
Total Liabilities and Net Assets	\$ 10,083	

INTERPRETING MFA'S FINANCIAL STATEMENTS

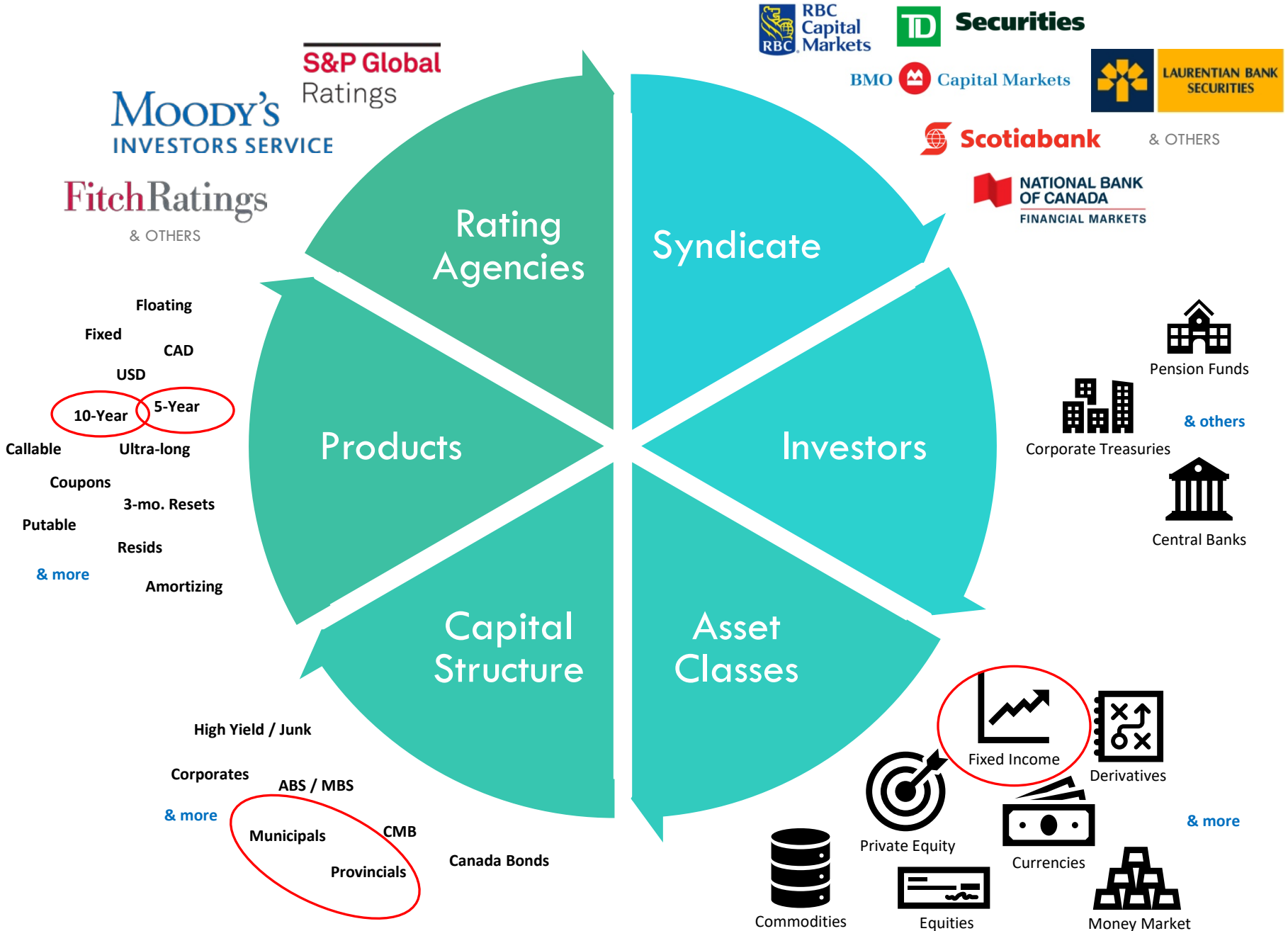
2020 Earnings / Equity Reconciliation (in million of C\$)

