

**2023 FINANCIAL FORUM & AGM**

# **Session 2: MFA 101**



**Municipal Finance  
Authority of BC**

**Your Partner in Finance | [mfa.bc.ca](https://mfa.bc.ca)**

# Introduction to MFA

---

**Peter Urbanc, Chief Executive Officer**

**Matt O'Rae, Chief Financial Officer**

**Shelley Hahn, Chief Services Officer**

**Allison Ashcroft, Director of Sustainability**

**Renata Hale, Director of Technology & Strategy**



## **OUR VISION**

**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. As part of the fabric of local government in British Columbia our sole motivation is to focus on what is best for our clients.**

---

## **STRATEGIC FOCUS AREAS**

**Stakeholder engagement**

**Resiliency and capacity**

**Professional financial management**

**Program development and improvement**

**Technology support and security**



# Our Services: Programs, Products, & Education

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
- Fossil Fuel Free options
- New asset classes including Equities

## Education

- Financial Education & Training
- Sponsorship & Support of the BC Local Government Community



# Governance - Overview

## Members:

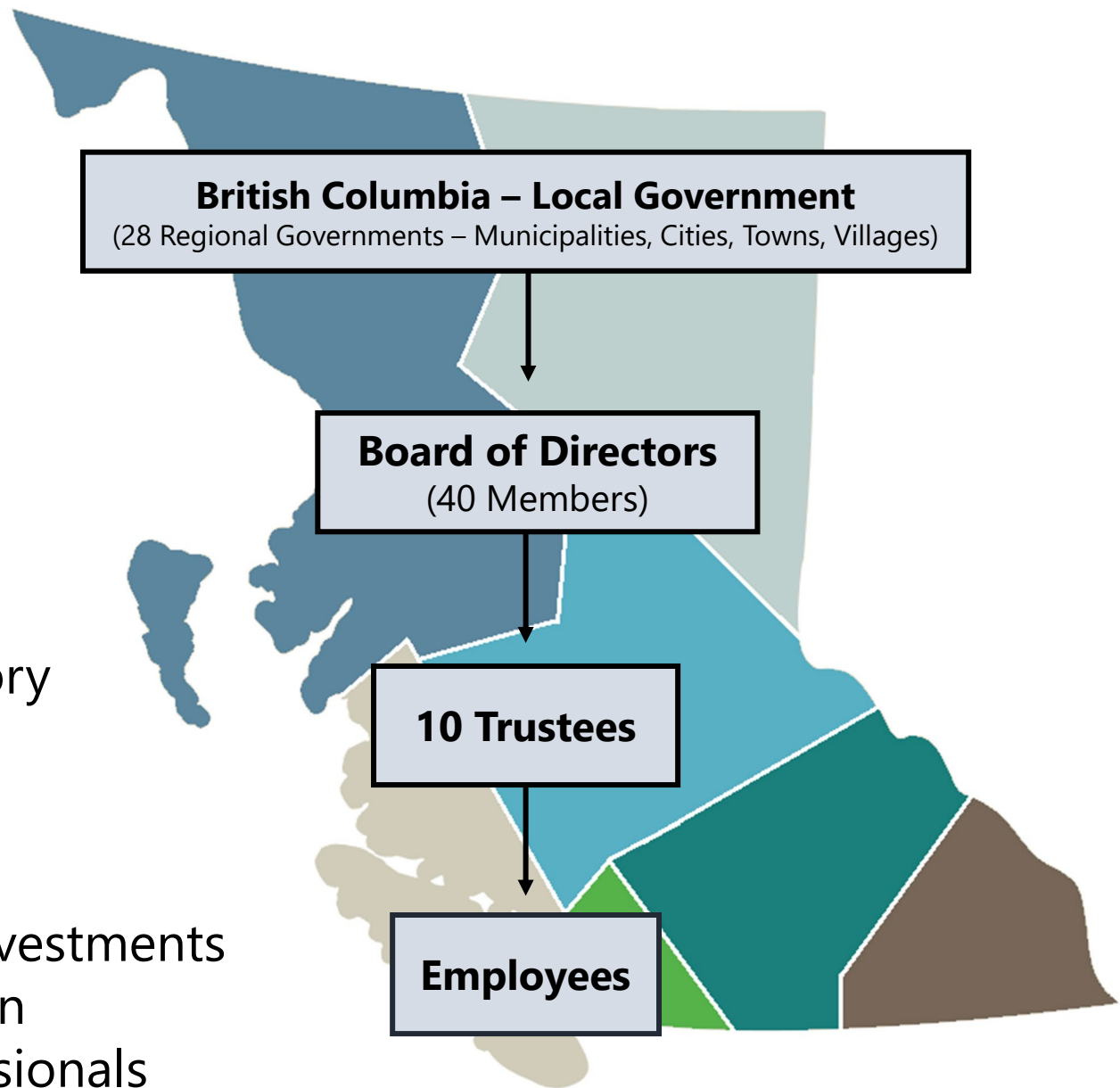
- Approve Operating Tax Levy
- Approve Operating Budget
- Review LT Loans
- Elect Chair and Trustees

