Letter from the CEO

April 27, 2020

To our valued Clients,

As we all stretch ourselves in unheard of ways during the evolving COVID-19 situation, I wanted to assure you that the MFA continues to fulfil its role as the financial institution for BC Local Government. In the last 6 weeks, our team has worked tirelessly to plan and secure our sources of funding, clarify and respond to new Provincial measures being implemented for our local government stakeholders, and apply prudent risk management practices to our pooled fund products and on our own operations.

Credit Rating Agency Meetings

On April 15th and 16th, we presented the annual MFA update to the credit rating agencies: Moody’s, Standard & Poors, and Fitch. This marks the first time we have done these presentations via video conference rather than in person.

These conversations were constructive and as positive as one could expect given the circumstances. The agencies appear comfortable with our AAA rating and we expect decisions regarding our ratings over the coming week. Organizations with this highest-possible credit rating enjoy lower interest rates and generally experience less trouble accessing the markets during times of economic stress when the highest quality investments are in the greatest demand.

Short-Term Borrowing and New Triage Measures

Over the past two weeks our team contacted many of you to assess the amount of short-term borrowing that may be required over the coming months. We greatly appreciate the time that finance staff took to assist us in gathering this information. Should your local government have any large upcoming borrowing requirements that you have not already shared with us, please contact us as soon as possible: finance@mfa.bc.ca

This information is instrumental in the MFA’s ability to ensure access to both short- and long-term funding for clients who require it during the next 6 to 18 months. As funding requests may be higher than normal, it is imperative that we have as much information about funding needs and the timing for repayment as possible so that we may secure access to these funds well in advance.
Although there is still much uncertainty regarding upcoming property tax revenue collections, the information we have received from clients will help us to adjust our short-term borrowing program to meet the needs of as many clients as possible. Note that this new “triage” process for short-term loan requests will result in a requirement for additional information to access funds.

**Long-Term Borrowing**

Access to the capital markets has normalized since the MFA’s Spring bond issue in early April, when we were the first government issuer in Canada to successfully launch a fully publicly offered security since the significant market correction last month. There is a risk that the markets may once again become unstable if COVID-19 has a resurgence in the fall, as many health authorities are warning. MFA is following capital market developments closely and working with our Provincial and Federal government partners to position ourselves for this possibility.

**Changing the MFA Intermediate Pooled Investment Fund to Better Suit Your Needs**

To meet client demand for a safe, liquid, and government-focused MFA pooled fund option, we will be restricting corporate investments in our existing Intermediate Fund. This will result in a very short duration fund comprised of high quality, liquid investments that is focused on Federal, Provincial, and Municipal securities, with a maximum corporate allocation of 25% to “domestic systemically important banks” (D-SIB) banks – ie. the Big 6 Canadian federally chartered banks. After this “tilt” has been completed, this pooled fund will be known as the “Ultra-short Government Focused Bond Fund.”

While this move was done predominantly to meet our clients’ desire to focus exclusively on preservation of capital, please note that this fund will now be a fossil fuel free option, appropriate for clients with a time horizon of 0 to 15 months. MFA anticipates a running yield between 0.85% to 1.00% before fees of 15 bps.

The shift of the composition of the fund is expected to begin on or around May 11, 2020.

**Highlights of Ultra-short Government Focused Bond Fund**

- Provides an ultra-conservative and ultra-liquid investment option
- Reduced fees of 0.15% (previously was 0.20%)
- Allows efficient access to government securities that are not widely available to most clients
- The broad composition of the fund would be:
  - 10% Federal Bonds
  - 65-90% Provincials/Municipals
  - 0-25% Big 6 Schedule I Banks

We have had numerous discussions with our clients who have expressed concerns about how to invest during the current volatile financial environment, including sharing our credit analysis processes and insights. Our team is available to you at any time to discuss your portfolio. Please email us for assistance in this area and we will contact you directly: invest@mfa.bc.ca
Our Commitment to Our BC Local Government Stakeholders

Our professional, dedicated staff team are working hard with your best interests in mind. Our mission has not changed – to finance municipal infrastructure and provide other low-cost and reliable financial solutions tailor-made exclusively for BC’s local governments. 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 continue to take action to support BC’s Local Government system and ensure financial success and stability for our clients in this new environment. We are not profit-motivated and have no other clients to serve. The more we understand about your borrowing and investing needs, the more we can assist you, bringing to bear our deep financial experience, our strong contacts in both the Canadian government and financial sectors, and the economies of scale that our collaborative model has provided to our stakeholders for 50 years. We are here for you.

Peter Urbanc, CEO
Municipal Finance Authority of British Columbia

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