

MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA

REPORT FROM THE CHAIR and VICE-CHAIR ON ACTIVITIES FOR THE PERIOD ENDED APRIL 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 April 2019.

MFA

Board of Trustee Meetings

The Board of Trustees attended three meetings during the six-month period of October 2018 – March 2019.

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

Annual General Meeting of Members and Board of Trustee Elections for 2019

Members and trustees attended the Annual General meeting on March 28, 2019. The 39 appointed Members elect 10 trustees each year at the MFA AGM. The following trustees were elected from the members representing Metro Vancouver: Malcolm Brodie, Jonathan Coté, Jack Froese and Brad West. Geoff Young was nominated as the trustee representing the Capital Regional District. The following were elected as the five trustees from the remaining regional districts: Al Richmond (Cariboo Regional District), Ron Toyota (Regional District of Central Kootenay), Rob Gay (Regional District of East Kootenay), Lyn Hall (Fraser-Fort George Regional District) and Andy Adams (Strathcona Regional District). Malcolm Brodie and Al Richmond were acclaimed Chair and Vice Chair, respectively.

2018 IN REVIEW AND LOOKING FORWARD

Meetings of our Members were held September 11, 2018 (SAGM) and March 28, 2019 (AGM).

The Board of Trustees met with management several times throughout the year to review operating performance, access to the financial markets, administration and other miscellaneous items. In addition, the Board of Trustees held meetings of the Investment Advisory Committee which provides oversight for our Pooled Investment Funds. The Trustees and management also made presentations on behalf of the MFA at various local government conferences during the year.

From a staffing perspective, Graham Egan has decided to take a well-deserved retirement at the

end of 2018, culminating 19 years of service to our organization. Graham's legacy includes not only the financial strength of the MFA, but also the development of our proprietary in-house software system which has been instrumental in the continued success of our organization. Matthew O'Rae joined us in October from the Island Health Authority to take on the role of Director of Finance.

During 2018, we hired four additional team members to fill vacant positions: Marina Scott, Programmer Analyst; Selina Pieczonka, Administrative Assistant; Connor Neuman, Accountant; and Kyle Derrick, Credit and Economic Analyst. Alex Berg joined us in the newly created role of Client Support Specialist in February of this year.

Despite growth of the staff complement at MFA over the last few years – we have grown from 7 to 14 full time staff – we continue to answer questions from investors and the rating agencies to explain how our organization can operate with such a lean staff complement. In our recent meeting with the rating agencies, two out of the three noted that the few organizations around the world that do a similar function to MFABC (infrastructure lenders to local government) have much higher staff complement than MFA (ranging from 50 to several hundred staff in some cases). Management suggested there were many reasons for this relating to how MFA conducts its operations relative to these other organizations including:

1. MFA is not competing with other financial institutions in our main lines of business (borrowing and on-lending) so does not need to devote an inordinate amount of time and effort on marketing efforts;
2. MFA's lending parameters (for example level of indebtedness) are clearly defined and not subject to interpretation or competitive pressures;
3. MFA's capital market operations are simpler than many of those international organizations who tend to borrow in multiple currencies and employ swap and derivatives to a large extent. MFA has focuses on Canadian dollar issuance and lending, which keeps things much simpler to manage; and
4. MFA is not a regulated financial entity (nor should it be) as it operates under clearly defined parameters as per its Act – and lends to a very conservatively fiscally managed local government sector in BC. Regulations are ever increasing in the financial services industry and lead to additional staff needs and reporting requirements for those regulated entities.

From a program perspective, 2018 marked the end of the Municipal Investment Program (MIP), which offered individual investment accounts to municipal employees and politicians. As we described during the 2018 SAGM, the significant legal, regulatory and other complexities of dealing with individual investors outweighed the marginal benefits of the program. All participants who chose to remain in the program transitioned to the new Industrial Alliance program with Apri as the sponsor.

In mid-2018, we added a second service provider for our Pooled High Interest Savings investment program. As you know, we undertook a review in 2016/2017 on the issue of creating a new 'socially responsible (SRI)' pooled investment fund for clients who expressed this need. In 2018, interest in creating such a fund has continued to be static and remains at least \$35 million short of the \$100 million in scale we require to sufficiently defray costs.