## Trustees:

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

## Employees:

- Manage Loans, Debt & Investments
- Balance Sheet of \$10Billion
- Complement of 17 Professionals



# MFA Provides Reliable Funding and Cost Savings

MFA provides stable, reliable, and equitable access to funding to help build communities – offering tremendous cost and time savings for local governments.

	MFABC	AAA Municipality
Annual Borrowing Amount	\$1,500,000,000	\$25,000,000
Interest rate (bond coupon)	3.75%	3.90%
Annual Interest Cost per \$25mm	\$937,500	\$975,000
Annualized Fees*	\$12,750	\$100,000
Annual Cost per \$25mm Borrowed	\$950,250	\$1,075,000

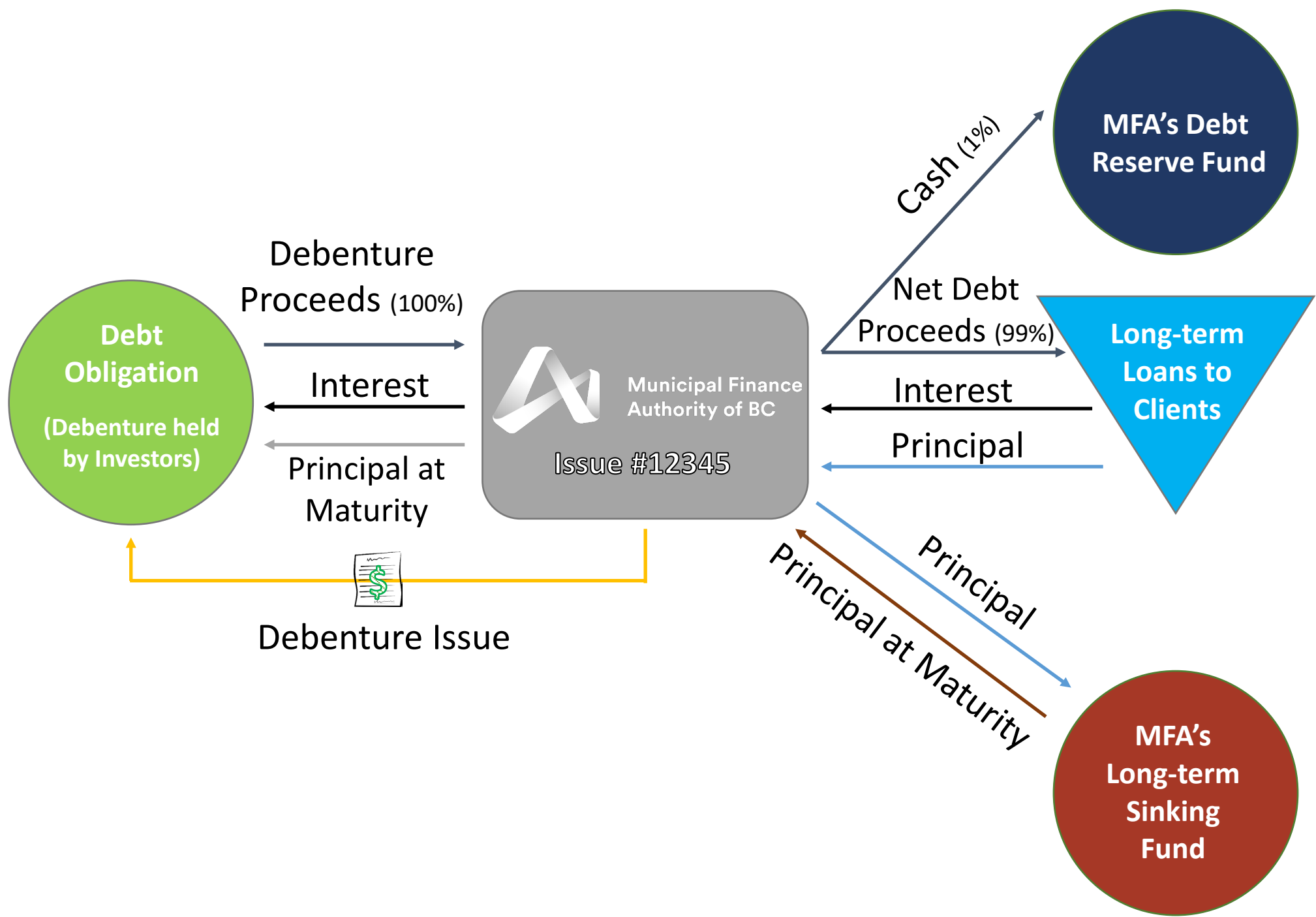
\* Underwriting, legal, rating agency and other fees