	Profit for year (before other comprehensive income)	\$ 131.5
less	Allocations to clients (actuarial credits etc.)	<u>(\$115.2)</u>
	Contribution to retained earnings	<u>\$ 16.3</u>
Business line earnings breakout:		
	Administrative overhead (net)	(\$0.9)
	Pooled Investments	\$ 3.4
	Short-term financing	\$ 3.6
	Long-term financing	<u>\$ 10.1</u>
		<u>\$ 16.3</u>
	Opening retained earnings	<u>\$ 70.5</u>
add	Earnings contribution from business lines	<u>16.3</u>
	Closing retained earnings	<u>\$ 86.8</u>

MFA'S CORE OPERATION: BORROWING AND ON-LENDING EXPLAINED



MFA & THE CAPITAL MARKETS: KEY COMPONENTS



Taxation Authority



Retained Capital & Debt Reserve Fund



Joint Liability Protections



Municipal Finance
Authority of BC

Sinking Fund Methodology



**Municipal
Balanced
Budgets**



MFA MODEL & COST SAVINGS FOR BORROWERS

Centralized borrowing via MFA achieves over \$160,000 in ANNUAL savings to borrow \$25 million, about 20% cheaper!

	MFA	AAA Municipality
Annual Borrowing Amount	\$1,500,000,000	\$25,000,000
Interest rate (bond coupon)	2.20%	2.30%
Annual Interest Cost per \$25mm	\$550,000	\$575,000
Fees per \$25mm Borrowed	\$97,500	\$237,000
Annual Cost per \$25mm Borrowed	\$647,500	\$812,000

* Underwriting, legal, rating agency and other fees

MFA provides quick and easy access to funding to help build your community – at tremendous cost savings.

Safety, Quality, Liquidity, and Diversification

Our collective structure gives us a far greater negotiating power in accessing investment products than any individual municipality would have on its own.

We provide local governments with broad exposure to different asset classes beyond the limitations of what is included in the Community Charter, while **keeping costs extremely low for professionally-managed funds.**

MFA's highly specialized professional staff has been deepening our partnerships with BC's Local Governments and is continuously expanding our product line to be the most relevant for our Members.

Additional Services

- Unbiased guidance in helping you construct a best-in-class investment policy
- MFA can work with municipal staff to create presentations to update you, your Board, or your Council with an overview of investment best practices

MFA POOLED FUNDS: OUR SUITE OF POOLED INVESTMENT PRODUCTS

	(2) Pooled High Interest Savings Accounts FFF 	Money Market Fund	Government Focused Ultra-short Bond Fund FFF 	Short-term Bond Fund	Fossil Fuel Free Short-term Bond Fund FFF 	Pooled Mortgage Fund
Key Features	<p>Best for soon to be needed funds.</p> <p>Balances favourable interest rates and liquidity.</p> <p>Monies held with Domestic Systemically Important Banks</p> <ul style="list-style-type: none"> Favourable deposit rates negotiated by MFA Monthly Interest 	<p>This Fund is suited for Investors who must maintain adequate liquidity while benefitting from asset diversification.</p> <p>This Fund holds a portfolio of very short-term securities, focused on high-quality corporates.</p> <p>The Fund seeks a yield advantage through active market and credit analysis.</p> <ul style="list-style-type: none"> Monthly distributions 	<p>The main objective of this Fund is to provide safety and liquidity.</p> <p>This Fund maintains a bias towards safe and favourable Federal and Provincial Securities, holdings may include up to 25% Big 6 Banks debt securities.</p> <p>Securities acquired for the Fund may have a maximum maturity of 2 years.</p> <p>This Fund does not invest in non-bank corporates.</p> <ul style="list-style-type: none"> Monthly distributions 	<p>Designed for Investors with a 2 to 5 year investment horizon as the Fund maintains a longer duration versus the MM and Ultra-short Funds.</p> <p>This Fund provides instant diversification through a broad asset mix of high-quality government and corporate securities.</p> <p>The Fund seeks a yield advantage through active market and credit analysis.</p> <ul style="list-style-type: none"> Monthly distributions 	<p>This Fund is benchmarked against the same index as the ST Bond Fund, however screens-out companies involved in the extraction, processing and transportation of coal, oil, and natural gas.</p> <p>Designed for Investors with a 2 to 5 year investment horizon.</p> <p>This Fund provides instant diversification through a broad asset mix of high-quality government and corporate securities.</p> <p>The Fund seeks a yield advantage through active market and credit analysis.</p>	<p>This Fund is designed to provide asset class diversification for Local Government Investment Portfolios. Best suited for cash not needed for 3+ years.</p> <p>The Fund invests in high-quality 1st mortgages on Canadian income producing commercial properties – such as retail, multi-residential, office and industrial.</p> <ul style="list-style-type: none"> Minimum 1.25x CF coverage Maximum 75% Loan-to-value
Suggested Investment Time Horizon	0 – 12 months	0 – 24 months	0 – 24 months	Investment Time Horizon		3 years +
Total 1-year Return * †	N/A	0.74%	1.50%	4.19%	2.10% §	2.37%
Avg. YTM †	0.80 – 0.84% ‡	0.31%	0.37%	0.89%	0.83%	2.38%
Total Annual Fees	3 bps	15 bps	15 bps	20 bps	20 bps	25 bps

