



MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA

REPORT FROM THE CHAIR and VICE-CHAIR

ON ACTIVITIES FOR THE PERIOD OF JANUARY 2017 – APRIL 2018

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 of January 2017 – April 2018.

MFA

Board of Trustee Meetings

The Board of Trustees attended seven meetings.

The Investment Advisory Committee, comprising all trustees, held three meetings. The purpose of these meetings is to receive reports and analysis from management and our pooled investment fund manager, Phillips, Hager & North (PH&N).

Semi-Annual General Meeting of Members

Members and trustees attended the Semi-Annual General meeting on September 26, 2017 and the Annual Meeting of the Members on March 22, 2018.

2017 IN REVIEW AND LOOKING FORWARD

During the year, we added **three new team members**: Wendy Nesbitt, Administrative Assistant; Nikola Gasic, Portfolio Analyst/Manager; and Lauren Kerr, Credit and Compliance Officer. These excellent additions continue the reinvention of our organizational structure we began in 2015, deepening our expertise and expanding our capacity for growth and improvement. In 2018, we will fill our vacant Programmer/Analyst position and complete the search for our new Director of Finance.

From a **program perspective**, 2017 marked the end of the MFA Leasing Corporation and the long-standing leasing program, which has been replaced with our more streamlined equipment financing program. We also added a new pooled high interest savings investment program which has been extremely well-received, and we will launch a second service provider option in mid-2018. Finally, we undertook extensive research on the topical issue of fossil fuel divestiture and the possibility of

creating a new 'socially responsible (SRI)' pooled investment fund for clients who expressed this need. Review continues on this subject as we work with interested clients and our fund managers at PH&N on this option. Demand for a pooled SRI fund remains at about \$65 million at year end, but we continue to monitor interest and will continue our work if we reach \$100 million in demand.

Income from Operating Activities, Short-Term Debt Fund, and Retention Fund

Our retention fund grew to \$64 million at the end of 2017, a \$8.8 million increase from 2016. This was accomplished by a combination of income from operations of \$3.3 million, short-term debt fund earnings of \$4.4 million, and interest earned on the fund itself of \$1.1 million. The uses of the retention fund are currently technically unrestricted. However, the fund supports our AAA ratings and investors' view of MFA's credit quality. As such, management and trustees will be developing a formal policy with respect to its intended use and targeted size.

Asset and Investment Management

Assets under management were \$8.8 billion at the end of 2017. Assets comprise our loans to clients of \$4.4 billion, representing 1,746 long-term requests for financing through 28 regional districts and three other entities. Our short-term loans of \$279 million represented 134 short-term requests for financing and 334 equipment financing arrangements. Included in our assets are investments of \$3.8 billion managed internally. Of these investments, \$3.5 billion are held as sinking funds which reflect payments collected from clients and invested for the future retirement of market obligations. We also manage and invest a debt reserve fund, valued at \$109 million at the end of the year. The debt reserve fund holds assets as security for debenture payments to bondholders in the unlikely event that a client is unable to make payment to the MFA. It is a measure of protection that has never been accessed in our history.

Long-Term Lending

We issued \$956 million of **long term bonds** in 2017 – a drop of about \$600 million from 2016, reflecting a lower amount of maturing market debt to be refinanced. We issued five debenture issues during 2017 (compared to 2016 – \$1,565 million raised in five issues). These issues achieved 5- and 10-year borrowing rates of between 2.15% to 2.99% – low by historical standards, but higher than the all time low rates achieved in 2016 of 1.6% and 2.5%. These higher rates reflect a rising rate environment in the midst of strong global economic growth. Throughout 2017, MFA continued to access the lowest long-term rates in Canada when compared to our Municipal peers.

This borrowing program refinanced maturing debt and underpinned both existing client loans as well as 94 new loans aggregating over \$520 million to our clients.

New Long-Term Loans – 2017 Full Year		
Size	Number	Aggregate Amount
Less than \$1 million	40	\$ 14,847,269
Between 1 & 5 million	30	62,097,963
Between 5 & 10 million	12	84,176,876
Between 10 & 15 million	6	79,004,366
Above \$15 million...	1	33,535,000
	1	34,873,000
	1	50,000,000
	1	50,000,000
	1	50,000,000
	1	61,250,000
Total	94	\$519,784,474

Short-Term Lending

At the end of 2017 we had \$700 million in commercial paper outstanding to support our current and expected growth in short-term lending. We issued \$5.6 billion in commercial paper throughout the year in our weekly auctions. Short-term loans are refinanced weekly, allowing for flexibility and efficiency for our clients. This program is primarily used to provide interim financing for capital projects during construction and lending for our equipment financing program.

In 2017 there were 229 new loans written with initial advances totalling \$125 million. We made 356 advances ranging from \$ 1,026 to \$9 million. At the end of December, we had 468 loans outstanding aggregating \$279 million.