**Centralizing borrowing via MFA achieves \$125,000 in ANNUAL savings to borrow \$25 million, about 12% in savings!**

# How are MFA's Operations Funded?

- No senior government support
- Province wide annual property tax levy
  - 2021: 0.1% of MFA total revenues
- Modest fees associated with long-term borrowing (0.1% or 10 bps)
- Balance comes from our optional program user fees
  - Pooled Investment Funds
  - Short-term Loans
  - Equipment Financing
- Modest positive operating earnings every year that help stabilize our capital requirements and/or are reinvested into the LG system

# Long-term Borrowing and On-lending Explained





# Interpreting MFA's Financial Statements

## Consolidated Statement of Comprehensive Income

\$ millions

	2022
<b>REVENUE</b>	
Interest from loans to clients	\$ 247
Investment income	164
Other	22
<b>Total Revenue</b>	<b>433</b>
<b>EXPENSE</b>	
Interest on long-term debt	260
Interest on bank and short-term indebtedness	10
Other	6
<b>Total Expenditure</b>	<b>276</b>
<b>Profit for year</b>	<b>157</b>
<b>Other Comprehensive Income for the year</b>	
Financial instruments at FVOCI:	
Net change in fair value	(699)
Reclassified to profit or loss	(6)
Net remeasurement in loss allowance	(0)
<b>Other Comprehensive Income for the year</b>	<b>(704)</b>
<b>Total Comprehensive (Loss) Income for the year, end of the year</b>	<b>\$ (547)</b>

**\*Interest Paid on  
Loans by Members**



\$ 247

**\*Interest Earned on  
Investment Holdings**



164

**\*Interest Paid to  
Debenture Holders**



260

10

**\*Fair Market Value  
Fluctuations on  
Investment Holdings**



(699)

(6)

(0)

# Interpreting MFA's Financial Statements

## Consolidated Statement of Financial Position

\$ millions

	2022
<b>ASSETS</b>	
Cash and cash equivalents	\$ 568
Investments	3,960
Short-term loans to clients	168
Long-term loans to clients	5,596
Other	96
<b>Total Assets</b>	<b>10,389</b>
<b>LIABILITIES</b>	
Bank and short-term indebtedness	598
Due to clients	120
Other	47
Long-term debt	9,753
<b>Total Liabilities</b>	<b>10,517</b>
<b>EQUITY</b>	
Accumulated and other comprehensive income	(275)
Retained earnings	147
<b>Total Equity</b>	<b>(128)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 10,389</b>