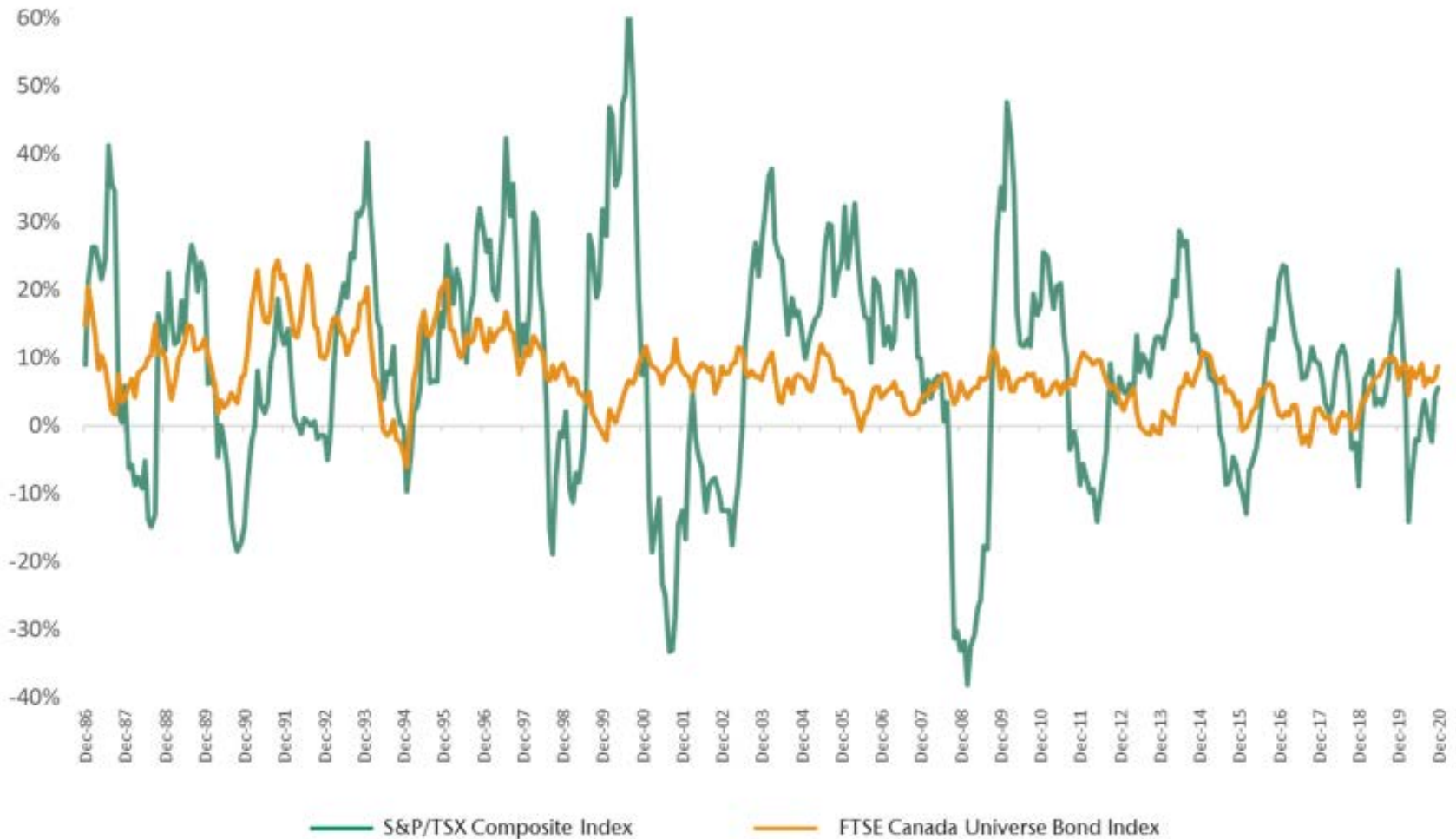
CIBC PHISA -- February rate change: New -- Tiered Account: First \$20M : 0.80% // \$20.001M to \$40M : 0.50% ; First \$40M 0.65% // Over \$40.001M+ 0.22%