From an accounting and reporting perspective, we are very pleased to report that we have successfully adopted IFRS 9 and the new requirement to model and estimate our forward-looking credit loss expectations for all assets held by the organization. Credit losses could be sustained by the MFA if one of our investments or loans were not paid back in time or in full. While we have never experienced any credit losses in our history, we are required to estimate potential future losses, based on new accounting standards used by financial institutions. This has resulted in an Expected Credit Loss on our balance sheet of just over \$600,000 as at December 31, 2018 on a balance sheet value of over \$9 billion. This represents less than 1 basis point, or 0.01% of the balance. This remarkably small Expected Credit Loss number reflects the quality of our loan and investment portfolios, will help inform our capital target, and should be supportive of our credit ratings going forward. We expect a capital strategy – effectively a target operating level for capital to be held on our balance sheet – to be developed and approved by Trustee in 2019.

2018 Year End Financial Results

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

Our retention fund grew to \$73 million at the end of 2018, a \$9.3 million increase from 2017. This was accomplished by a combination of income from operations of \$3.2 million, short-term debt fund earnings of \$4.2 million, interest earned on the fund itself of \$1.4 million and \$0.5 million fair market value gain on investment holdings for accounting purposes. The uses of the retention fund are currently technically unrestricted; however, the fund supports our AAA ratings and investors' view of the MFA's credit quality. As such, management and trustees will be developing a formal policy (Capital Target) with respect to its intended use and targeted size.

Asset and Investment Management

Assets under management were \$9.2 billion at the end of 2018. Assets comprise our loans to clients of \$4.7 billion, representing 1,689 long-term requests for financing through 28 regional districts and three other entities. Our short-term loans of \$258 million represented 123 short-term requests for financing and 331 equipment financing arrangements. Included in our assets are investments of \$3.6 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 \$108 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.

LENDING

Long-term Lending

We issued \$1,741 million of long term bonds in 2018 – an increase of about \$785 million from 2017, due to a higher amount of maturing market debt to be refinanced. We issued four debenture issues during 2018 (compared to 2017 – \$956 million raised in five issues). These issues achieved 5-year and 10-year borrowing rates of between 2.60% to 3.084% which are still very low by historical standards. Throughout 2018, 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 73 new loans aggregating over \$726 million to our clients.

New Long-Term Loans – 2018 Full Year		
Size	Number	Aggregate Amount (\$)
Less than \$1 million	38	14,225,466
Between 1 & 5 million	27	62,131,423
Between 5 & 10 million	2	15,000,000
Between 10 & 15 million	2	25,500,000
Above \$15 million...	1	89,898,990
	1	120,000,000
	1	128,787,879
	1	270,000,000
Total	73	\$725,543,758

Short-term Lending

At the end of 2018 we had \$675 million in commercial paper outstanding to support our current and expected growth in short-term lending. We issued \$5.7 billion in commercial paper throughout the year in 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 2018, advances totalled \$152.4 million. Of the 172 advances, \$12.2 million was the largest single transaction. At the end of December, we had 445 loans outstanding aggregating \$257.2 million.

Short-term Outstanding Loans December 31, 2018		
Size (\$)	Number	Aggregate Amount (\$)
< 50,000	213	4,525,485
50,000 < < 150,000	109	9,497,853
150,000 < < 500,000	74	20,606,973
500,000 < < 1 million	24	17,594,637
1 million < < 5 million	15	32,042,353
5 million < < 10 million	6	36,556,200
Greater than 10 million	4	136,381,000
Total	445	257,204,502

Triple A Credit Ratings

Annual credit rating presentations were held April 16-17, 2019. The representatives for MFA were the Chair, Vice-Chair, CAO Peter Urbanc, Shelley Hahn (Director of Business Services), Matthew O’Rae (Director of Finance), Nikola Gasic (Portfolio Manager), Phil Trotzuk (CFO of Metro Vancouver

Regional District) and Dean Rear (Director/Deputy CFO of Metro Vancouver Regional District). We are pleased to report that no issues of concern were raised in those meetings. Confirmation of our ratings will be forthcoming over the coming weeks.

POOLED INVESTMENT FUNDS

In June 2018, we launched our second Pooled High Interest Savings Accounts (PHISA). The National Bank of Canada (NBC) PHISA is currently paying 2.52% and the CIBC PHISA at 2.46% on all money deposited. This rate will adjust with any changes in the prime rate. As at the time of this report, the NBC PHISA was \$144 million and CIBC PHISA was \$412 million on deposit.

The 2018 results for the three managed funds are all positive relative to the benchmark indexes. These are Money Market Fund, 1.65% (Index 1.15%), Intermediate Fund, 1.90% (Index 1.62%), and Bond Fund, 1.76 % (Index 1.71%).