**\*Capital**

**\*Sinking Funds**

**\*Short Funds to Lend**

**\*Short-term Loans**

**\*Equipment Financing**

**\*Long-term Loans**

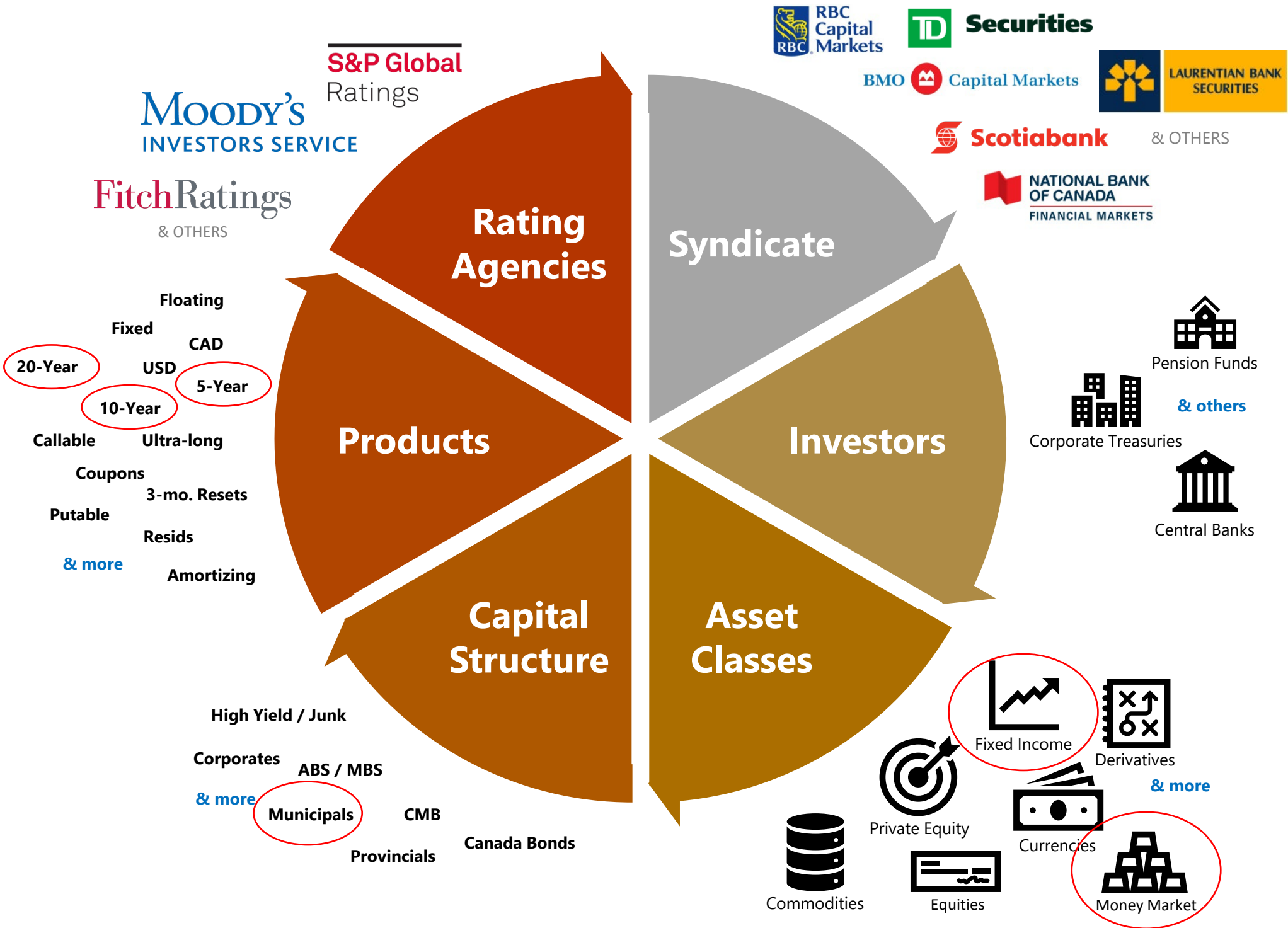
**\*Debt Reserve Fund**

**\*Commercial Paper**

**\*Debentures**

**\*Fair Market Value  
Fluctuations on  
Investment Holdings**

# Key Players in the Capital Markets



# Pillars of MFA's AAA Credit Strength



MFABC's credit ratings are the highest attainable allowing local governments in BC of **any** size to access debt at the same low cost

"... excellent loan portfolio credit quality, robust liquidity position and access to external funding, and well-established policy and strong legal framework ..."

