



**REPORT FROM THE CHAIR and VICE-CHAIR  
ON ACTIVITIES DURING THE 2020 YEAR AND FOR THE  
FIRST QUARTER OF 2021 UP TO MAY 1, 2021**

**PURPOSE**

This report is intended to provide a summary of the activities of the Municipal Finance Authority of British Columbia (“MFA”) during the 2020 year and the first quarter of 2021 up to May 1<sup>st</sup>, with a focus on the activities of the past six months.

**GOVERNANCE**

**Board of Trustee Meetings**

The Board of Trustees met with management 6 times during the period of October 1, 2020 to May 1, 2021 to review operating performance, access to the financial markets, administration, and other miscellaneous items.

In addition, the Board of Trustees held several meetings of the Investment Advisory Committee which provides oversight for Pooled Investment Funds, and Trustees and management made presentations on behalf of the MFA at various local government conferences.

**2020 IN REVIEW AND LOOKING FORWARD**

Meetings of the Members were held on September 21, 2020 (Semi-Annual Meeting), March 25, 2021 (Annual General Meeting), as well as a Special Member Meeting on April 23, 2021 to approve additional requests for financing from Metro Vancouver.

From a staffing perspective, in 2020 the MFA made two additions to its staff team, hiring Connor Foreman to fulfill the Accountant role, and Steven Barley, as Manager of Information Technology.

From a program perspective, the MFA added 2 new pooled investment funds in 2020 and 2021 to the existing line, bringing the total to 8 unique offerings.

Work is continuing on the development of a new Diversified Multi-Asset Class Fund suitable for BC local government long-term reserves (not needed for 10 years or longer). Introduction is expected in late 2021, and more will be reported to the Members at the MFA’s Semi-Annual Meeting in September.

Results from operations have been very strong, and borrowing activities and lending to Members has continued unabated throughout the continuing COVID crisis.

## **RESULTS**

### **Results from Operations – Year Ending December 31, 2020**

The results for the year show a combined income from all business lines and interest earned on the Strategic Retention Fund of \$8.66 million, \$2.17 million favourable to budget. Core operating revenues were favourable by \$774,395, which is attributed primarily to both management fees earned from the pooled investment funds and sinking funds as well as securities lending being higher than expected. Primary operating expenditures were under budget by \$654,612 with savings across most line items due to the COVID-19 pandemic. The Strategic Retention Fund ended the year at \$95.5 million after unrealized fair market value gains and expected credit loss provisions, a \$11.9 million increase from 2019.

### **Asset and Investment Management**

Assets under management were \$10.1 billion at the end of 2020. Assets comprise MFA's loans to clients of \$4.8 billion, representing 1,726 long-term requests for financing through 28 regional districts and three other entities. Short-term loans of \$143 million represented 103 short-term loans for financing and 342 equipment financing arrangements. Included in MFA's assets are investments of \$4.4 billion managed internally. Of these investments, \$4.2 billion are held as sinking funds which reflect payments collected from clients and invested for the future retirement of debenture obligations. The MFA also manages and invests a Debt Reserve Fund, with investments valued at \$82 million and a Retention Fund, containing investments valued at \$67 million at the end of the year.

### **Results from Operations – First Quarter 2021**

Combined income from operations and interest earned on the Strategic Retention Fund for the first quarter is \$2.25 million, \$388,656 favourable to budget. Revenues were marginally lower than budget while expenses were favourable, which is mainly attributed to timing differences in expenditures and in-person planned events remaining virtual due to the COVID-19 pandemic.

## **BORROWING AND LENDING**

### **Triple A Credit Ratings**

MFA's AAA credit ratings are the best attainable and allow MFA to access capital in the markets at the most favorable interest rates. On April 21 and 22, 2021, MFA presented the annual MFA update virtually by video conference to the credit rating agencies (Moody's, Standard & Poor's (S&P), and Fitch Ratings).

The conversations were constructive and very positive overall. Questions focused on local government health during the pandemic, looming housing bubble, the DMAC Fund, direct impact of the pandemic on the MFA, refinancing risk, and capital adequacy. The agencies all

appear comfortable with the MFA's AAA ratings. Fitch confirmed the MFA's AAA ratings a few days after the meeting, and expect confirmation of ratings from Moody's and S&P over the coming weeks.

