

**Tom Yates**

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**From:** MFA <mfaemail@mfa.bc.ca>  
**Sent:** October 25, 2019 11:20 AM  
**Subject:** Municipal Finance Authority - Report to Members on the Activities for the period of May 2019 to September 2019  
**Attachments:** MFA\_Report\_to\_Members\_on\_Activities\_May\_to\_Sept\_2019.pdf

Dear MFA Members:

## Welcome to this year's 2nd summary report on activities of the Municipal Finance Authority –

We are pleased to share with you the attached summary of the activities and performance of the Municipal Finance Authority of British Columbia for the period of May 2019 to September 2019.

Please share this report with your respective organizations.

Please note, the MFA Annual General Meeting and Financial Forum will take place on March 25 & 26, 2020 in Victoria BC. As MFA will be celebrating its 50th year in 2020, the traditional reception will be replaced by a formal gala dinner on the evening of March 25 to commemorate this milestone anniversary. Further details will follow at a later date.

Thank you,

Malcolm Brodie, Chair  
Al Richmond, Vice-Chair



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**REPORT FROM THE CHAIR and VICE-CHAIR  
ON ACTIVITIES FOR THE PERIOD ENDED SEPTEMBER 2019**

**Purpose**

This report is intended to provide a summary of the activities and performance of the Municipal Finance Authority of British Columbia (“MFA”) for the period ended September 2019.

**Governance**

Representation from every community in British Columbia is provided through our 39 Members from 28 regional districts and our 10-member Board of Trustees.

Since our Annual General Meeting on March 28, 2019, the Board of Trustees has met three times.

The Investment Advisory Committee, comprised of all Trustees, has also met two times. The purpose of these meetings was to receive reports from our pooled investment fund manager, Phillips, Hager & North, and to update investment guidelines and program offerings. PH&N reports to the Committee on fund positioning and performance, investment management processes, and portfolio compliance.

A newsletter was sent out to all members in May 2019, providing an update on MFA activity and financial results from the Chair and Vice-Chair.

**Results from Operations – Six Months 2019 vs Budget**

The annual budget was reviewed by the Board of Trustees on March 12th, 2019, and approved by the Members at the Annual General Meeting on March 28th, 2019. The annual budgeted operating revenue is \$6.49 million and expenditures \$3.51 million for a projected profit of \$2.98 million. The results for the 1st half of 2019 show a net profit of \$1,141,185 and is negative to budget by \$9,945. Revenues are down \$265,772, which is attributed to lower overall participation levels in pooled investment funds than expected. Expenditures are favorable by \$255,827.

The retention fund for the first half of the year is favorable to budget by \$543,819 and has a balance of \$77.0 million at June 30, 2019.

**Financing**

Since our spring issuance in April of 2019, we issued two new debentures in the marketplace.

On May 21 2019, we issued a new 5-year debenture (2.15% due June 2024) to refinance \$800 million which funded the maturity of two debentures; June 2, 2019 2.05% & June 3, 2019 4.875%.

The issue was oversubscribed and well diversified between 60 investors of which 20 were new buyers. This transaction was the largest ever single-tranche municipal offering.

The day following our Semi-Annual Meeting on September 24, 2018, we launched our fall issue. \$235 million was raised through the re-opening of our existing October 2029 debenture at a yield of 2.116% to fund new loans requests approved at the meeting. The issue was 1.8X oversubscribed and well diversified between 33 investors and attracted 10 new buyers to the 10-year borrowing program.

More generally, the MFA continues to achieve lower interest rates when compared to all other municipal participants in the bond market across Canada. This reflects our triple A credit ratings and the strength of local government throughout BC. We are able to lend to all our members at the same low rate, regardless of the size of each community we serve in BC.