# GOVERNANCE – Operating Tax Levy

## 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**
  - **Not required to fund operations at MFA but to ensure that the mechanism is in place and tested every year**

# GOVERNANCE – Operating Budget

## 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**

# 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**

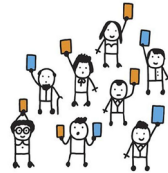


**Statutory  
Approval**



**Cert. of  
Approval**

## Electors



**Approval**

## Regional Districts



**Adopted  
SI Bylaw**



**Cert. of  
Approval**

## MFA



**Municipal Finance  
Authority of BC**



**Staff/Credit Committee  
Review**



**Trustee Review**



**Authorization to Issue  
Debenture**



**Approximate Timeframe: 8 to 12 months**

# GOVERNANCE – Loan Approvals

## Member 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*



# GOVERNANCE – Pooled Investment Funds

## 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

# Investment Funds: ESG & Socially Responsible Options



- ALL MFA Pooled Investment Funds utilize an **ESG integration strategy**. As a matter of policy, MFA will only hire asset managers who are signatories of the United Nations' Principles for Responsible Investment (UNPRI). Signatories adhere to the following 6 Principles:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.



- MFA offers several **Fossil Fuel Free (FFF)** investment options

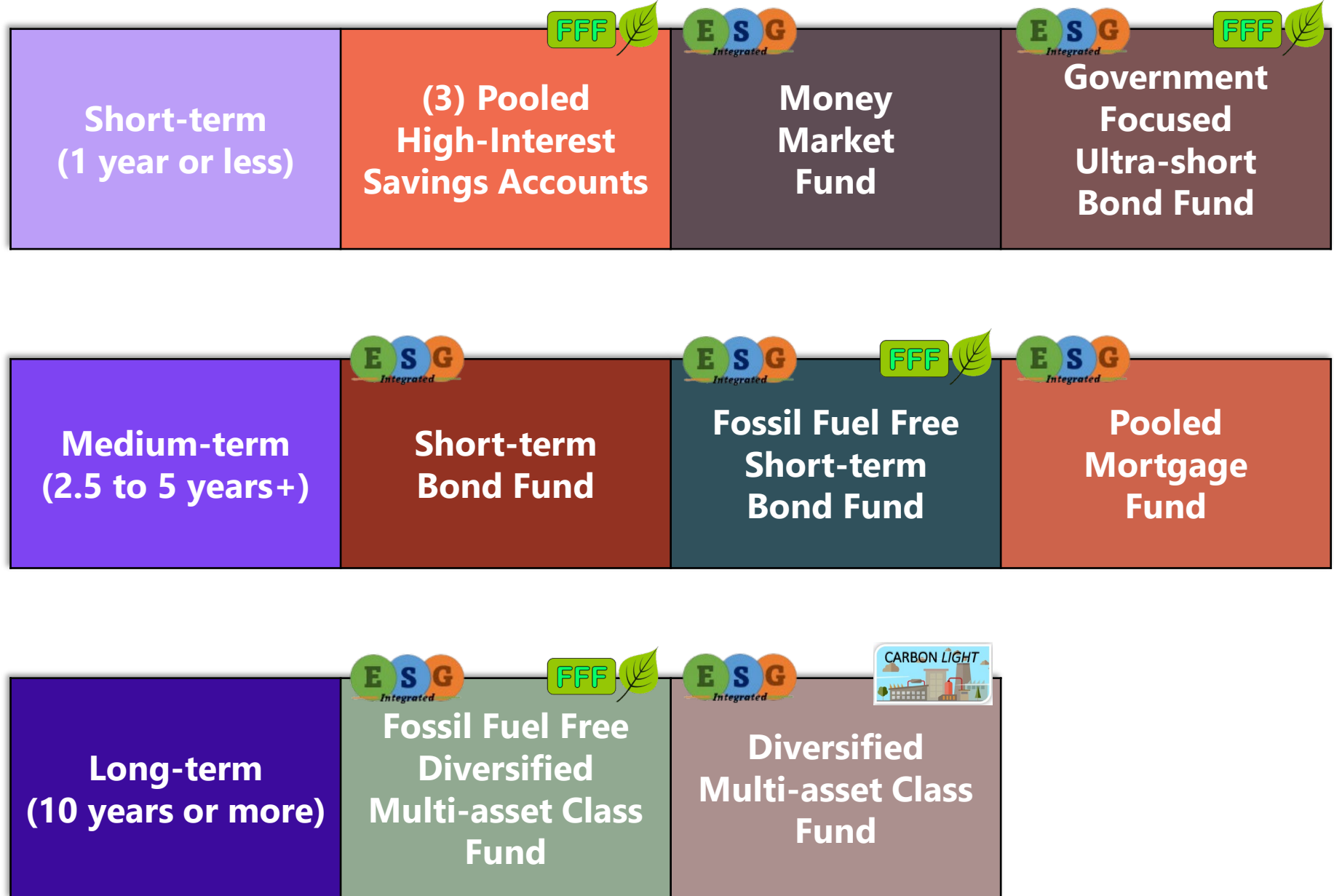
*Funds which exclude investments issued by companies directly involved in extracting, processing, or transporting coal, oil or natural gas; and Savings Accounts offered by financial institutions*