### **Borrowing in the Capital Markets and Long-Term Lending**

The MFA issued \$1.020 million of long-term bonds in 2020 – a decrease of about \$186 million from 2019, due to a lower funding requirement for new loans to Members combined with a lower amount of maturing market debt to be refinanced. The MFA issued three debenture issues with borrowing rates of between 0.759% to 1.855%, which are low by historical standards given the market environment. Throughout 2020, the MFA continued to access the lowest long-term rates in Canada when compared to its Municipal peers. This borrowing program refinanced maturing debt and underpinned both existing client loans as well as 73 new loans aggregating roughly \$538 million to clients.

<b>New Long-Term Loans – 2020 Full Year</b>		
Size	Number	Aggregate Amount (\$)
Less than \$1 million	36	15,524,155
Between 1 & 5 million	21	44,560,161
Between 5 & 10 million	7	49,574,258
Between 10 & 15 million	1	11,000,000
Above \$15 million	1	16,398,360
	1	30,000,000
	1	40,000,000
	1	45,000,000
	1	67,670,000
	1	68,181,819
	1	70,000,000
	1	80,000,000
<b>Total</b>	<b>73</b>	<b>\$537,908,754</b>

On March 30th, 2021, the MFA re-opened the 2.5% April 2026 debenture for \$450 million to fund refinancing requirements at a re-offer yield of 1.442%. The issue was 1.5x oversubscribed and well diversified between 30 investors. At the same time, the MFA launched a new 10-year 2.3% April 2031 debenture for \$200 million to fund new loan requirements at a re-offer yield of 2.308%. The issue was 1.2x oversubscribed and well diversified between 27 investors.

### **Commercial Paper Issuance and Short-Term Lending**

At the end of 2020, the MFA had \$610 million in commercial paper outstanding to support the current and expected growth in short-term lending. The MFA issued \$4.5 billion in commercial

paper throughout 2020 in weekly auctions. Short-term loans are refinanced weekly, allowing for flexibility and efficiency for clients. This program is primarily used to provide interim financing for capital projects during construction and lending for the MFA's equipment financing program. In 2020, advances totalled \$174.2 million. Of the 132 advances, \$67.7 million was the largest.

The Commercial Paper Program continues to provide low-cost short-term and equipment financing to clients. The MFA's short-term lending rate is currently 0.93%.

The MFA has started to reduce its commercial paper and as of April 28, 2021, the MFA had \$585 million outstanding. Further reductions over the next 8 months will bring the balance outstanding to \$400 million by the Fall. The MFA continues to monitor demand for short-term loans including revenue anticipation to determine when this temporary decrease will need to be reversed.

### **MFA POOLED INVESTMENT FUNDS**

As at	April 30, 2021	January 31, 2020	Change		1 Year Returns at April 30, 2021	
	\$ millions				Funds	Benchmark
Bond	621	548	73		2.28	1.41
Fossil Fuel Free Bond	149	-	149		-	-
Government Focused	300	241	59		0.78	0.41
Money Market	1,317	1,204	113		0.35	0.00
Mortgage Fund	82	-	82		5.42	1.30
*Pooled High Interest Savings Account	1,631	1,178	453		N/A	N/A
AUM	4,100	3,171	929			

\* Current Rate on CIBC is .80% on the first \$20 million, .50% on the next \$20 million and .22% on the remainder. National Bank and Scotiabank are .82% and .84% respectively.

MFA's activities and focus on creating new funds and renewed outreach to Members over the last few years are bearing fruit. There has been a strong uptake of MFA pooled funds products which have grown in scope and relevance to many Members. Members, who manage about \$14 billion or more in reserves investments across BC, can choose to invest on their own, but the MFA pooled fund propositions have become more attractive to more clients, as we have refined and expanded available options.

## **ESG (ENVIRONMENT, SOCIAL & GOVERNANCE) DISCLOSURES**

Investment activities that take into account ESG factors have been a topic of growing interest to many investors around the world. In fact, it has become a topic of much interest to many local government investors in BC.

The ESG landscape is quite complex and continues to evolve at a rapid pace without much clarity or agreement on best practices. In this fast evolving and undefined landscape, “greenwashing”, or untruthful marketing of the environmental benefits of a given investment, is rampant. The MFA urges Members to be suspect of the marketing campaigns employed by financial institutions and brokers selling “green” products. Local government finance staff are quite diligent at carefully analyzing investments, but the MFA is seeing a rising pressure from brokers or even council members in considering inferior investments that have limited ESG merit.

