

Municipal Finance Authority of BC



British Columbia, Canada

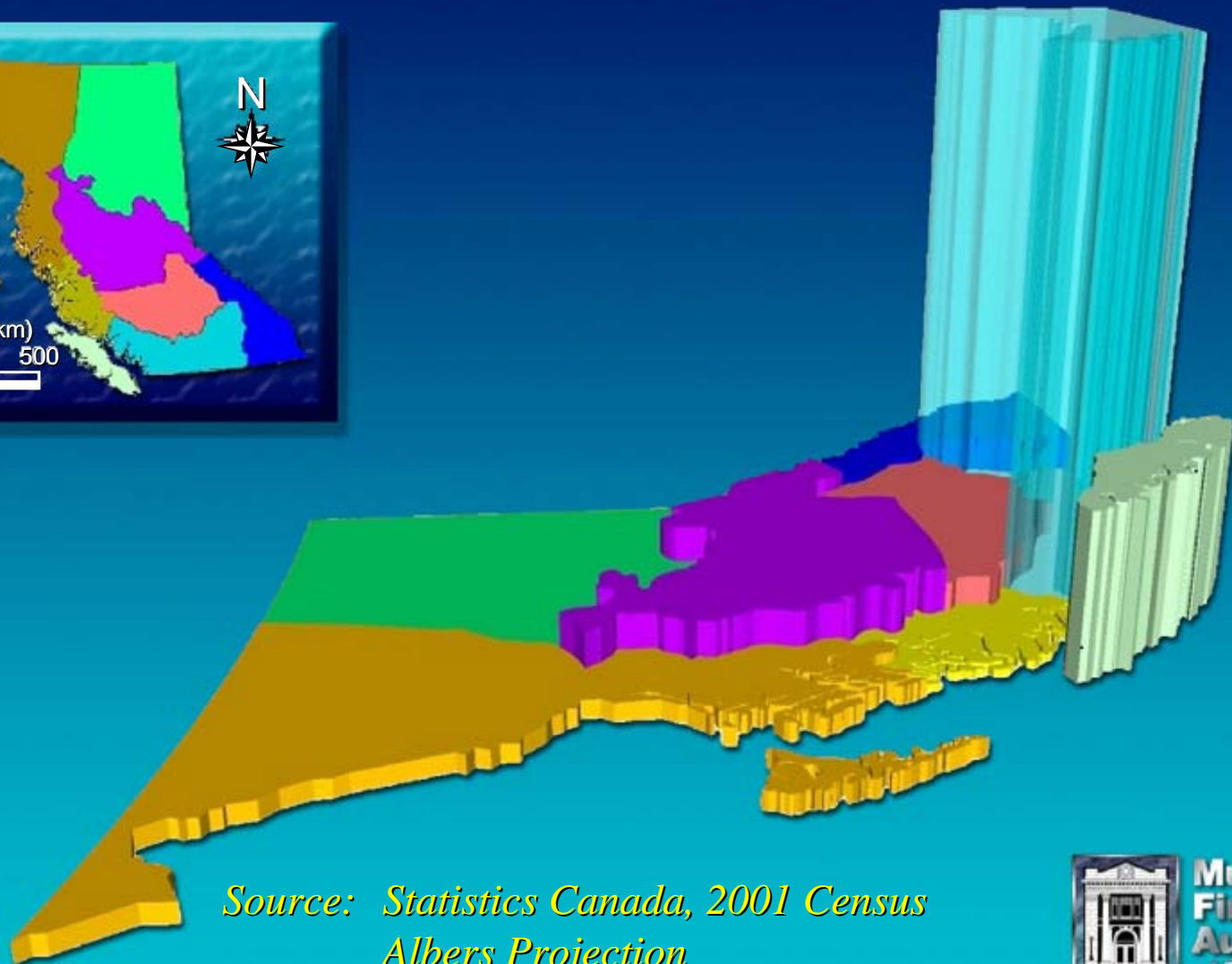


British Columbia - Geography



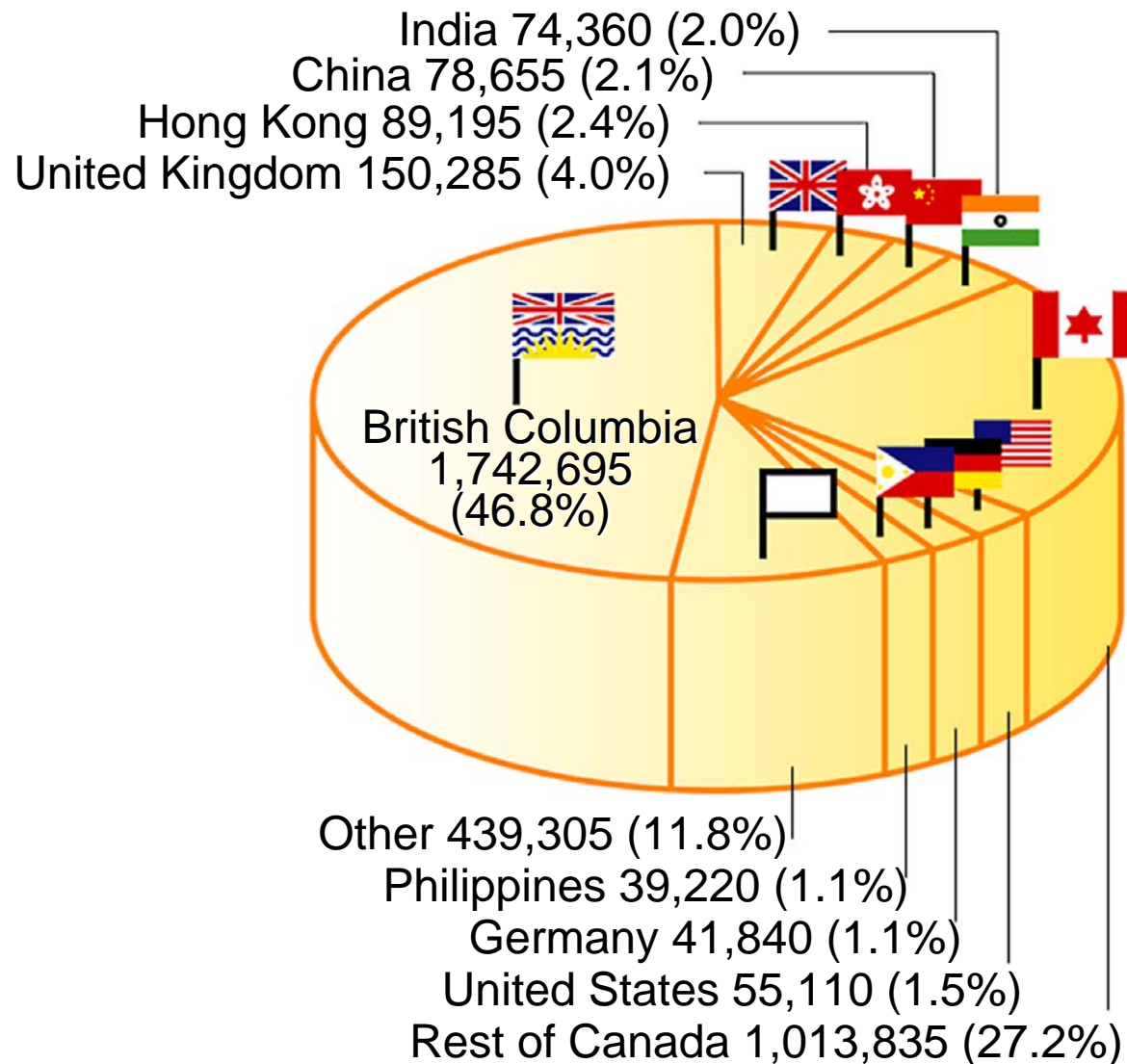
**Municipal
Finance
Authority**
of BC

British Columbia - Population by Region



*Source: Statistics Canada, 2001 Census
Albers Projection*

Where We Were Born



Overview of the Development of Municipal Bond Markets

Pre-MFA Conditions (prior to 1971)