- MFA's newest Pooled Investment Fund, the Diversified Multi-asset Class Fund ("DMAC") is a "**Carbon Light Fund**"

*"Carbon Light" refers to strategies which minimize a portfolio's carbon impact. Several of the underlying funds of the DMAC Fund employ a strict FFF screen. Overall, an estimated 94% of the Fund is invested in FFF securities.*

# MFA's Suite of Pooled Investment Products



FFF refers to **Fossil Fuel Free** defined here as (1) Funds which exclude investments issued by companies directly involved in extracting, processing, or transporting coal, oil or natural gas; and (2) Savings Accounts offered by financial institutions.

ESG integrated refers to Funds which are managed by signatories to the UN's Principles of Responsible Investment. "Carbon Light" refers to strategies which minimize a portfolio's carbon impact including up to ~40% FFF.

# MFA's ESG Evolution

<div>E</div> <div>Environmental</div>	<div>S</div> <div>Social</div>	<div>G</div> <div>Governance</div>
<ul style="list-style-type: none"><li>• Climate change and GhG Emissions</li><li>• Sustainability</li><li>• Air &amp; water pollution</li><li>• Water scarcity</li><li>• Biodiversity and habitat protection</li><li>• Site rehabilitation</li></ul>	<ul style="list-style-type: none"><li>• Human rights</li><li>• Community impact</li><li>• Health &amp; safety</li><li>• Child and forced labour</li><li>• Gender diversity</li><li>• Human Capital: Employee engagement/productivity</li><li>• Customer satisfaction</li></ul>	<ul style="list-style-type: none"><li>• Board independence</li><li>• Board accountability</li><li>• Executive compensation</li><li>• Shareholder rights and voting</li><li>• Anti-corruption</li></ul>