The short-term borrowing program currently has \$600 million in commercial paper outstanding (vs. a \$700 million limit) and remains highly sought out by investors. Notwithstanding the strong investor demand for MFA commercial paper, management has indicated that it will look to reduce the outstanding commercial paper balance by \$100 million prior to the end of Q1 2020, bringing the outstanding amount down to \$500 million. Given lower than expected short-term loan utilization by its Members, MFA management views the reduction in outstanding commercial paper as a prudent step in reducing the Authority's overall financial risk profile.

Monies raised through the issuance of commercial paper are used to fund loans under our short-term and equipment finance programs. The current lending rate is 2.46%. As of September 30, 2019, we had 109 outstanding short-term loans totaling \$260.67 million and 288 Equipment Financing loans totaling \$34.76 million.

### **Pooled Investment Funds**

As at	August 31, 2019	August 31, 2018	Change	1 Year Returns at August 31, 2019	
				Funds	Benchmark
	\$ millions				
Bond	543	561	-18	4.38 %	4.33 %
Intermediate	261	328	-67	2.65 %	2.17 %
Money Market	1,503	1,185	318	1.90 %	1.48 %
Pooled High Interest Savings Account *	1,568	697	871	**	N/A
<b>AUM</b>	<b>3,875</b>	<b>2,771</b>	<b>1,104</b>		

\*\* Current Rate on CIBC and NBC PHISA's are 2.46% and 2.47%, respectively.

We would note that the recent (over last few months) quick reversal of rates (back to all-time lows in interest rates) which reflects global market uncertainty about future growth prospects, has made cash management challenging for local government reserves managers.

### **Pooled Mortgage Fund**

We are moving ahead with the launching of our fourth pooled fund product in October – the MFA Pooled Mortgage Fund. The fund would offer a pickup in yield to the MFA Bond Fund with historically very little incremental credit risk. The trade-off is relative lack of liquidity, so it would only be suitable for investors who understand that only a portion of “long term” reserves should be invested in the product.

### **Pooled Investment Fund Advisory Committee to Management**

In an effort to continuously improve our pooled fund investment offerings, MFA has recently created a Pooled Fund Advisory Committee comprised of ten local government clients. The Committee will meet four times per year and provide management with ideas, feedback and advice on our pooled funds. More specifically, the mandate of the Committee includes:

- Reviewing performance of existing pooled funds;
- Advising on operational improvements on our pooled funds;
- Advising on the creation of new funds;
- Exchanging ideas and leveraging our cooperative structure to get more from investment service providers; and
- Reporting on relevant recommendations/findings from the group to the Investment Advisory Committee of the Board or the Board of Trustees.

Committee members were chosen for two-year terms through an application process over the summer and comprise the following members:

- **Stephen Banmen**, General Manager, Finance,  
Regional District of North Okanagan
- **Rob Clark**, Strategic Financial Analyst,  
City of Prince George
- **Andrew Hoge**, Manager, Corporate Finance & Treasury  
Capital Regional District
- **Stuart Horn**, Chief Administrative Officer  
Regional District of Central Kootenay
- **Chris Paine**, Director of Finance  
City of Colwood
- **Tina Perreault**, General Manager, Corporate Services / Chief Financial Officer  
Sunshine Coast Regional District
- **Wesley Renaud**, Budget Analyst  
City of Penticton
- **Arseniy Shchedrinskiy**, Financial Controller  
District of West Vancouver
- **Doug Spindler**, Assistant Director, Treasury Services  
City of Burnaby
- **Trevor Thompson**, Chief Financial Officer  
City of Maple Ridge

## **Investor Relations**

Management continues to actively promote our credit story to institutional investors around the world. Investor development meetings are done in various formats, including one-on-one teleconference calls, one-on-one meetings, and group presentations. Investor development is a critical component in differentiating MFA and achieving continuous access to the markets and the lowest cost of funds from among our peers.

We have outlined our most important investor development events for 2019 below.

### **BMO Annual Government Finance Conference**

We presented to a large group of institutional investors at the BMO Annual Government Finance Conference in Toronto and Montreal in May.

### **National Bank Financial BF Municipal Investor Conference**

We have participated in a presentation to a group of Canadian fixed income investors in Toronto in September.