Management and composition of Funds subject to MFA’s Pooled Investment Funds Investment Policies, Objectives, and Guidelines Agreement with the Fund Manager (PH&N). || Call MFA for Scotiabank rates.
 * Total 1-year Return equals to change in NAV value plus distributions over the past 365 days to February 28, 2021; past performance does not guarantee future performance. † Gross return before fees. ‡ Net of Fees. § Since inception.
 FFF refers to Fossil Fuel Free which is defined as Savings Accounts or Funds that exclude investments issued by companies directly involved extracting, processing, or transporting coal, oil or natural gas.

- MFA is developing a diversified multi-asset class global pooled investment fund (“DMAC”) intended for long-term investing by BC’s local governments (“LGs”)
- In order to support long-term capital growth and lower risks, MFA endorses the ability for well-suited BC local governments to expand their investing options to include a professionally-managed diversified global portfolio of stocks, bonds, and other assets
- Other jurisdictions have expanded investment choices for LGs to include options more suitable for long-term investing, such as equity securities (stocks) - Alberta, Saskatchewan, Ontario, and Nova Scotia have such options available
- Currently, BC’s LGs are limited to direct investments in Canadian fixed income products (bank deposits and bonds and government money market securities and bonds)
- Through existing legislation, BC’s LGs may invest in MFA Pooled Investment Funds
- The current, narrowly defined, fixed income-only investment options severely limits the ability of BC’s LGs to preserve purchasing power. In addition, this has led to improperly diversified / concentrated and possibly risky investment strategies
- On a risk-adjusted basis, a multi-asset class global portfolio offers a far better expected risk-adjusted returns than long-dated fixed income portfolios alone
- LGs are considered “institutional investors” by Canadian securities regulators. Nevertheless, MFA is creating a framework to mitigate risks associated with less sophisticated LGs investing in the DMAC

Year over year investment returns are more volatile for stocks than in bonds

ROLLING 1-YEAR PERIODS



Asset class diversification reduces volatility and increases risk-adjusted returns

ROLLING 10-YEAR PERIODS



10-year Performance Projections: Various Asset Mixes

Investing in bonds alone is likely not a suitable strategy for long-term portfolios that are aimed at funding long-term capital investments.

	Portfolio A Govt Bonds	Portfolio B All Bonds	Portfolio C 50 / 50	Portfolio D 25 / 75	Portfolio E 10 / 90
Canadian Government Bonds	100%	0%	0%	0%	0%
Canadian Universe Bonds	0%	100%	0%	0%	0%
Global Universe Bonds (CAD-Hedged)	0%	0%	50%	25%	10%
Global Equities (in CAD)	0%	0%	50%	75%	90%
Long Term Expected Return (10 years)	1.0%	1.3%	4.3%	5.6%	6.3%
Annual Volatility	4.6%	4.4%	7.3%	10.7%	12.9%
Sharpe Ratio (Return per unit of risk)	0.10	0.18	0.51	0.47	0.45