SET FOUNDATION +  
EXPERIMENT

2020

2022

PREPARE + BUILD

2023

COMMIT + COLLABORATE

2023+

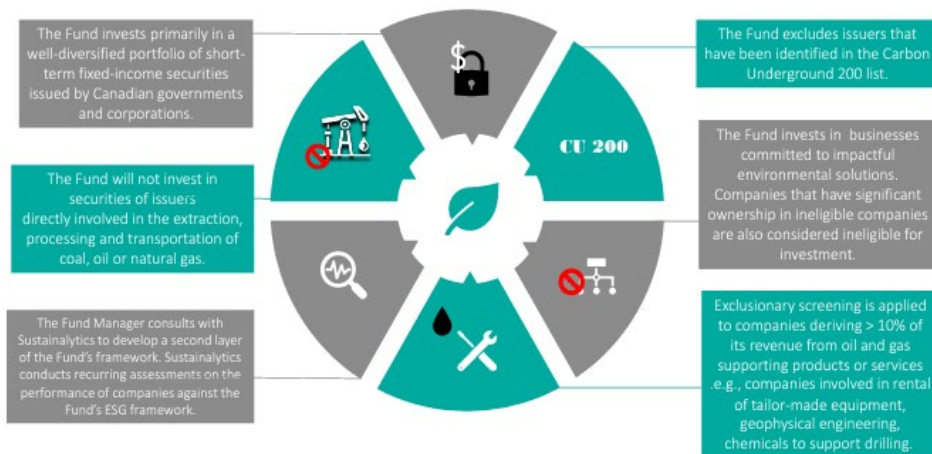
IMPLEMENT, SHARE,  
LEARN + IMPROVE

# 2020 ESG Activities

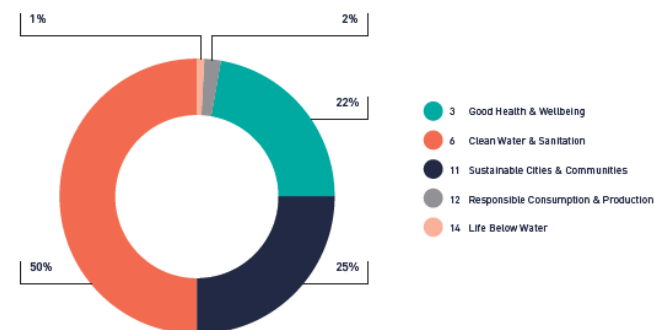
SET FOUNDATION +  
EXPERIMENT

2020

- **Reporting** - Integration of ESG disclosure into annual report begins.
- **Lending** - New and refinanced loans are "mapped" to the SDGs and the Social and Green Bond Principles for MFA's semi-annual bond issuances on a go-forward basis.
- **Investing** - MFA offers a new short term Fossil Fuel Free (FFF) bond fund to Members, the first of its kind in Canada.



Total 2020 Debt Issuance by UN Sustainable Development Goal



SUSTAINABLE DEVELOPMENT GOALS



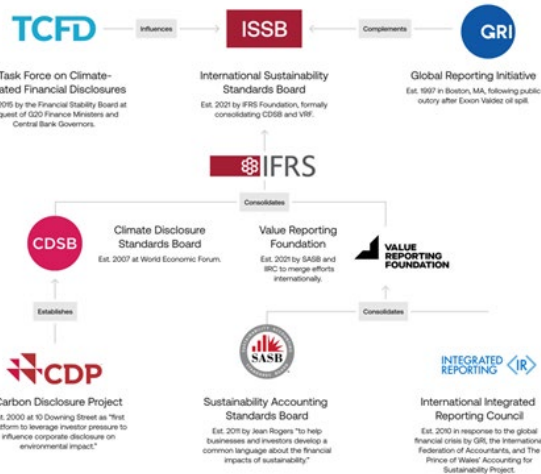
The Green Bond Principles

The Social Bond Principles

# 2022 ESG Activities

2022

PREPARE + BUILD



- **Research and review** emerging ESG standards and consolidation of standards bodies.

- **Calculate** MFA's first GHG inventory, excluding financed emissions

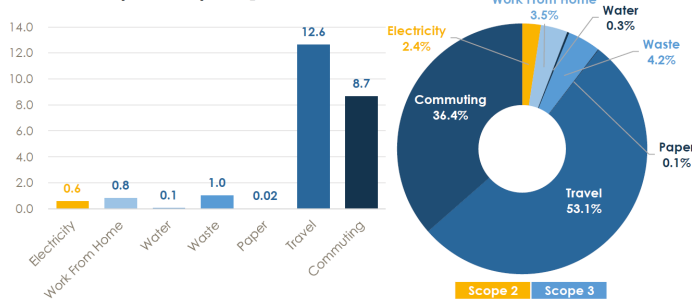
- **Introduce ESG-aligned products:**

- Sustainable Bond Framework. Bloomberg tags MFA's new bond issuance as 'sustainable'.
- FFF Diversified Multi-Asset Class fund developed for Spring'23 offer.