### **CIBC Government Finance Conference**

We will be participating in a presentation to a group of Canadian fixed income investors in Vancouver in December.

### **Bloomberg Canadian Fixed Income Conference**

We will be making multiple presentations to investors in New York and Washington, DC in October of this year.

## **Credit Ratings**

Annual credit rating presentations were held in Richmond in April 2019.

Our AAA credit ratings with stable outlooks were since reaffirmed by all three ratings agencies – Standard and Poor’s, Moody’s, and Fitch. Our Commercial Paper program was also reaffirmed at the highest ratings available.

### **MFABC Adopts Capital Adequacy Policy**

In September of this year, MFABC Trustees approved a newly developed capital adequacy policy. This policy and associated framework will formally guide management on how to manage its capital in the future.

As we have discussed over the last few years, in their efforts to bring consistency to their credit rating models post the 2007/8 financial crisis, the rating agencies have been increasingly viewing MFABC as a financial institution providing financial services to the local government sector. Historically, they have focused more on our “government-like” characteristics including our taxation ability as a basis for our strong AAA credit ratings. Viewed as a financial institution, MFABC’s “on-balance-sheet” capital position becomes a critical component supporting our ratings.

On-balance sheet capital for financial institutions is a formal requirement of financial regulatory bodies around the world. Capital is needed to absorb credit or other losses at the financial institution and therefore provide protections to retail customers and more broadly to the financial

system. Capital requirements have been significantly strengthened by regulators post the 2007/8 crisis as they want to avoid the possibility of financial contagion in the future and another government-led bailout of the financial system.

While MFABC is not a regulated entity, most of the local government funding agencies that exist around the world (about 10 of them) are subject to those regulatory requirements. As a result, and given that rating agencies must apply standardized models to assess the relative risks between institutions, management and the Trustees viewed it prudent to self-impose similar requirements to MFABC's operations. A number of years ago Trustees halted distributions of the Strategic Retention Fund to Members in anticipation of approving a Capital Policy. This was an important signal to the rating agencies and the market. In effect, we indicated to our capital market participants (investors, banks, dealers, rating agencies) that MFABC's Strategic Retention Fund is an important and (possibly) permanent component of our risk capital held for the benefit of the organization and bondholders, and is to be used in the event of unexpected credit or operational losses.

On September 10, the Trustees formally adopted our capital adequacy policy and framework (collectively "the model"). The model was structured on the same principals as OSFI (Office of the Superintendent of Financial Institutions) guidelines for Canadian Chartered banks and is comparable to the approaches taken by MFABC's international peers. The model calls for MFABC to target a Leverage Ratio of Total Capital to Total Assets of 2% (versus 3% for a Canadian Chartered Bank) and a Capital Adequacy Ratio (Total Capital / Risk Weighted Assets) of between 9% and 11% (versus 14% to 16% for large global banks) and a Liquidity Ratio of 1.0 x (maintain enough liquidity to service a full year of interest expense). The model is quite complex and has a lot of moving parts, but it effectively looks at all the major risks faced by MFABC (credit, operational, market, liquidity, investment and refinancing risk) and assigns capital to defray those risks.

Based on the policy, MFABC is targeting a minimum on-balance sheet capital of \$185 million while it currently holds \$181 million of capital. As MFABC continues to be profitable from operations, that target should be achievable over the coming few fiscal years.

### **Annual General Meeting**

The Annual General Meeting and Financial Forum event is set to take place in Victoria on March 25 and 26, 2020. As MFABC will be celebrating its 50th year in 2020, the Board of Trustees have approved an increased budget for the AGM/Financial Forum event to showcase and celebrate our successes over the past 50 years and look to the future of the organization. We will be hosting a formal gala dinner on March 25 to replace our traditional reception and will organize special conference sessions to commemorate our milestone anniversary.

Submitted by:



Malcolm Brodie  
Chair



Al Richmond  
Vice-Chair