**We showcase BC's ingenuity
and collaborative spirit.**

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GOVERNANCE – Overview

Members:

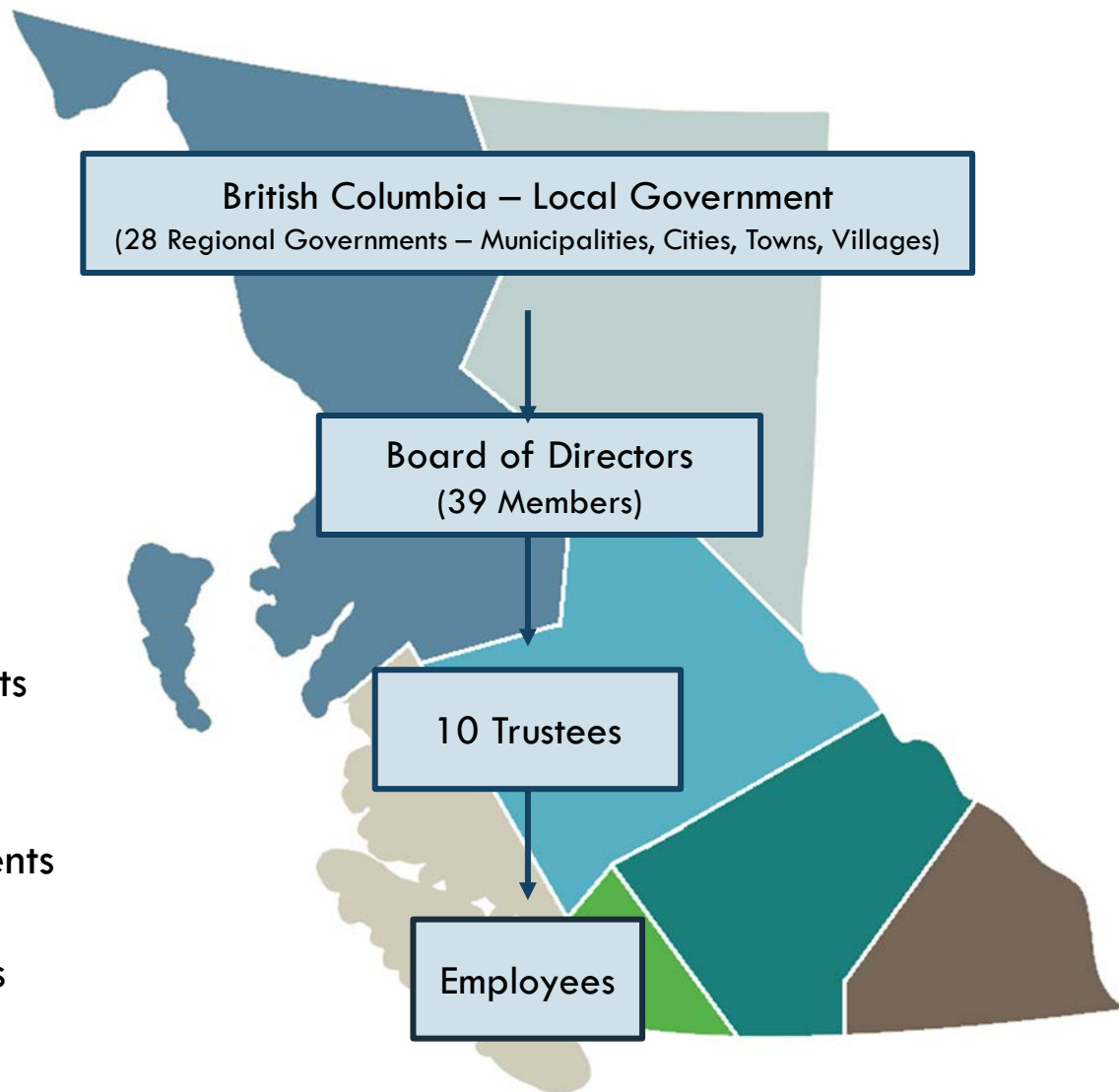
- Approve Operating Tax Levy
- Approve Operating Budget
- Review LT Loans
- Elect Chair and Trustees

Trustees:

- Authorize Debentures
- Oversee Operations
- Acts as Investment Advisory Committee for Pooled Investments

Employees:

- Manage Loans, Debt & Investments
- Balance Sheet of \$10.1 Billion
- Complement of 17 Professionals



GOVERNANCE – Long-term Borrowing Approvals & Reviews

What reviews or approvals do long-term borrowing requests require before being funded by the MFA?