A Municipalities all borrowed individually

- > usually from banks

A Each municipality's borrowing costs varied

- > smaller municipalities paid higher rates
- > some municipalities could not borrow at all

MFABC - 1971

A Municipalities given a choice:

1. keep working alone
2. work as a co-operative

A All municipalities agreed working alone was detrimental to borrowing funds

A All signed Agreements to become a member of the MFABC

Benefits to Members of MFA

- A Combined borrowings builds “liquidity”**
 - > spreads off Canada bonds minimized
- A Larger bond issues attract buyers and bankers**
- A Bankers’ commissions minimized**
- A Costs of debt issuance spread amongst members**
 - > only pay one lawyer’s fee, etc...
- A Small municipalities receive same borrowing rates as larger municipalities**

Benefits Continued...

A MFA borrows cheaper than the Banks

A One centralized office to manage debt, investments, marketing, etc ...

- > MFA only has 9 employees
- > We contract with the private sector

A Pooling borrowing requests lead to

- > Pooled Investing
- > Pooled Leasing
- > Pooled Short-Term Lending

Results Since 1971

A Surpluses returned to Members

<ie. investment monies earned in excess of that required to repay debt>

- > Cash surpluses = \$350 Million U.S.**
- > Stop payments = \$275 Million U.S.**
<ie. municipal repayments not collected>

A Since no provincial involvement, all surpluses go back to the municipalities

Other Results

- A Centralized office allows sharing of ideas and expertise between MFA members**
- A Staff of MFA provides free advice**
 - > Smaller municipalities really benefit
- A Larger municipalities also benefit**
 - > creativeness of smaller municipalities
 - > benefits of a larger co-operative

Challenges in 1971

- A Trust: municipalities learned to work together**
- A Relied on audited financial statements to ensure members' budgets were balanced**
- A Each municipality has a borrowing limit based upon its property tax base**
 - > This borrowing limit ensures no MFA member over extends itself

History of Credit Rating

1971

“A”

1975

“AA”

1980 – present

“AAA”

Municipal Finance Authority Of British Columbia

| | <u>Moody's</u> | <u>S&P</u> |
|------------------------------|----------------|----------------|
| Municipal Finance Authority | Aaa | AAA |
| Province of British Columbia | Aa2 | AA- |
| Province of Alberta | Aaa | AAA |
| Province of Saskatchewan | Aa3 | A+ |
| Province of Manitoba | Aa3 | AA- |
| Province of Ontario | Aa2 | AA |
| Canada | Aaa | AAA |

January 2003

MFA Governance

```
graph TD; Chair[Chair  
Annually elected  
by Board Members] --- Trustees[9 Trustees  
Annually appointed  
from the MFA Board]; Trustees --- BoardMembers[35 Board Members  
Annually appointed from  
the Regional Districts]; BoardMembers --- RegionalDistricts[27 Regional Districts  
Representing 154 municipalities];
```

Chair

Annually elected
by Board Members

9 Trustees

Annually appointed
from the MFA Board

35 Board Members

Annually appointed from
the Regional Districts

27 Regional Districts

Representing 154 municipalities

MFA Credit

- A Joint and Several Obligation of all Local Governments**
- A Debt Reserve Fund**
- A Province-Wide Power to Assess Taxes**
- A Balanced budgets**