The biggest hurdle to ESG investing by investors is a lack of standardized reporting by companies or other organizations, such as the MFA, raising money in the public capital markets. For responsible investing to be of value, one must have comparable data. North American entities have been laggards in producing ESG disclosures over the last decade or so, while corporations and public sector entities in Europe are far ahead. Government entities similar to the MFA (infrastructure banks) as well as federal and regional governments in Europe have been making these disclosures for a long time now. This is one of the reasons the MFA, which competes for global capital with these entities, will also start disclosing what it can and refine those disclosures over time.

## **2021 BUSINESS PLAN**

Over the last 5 years, the MFA has been on a transformational journey as it modernizes and adds even greater value for clients, such as –

- Increasing education and sponsorship support as a third pillar of services offered;
- Building resilience by strategically adding additional team members while increasing and formalizing cross-training;
- Implementing new tools and processes in financial management systems to reduce risk and manual effort;
- Launching new investment products to meet evolving client needs and market changes; and
- Updating technology systems and increasing cybersecurity through cloud-based solutions.

The 2021 business plan is driven by the MFA’s 5 key strategic focus areas of Stakeholder Engagement, Resilience & Capacity, Professional Financial Management, Program Development & Improvement, and Technology Support & Security.

## **TECHNOLOGY ROADMAP & CYBERSECURITY**

2020 was a pivotal year for technology advancement, operational support, and risk mitigation for the MFA. Over the last several years, the MFA has essentially been building a small scale Technology Department, which began with the addition of in-house programming capabilities. In late 2019, the MFA began work on a plan to improve technology systems and support that will increase organizational resilience, expand operational capacity, and diminish risk. In 2020, despite the onset of the pandemic, significant advances were made on these fronts while insourcing the MFA's IT network / data / software support function.

While the MFA is creating a department with structure and supports that are appropriate for the financial nature of the MFA's business, the needs of its unique client group, and the organization's size, the MFA is also undertaking essential projects to secure and modernize its technology environment. This work is necessary to maintain program data and service delivery to stakeholders and benefits every functional area of the MFA. This foundational work will be completed in 2021.

The COVID-19 pandemic has demonstrated the need for a strong, cross-trained team, the infrastructure to support remote work if needed, the security rationale to enable distributed business operations, and the need to have plans to support all of these elements. The MFA continues to work towards completion of its Technology Roadmap to fully realize these goals.

### **2021 Technology Targets**

The MFA's overarching themes are to become defensibly cybersecure and to use technology to accomplish more with less in fulfilling its Vision & Mandate –

- MFA will be defensibly cyber secure;
- MFA does not live at the bleeding edge of technology, but does not fall behind either;
- MFA will increase business operations excellence through technology; and
- MFA will create professional IT operations and execution of technology work.

## **SPONSORSHIP & EDUCATION SUPPORT**

The MFA is a major, non-commercial supporter of BC's local government elected official and staff events and conferences each year. The MFA primarily supports financial education, in direct line with its mandate. The MFA also supports training in management, leadership, and cybersecurity, which has become a major operational and financial issue in the Local Government sector globally. The total education and sponsorship contribution for 2020 was \$144,000, while the budget for 2021 is \$218,000.

2020 was a challenging year for 'colleague' organizations and their chapters that put on regularly scheduled events which the MFA sponsors. Organizations had to rapidly decide whether to cancel, postpone, or pivot to a virtual delivery model. As the MFA was itself making

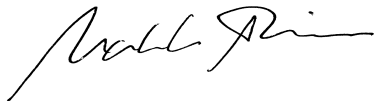
these choices, it also worked collaboratively with organizers to ensure timely continuation of support as needed.

The MFA remains committed to the provision of education focused on finance and business best practices for clients and refer to this as the 'third pillar' alongside MFA's lending and investment programs. This practice builds financial and operational strength for clients and expands and benefits the MFA's reputation as being part of the local government system as opposed to a 'commercial' service provider. This is a keyway the MFA differentiates itself from for-profit competitors and demonstrates its value for BC local governments. During this unusual time, MFA believes it is more important than ever to support these organizations as they adapt and support their own member communities.

### **SUMMARY / CONCLUSION**

The Semi-Annual Meeting of MFA is scheduled to be held on Monday, September 13, 2021, from 1:30-2:30pm via ZOOM. The meeting is taking place during the week-long UBCM Annual Convention.

Submitted by:



Malcolm Brodie  
Chair



Al Richmond  
Vice-Chair