Local Government



Adopted
LA Bylaw



Cert. of
Approval

Ministry



Servicing
Limit



Statutory
Approval



Cert. of
Approval

Electors



Approval

Regional Districts



Adopted
SI Bylaw



Cert. of
Approval

MFA



Municipal Finance
Authority of BC



Staff Review



Trustee Review



Authorization to Issue
Debenture



Approximate Timeframe: 6 months

Member & Trustee Responsibilities

Section 9 of the *Municipal Finance Authority Act*

- Review requests for financing
- Consider market and economic conditions
- Authorize issue and sale of securities to fund requests
 - Completed through ‘Authority Borrowing Resolution’ - adopted at the annual and semi-annual meetings

Trustee Responsibilities

Section 10 of the *Municipal Finance Authority Act*

- *Trustees set the parameters for the securities to be issued and delegate staff to issue the debt*
 - *This process is completed through the ‘Trustee Borrowing Resolution’ – adopted at the Trustee meetings directly following the annual and semi-annual meetings*

Member Responsibilities

Section 17 of the *Municipal Finance Authority Act* - Operating Fund

Part of the operating budget contains revenues from an **operational tax levy**

*.....The authority must establish an operating fund to meet the annual operating budget of the authority, and for this purpose **may**, in any year, **impose rates** not higher than the prescribed rates of **all taxable land and improvements in British Columbia.***

Operating Tax Levy

- **At the first meeting of the year, the Members will consider and approve the annual tax levy rates**
 - **Completed through ‘Authority Resolution’ adopted at the annual general meeting**

History

Up until 1992, MFA relied on the Operating Tax Levy to support operations.

Introduction of MFA's Optional Programs

- 1989 - Short-term Lending
- Bond and Money Market Pooled Investment Funds
- 1994 - Intermediate (now Government Focused) Pooled Investment Fund
- 1995 - Equipment Financing

This tax levy is no longer required to support general administration and operations.

We continue to collect the Operational Tax Levy to preserve our name on the tax roll.

This is to ensure if we ever had to invoke a province wide tax levy to replenish our Debt Reserve Fund (MFA Act Section 15 (10) and (11) the mechanism is in place and tested.

Trustee Responsibilities

Section 7 (10) of the Municipal Finance Authority Act

The trustees must prepare an annual operating budget for the approval of the authority.

*At the last Trustee meeting of the previous year the Trustees will approve a **provisional budget** to provide for operations until the annual general meeting in March*

Member Responsibilities

At the first meeting of the year, the Members will consider and approve the final annual Operating Budget

Trustee Responsibilities

Section 16(5) of the *Municipal Finance Authority Act*:

At the first meeting of the authority in each year, **the trustees must present** a report respecting the previous year to the authority, stating all of the following:

- (a) the pooled investment funds established;
- (b) the public institutions investing in each fund;
- (c) the volume of investments made in respect of each fund

Section 16(6) of the *Municipal Finance Authority Act*:

As the **Investment Advisory Committee**, Trustees work with staff and Fund Managers to monitor performance of the funds, vet and approve recommendations for changes, and approve new funds

Sponsorship & Collaboration

We support our clients by **creating and funding finance and investment education** throughout the province through local government partner organizations:



We develop and facilitate financial education for both staff and elected officials through courses, programs, webinars, workshops, and conferences. Below is an example:



**We are your partners in
finance.**

MFABC | CELEBRATING 50 YEARS

**Thank you for Participating in
“MFA 101”**

**WE’D BE PLEASED TO ANSWER YOUR QUESTIONS -
PLEASE EMAIL US!**

CONTACT US

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