MFA Programs

Capital Financing

Pooled Investments

- > Bond Fund
- > Intermediate Fund
- > Money Market Fund

Interim Financing

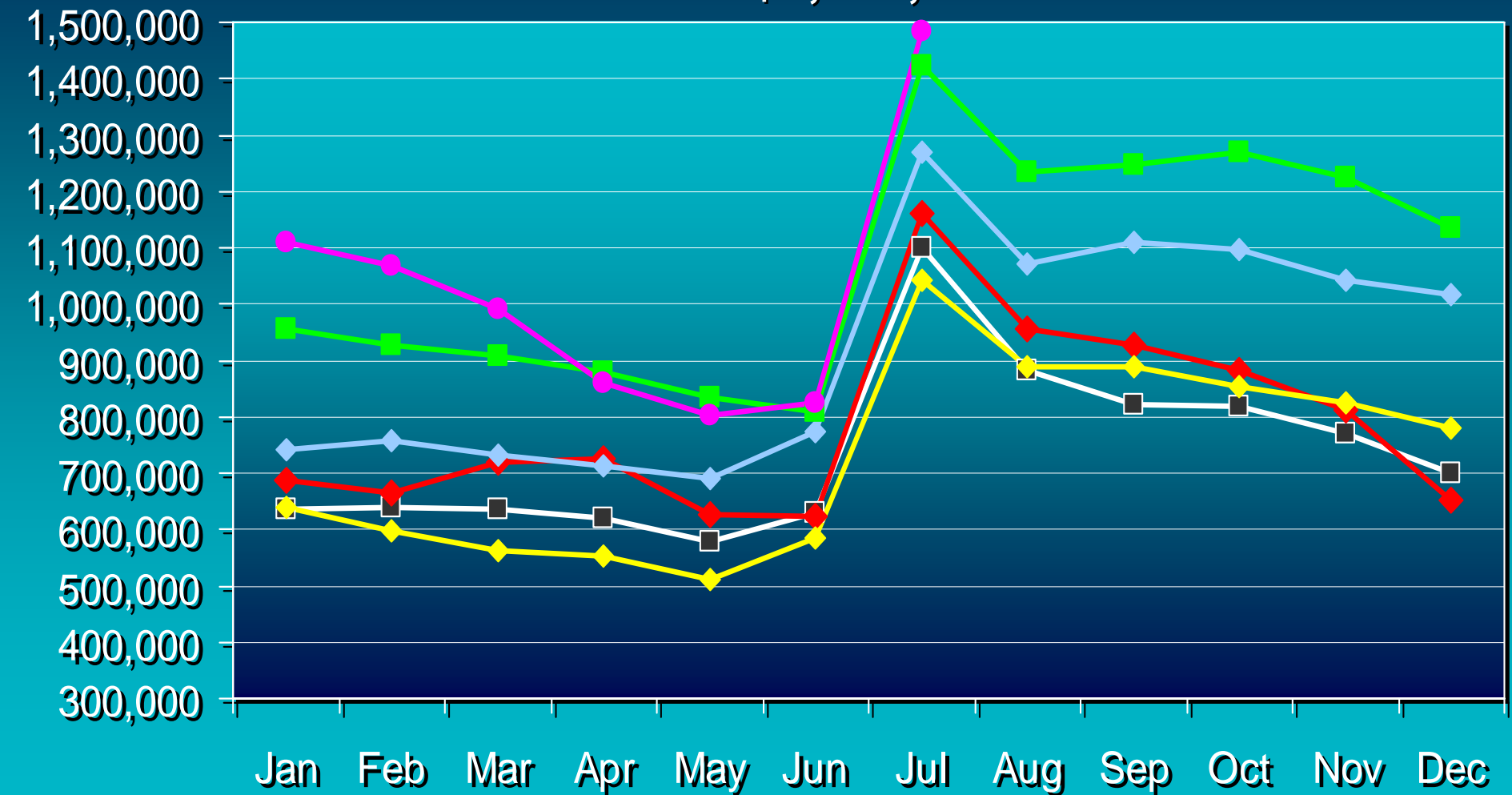
Leasing

Consulting

MFA Pooled Investment Funds

(\$ x 1,000)