Total pooled funds at December 31, 2018 was \$1.915 billion (2017, \$2.316 billion), with the Money Market Fund at \$1.106 billion (2017, \$1.200 billion), the Intermediate Fund at \$0.265 billion (2017, \$0.340 billion), and the Bond Fund at \$0.544 billion (2017, \$0.775 billion).

As at	January 31, 2019	January 31, 2018	Change	1 Year Returns at January 31, 2019	
	\$ millions			Funds	Benchmark
Bond	541	741	-200	2.68 %	2.62 %
Intermediate	240	314	-74	2.20 %	1.74 %
Money Market	1,076	1,107	-31	1.71 %	1.20 %
Pooled High Interest Savings Account *	661	209	452	**	N/A
AUM	2,518	2,371	147		

** Current Rate on CIBC and NBC PHISA's are 2.46% and 2.52%, respectively.

As previously reported, MFA staff and PH&N have been working on the development of a pooled mortgage fund (the "PMF") since 2017 and are getting ready to launch the new fund over the coming months. Staff from both organizations believe that a commercial mortgage option in a pooled fund format would offer an attractive yield and good diversification for those local government investors that have a longer time horizon for a portion of their reserves. We have spoken directly to some of our larger clients and many have expressed an interest in participating. Introducing the fund can be done at minimal cost given it would make use of two existing pooled funds managed by PH&N – a bond fund with a small exposure to mortgages, the PH&N Short Term Bond & Mortgage Fund, and a mortgage fund – the PH&N Mortgage Pension Trust. One of the main risks of investing in commercial mortgages is liquidity risk due to the lack of an active secondary commercial mortgage market. The design of an MFA Pooled Mortgage fund can provide

some liquidity despite mortgages being an illiquid asset class as the fund will not be fully invested in mortgages; it will also hold liquid securities to help permit orderly redemptions by clients. The next steps for the mortgage fund included detailed educational session with interested customers in April and May and opening the fund for subscriptions in the June/July timeframe.

EDUCATIONAL SUPPORT

Here are some specific ways we supported you, your teams, and your communities in 2018:

- The Len Traboulay Education Fund was established in 2001 and provides up to \$60,000 annually for the education of elected officials and employees in local government. \$30,000 was contributed to the Local Government Leadership Academy and \$30,000 was available for applications of interest towards providing education and training to local government staff;
- We contributed a further \$72,500 for annual conferences of UBCM, LGMA, and GFOABC, as well as the chapter and area association meetings for elected officials and officers in local government. MFA employees are requested, from time to time, to instruct or facilitate at these events;
- The Government Finance Officers' Association received \$12,000 towards their "Bootcamp" program, an Asset Management training day, and the first two Investors' Forum Webinars, a new educational offering underwritten by the MFA;
- We provided a travel bursary of \$12,000 from the James R. Craven Fund, funded annually to support local government staff from rural areas to attend the Municipal Administrators Training Institute (MATI Level 1); and
- Members of the MFA team have active representation on the Local Government Leadership Academy (LGLA) and Government Finance Officers Association of BC (GFOABC) Boards, and take an active part in CivicInfo BC committees on public sector scholarship and local government app development.

2019 BUSINESS PLAN

Our business plan is driven by our key areas of focus: people, programs, processes, partnerships, policies, and profile. As we have augmented our team to accommodate new goals and challenges, our emphasis has evolved to concentrate on organizational resilience and excellence. By adding selectively to our staff complement over the last few years, we have increased our capacity to pursue new programs and refine our existing service model, while gaining access to expanded skillsets and fresh perspectives.

Top level themes for 2019:

- Greater connectivity and communication with related agencies, stakeholders, & clients;
- Internal streamlining and refining of processes;
- Incorporation of digital solutions, both internal and external;
- Cybersecurity and data security;
- Business continuity/disaster recovery planning;
- Refinement of education and sponsorship support to reflect our mandate & client needs; and
- Reimagining our mission and vision heading into our 50th year.

SUMMARY / CONCLUSION

The MFA Semi-Annual Meeting of members will be held on the afternoon of Tuesday, September 24, 2019 in Vancouver, at the time of the annual convention of the Union of BC Municipalities (UBCM).

Submitted by:

A handwritten signature in black ink, appearing to read "Malcolm Brodie".

Malcolm Brodie
Chair

A handwritten signature in blue ink, appearing to read "Al Richmond".

Al Richmond
Vice-Chair