- **Create capacity** – new Director of Sustainability position

Carbon Footprint By Activity

Emissions by Activity (tCO<sub>2</sub>e)



Municipal Finance  
Authority of BC

Sustainable Bond Framework

June 2022

# ENHANCING THE CREDIBILITY OF CLIMATE COMMITMENTS IN CANADA

COMMIT + COLLABORATE

**Near to midterm federal and provincial policy changes are anticipated which could impact BC Local Governments and MFA's planning/reporting requirements and the ability to access funding and secure favourable finance terms.**

## POTENTIAL IMPACTS TO BC MUNICIPALITIES

- BC net zero target amendment to legislation in 2023 could impact Provincial funding decisions and LG project eligibility or reporting requirements.
- Annual impact measurement and reporting requirements for local government under Provincial LG Climate Action Program.
- Integration of climate into legislated hazard risk and vulnerability assessments for public infrastructure.
- Extension of Federal procurement guidelines to LG capital projects receiving federal funding.
- Trending expectations (and future accounting standards) for disclosure of climate risk in annual reports of LGs.

## REGULATOR AND INVESTOR EXPECTATIONS IMPACT MFA'S ESG PROCESS AND REPORTING

- **Regulator Requirements** - Mandatory compliance with TCFD-aligned standards for climate risk assessment, management, and disclosure is coming for banks.
- **Investor Expectations** – Disclosure of relevant and decision-useful ESG information with emphasis on climate risk and opportunity.

### MFA RESPONSE

MFA is responding proactively and voluntarily to remain competitive, ensure retention of AAA rating, and to contribute to achieving global climate goals.

Our stakeholder and standards-driven ESG program will ensure:

- MFA understands and mitigates against potential impacts of sustainability and climate-related risks to its **business model and strategy**.
- MFA has appropriate **governance and risk management practices** to manage identified sustainability and climate-related risks.
- MFA remains **financially resilient** through severe, yet plausible, climate risk scenarios.



# Sponsorship & Support for Education

## ORGANIZATIONS THE MFA HAS FUNDED



# Technology Upgrades & Cybersecurity

**Technology is essential to MFA's operations**

**Cybersecurity is a significant risk across all sectors; however, local governments and financial institutions are primary targets**

**In late 2019, we embarked on a multi-year technology plan with 4 primary areas of focus:**

- Alleviate technical debt and establishing strong systems
- Move systems to the cloud for resiliency and security
- Achieve "Defensible Cybersecurity for Public Sector Organizations"
- Improve the experience of both internal and external stakeholders

# Technology Upgrades & Cybersecurity

## **Supporting BC Local Governments in their own cybersecurity efforts:**

- Annual sponsor of the Vancouver International Privacy and Security Summit (VIPSS) Local Government Sector Day – virtual event with highly relevant cybersecurity content
- Member of the Municipal Information Systems Association of BC (MISABC) for BC local government technology staff
- Available to share our own technology roadmap and suggested resources



## Municipal Finance Authority of BC

### MFA's Directors

**Peter Urbanc**  
Chief Executive Officer

[peter@mfa.bc.ca](mailto:peter@mfa.bc.ca)

(250) 419-4760

**Shelley Hahn**  
Chief Services Officer

[shelley@mfa.bc.ca](mailto:shelley@mfa.bc.ca)

(250) 419-4763

**Matthew O'Rae**  
Chief Financial Officer

[matt@mfa.bc.ca](mailto:matt@mfa.bc.ca)

(250) 419-4761

**Renata Hale**  
Director, Technology & Strategy

[renata@mfa.bc.ca](mailto:renata@mfa.bc.ca)

(250) 419-4770

**Allison Ashcroft**  
Director of Sustainability

[allison@mfa.bc.ca](mailto:allison@mfa.bc.ca)

(250) 419-4774

# Tailor-made solutions for BC Local Governments.

---

**MFABC** | CELEBRATING OVER 50 YEARS OF EXCELLENCE