Short-term Loans Outstanding December 31, 2017		
Size (\$)	Number	Aggregate Amount (\$)
<\$50,000	231	\$ 4,166,085
50,000 < <150,000	115	10,390,747
150,000 < < 500,000	66	17,405,539
500,000 < < 1 million	20	13,009,238
1 million < < 5 million	29	52,784,939
5 million < < 10 million	3	18,256,200
Greater than 10 million	4	162,686,437
Total	468	\$278,699,185

Triple A Credit Ratings

Annual credit rating presentations were held in May 2017. The representatives for MFA were Chair Malcolm Brodie, Vice-Chair Al Richmond, CAO Peter Urbanc, Graham Egan (Director of Finance), Shelley Hahn (Director of Business Services) and Phil Trotzuk (CFO of Metro Vancouver Regional District).

Our AAA credit ratings with stable outlooks were reaffirmed in mid to late 2017 by Standard and Poor's, Moody's, and Fitch. Our Commercial Paper program was also reaffirmed at the highest ratings available. The institutional framework of the MFA, professional management, and fiscally responsible local government in British Columbia continue to be cited as key factors supporting our ratings.

Our 2018 annual meetings with the rating agencies took place in March and April of 2018, but at the time of writing of this report our ratings have not yet been reaffirmed.

Investor Relations

In order to access the lowest available cost of funds from institutional bond investors around the world (central banks, insurance companies, pension plans, asset managers), MFA must compete for brand recognition and share-of-wallet with other highly-rated Municipal, Provincial, and AAA issuers globally. This requires continuous investor relations efforts to differentiate our name and ensure institutional investors maintain or increase room for the MFA credit in their portfolios. Our investor relations program continues to be active attracting several new investors in 2017, both internationally (2 new central bank buyers from Europe and the Middle East) and in Canada (several investors that had been inactive in our name started buying again).

Syndicate Review

In early 2018, we undertook a **detailed review** of the institutions that form our syndicate. The **MFA syndicate** is a group of the largest banking/dealer institutions in Canada that assist in placing our bonds to institutional investors – a critical component of our business. It is good practice to re-allocate syndicate members' relative positions on a periodic basis based on a review of their performance. As part of that review, we have decided to change the way we will sell bonds to the market, moving from an "underwritten" to an "agented" process, which we believe is a better approach going forward for MFA. This approach has the advantage of being a much more transparent and efficient way to issue bonds and should yield benefits for years to come.

Pooled Investment Funds

In October 2017, we launched our first of 2 pooled high interest savings accounts (PHISA). The CIBC PHISA is presently paying 1.96% on all money deposited. This rate will adjust with the prime rate. As at the time of this report there was \$245 million on deposit.

The 2017 results for the three managed funds are all positive relative to the benchmark indexes.

These are Money Market Fund, 0.97% (Index 0.48%), Intermediate Fund, 0.78% (Index 0.06%) and Bond Fund, 0.25 % (Index -0.12%).

Total pooled funds at year end was \$2.316 billion (2016, \$2.443 billion), with the Money Market Fund at \$1.200 billion (2016, \$1.246 billion), the Intermediate Fund at \$0.340 billion (2016, \$0.352 billion) and the Bond Fund at \$0.775 billion (2016, \$0.845 billion).

MFA Pooled Investment Funds and Fossil-Fuel Related Assets

As we reported to the Members in early 2016 and 2017, several alternatives have been and will continue to be explored, but none have proved viable so far.

As reported at the 2017 SAGM, the survey we conducted in 2017 to gauge interest in a socially responsible (SRI) pooled fund only yielded about \$65 million in interest. We have explained that we cannot move forward on developing this fund until we get at least \$100 million in demand, to defray the upfront and annual costs associated with managing the fund.

Recently, in late 2017 and into 2018, we have seen some discussions at the council level, notably from the Cities of Vancouver and New Westminster, on this topic. If decisions are made at these or other municipalities directing their staff to invest in an SRI Pooled Fund, and we get to the \$100 million threshold, we will begin work to create such a fund. Members should be aware that the process to create a new fund will take several months as significant legal and set-up work will be needed.

2018 Business Plan

We continue to focus on our three strategic priorities: ensuring organizational capacity, increasing operational excellence, and enhancing financial management. Many of our initiatives revolve around increasing our resilience in the key areas of people, programs, processes, partnerships, and policies, with top level themes of:

- greater connectivity and communication with related agencies and our clients
- internal streamlining and refining of processes
- incorporation of digital solutions, both internal and external
- cybersecurity and business continuity planning and preparedness
- increase in oversight of broker relationships
- expansion of education support

Staff departures and additions require some reorganization and the opportunity to rethink how we structure the organization. We are reviewing all programs for possible changes, deletions, and additions, while looking for ways to increase efficiency, clarity, and information-sharing. We are particularly looking at digital solutions, while developing our own information security practice and business continuity plan.

ALTERNATIVES

This is an information report. No alternatives are presented.

FINANCIAL IMPLICATIONS

There are no financial implications.

SUMMARY / CONCLUSION

The MFA Semi-Annual Meeting of members will be held on the afternoon of Tuesday, September 11, 2018 in Whistler, at the time of the annual convention of the Union of BC Municipalities (UBCM).

Submitted by:



Malcolm Brodie
Chair



Al Richmond
Vice-Chair