\$1,484,317.84



Updated July 2003

—■— 1998 —◆— 1999 —◇— 2000 —◇— 2001 —■— 2002 —●— 2003

Interim Financing

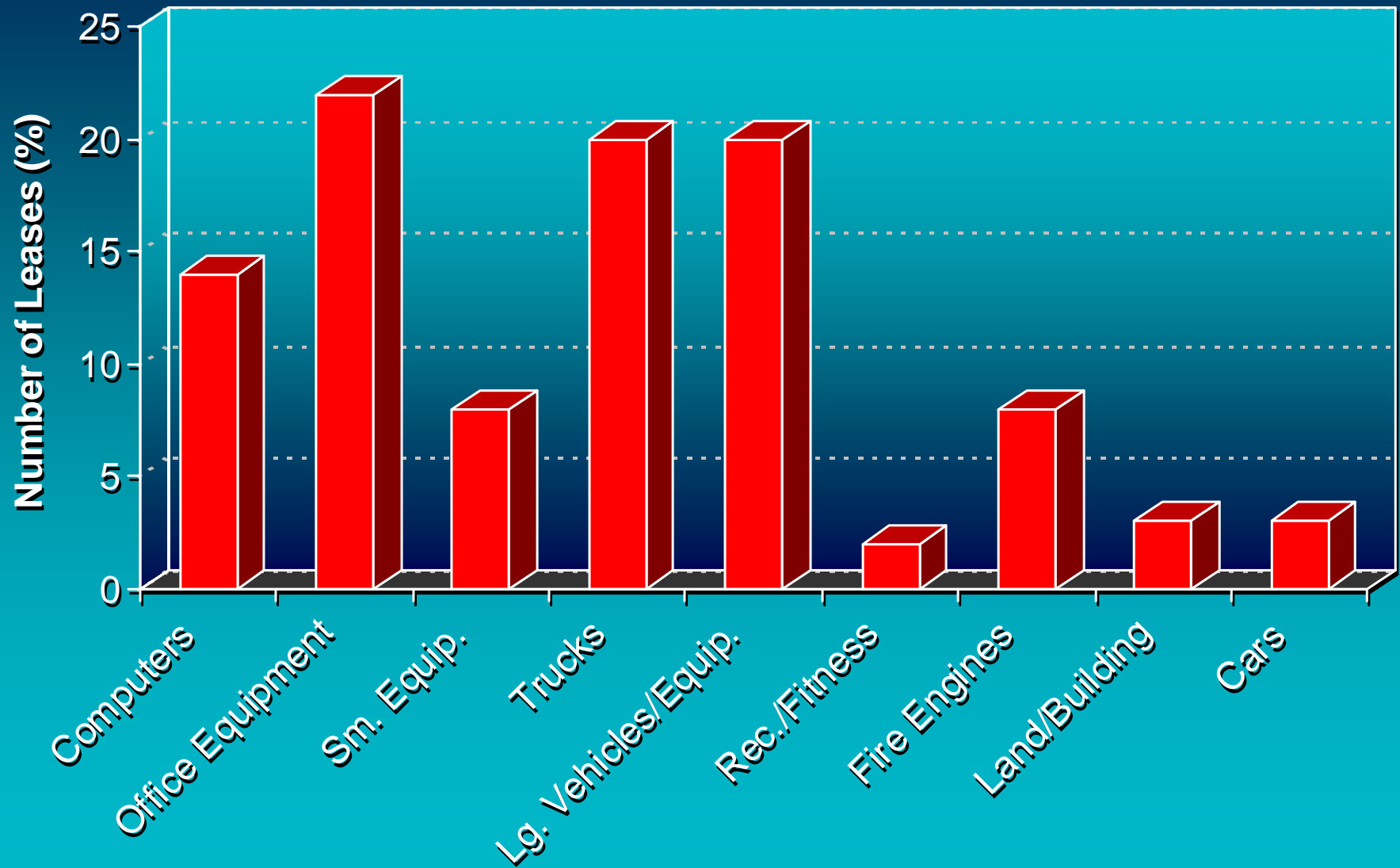
- A Loans at “Bank Prime less 1.25%”
- A Repay on one day’s notice without penalty
- A Short term projects up to 5 years

MFA Leasing Program

Advantages to Lessees:

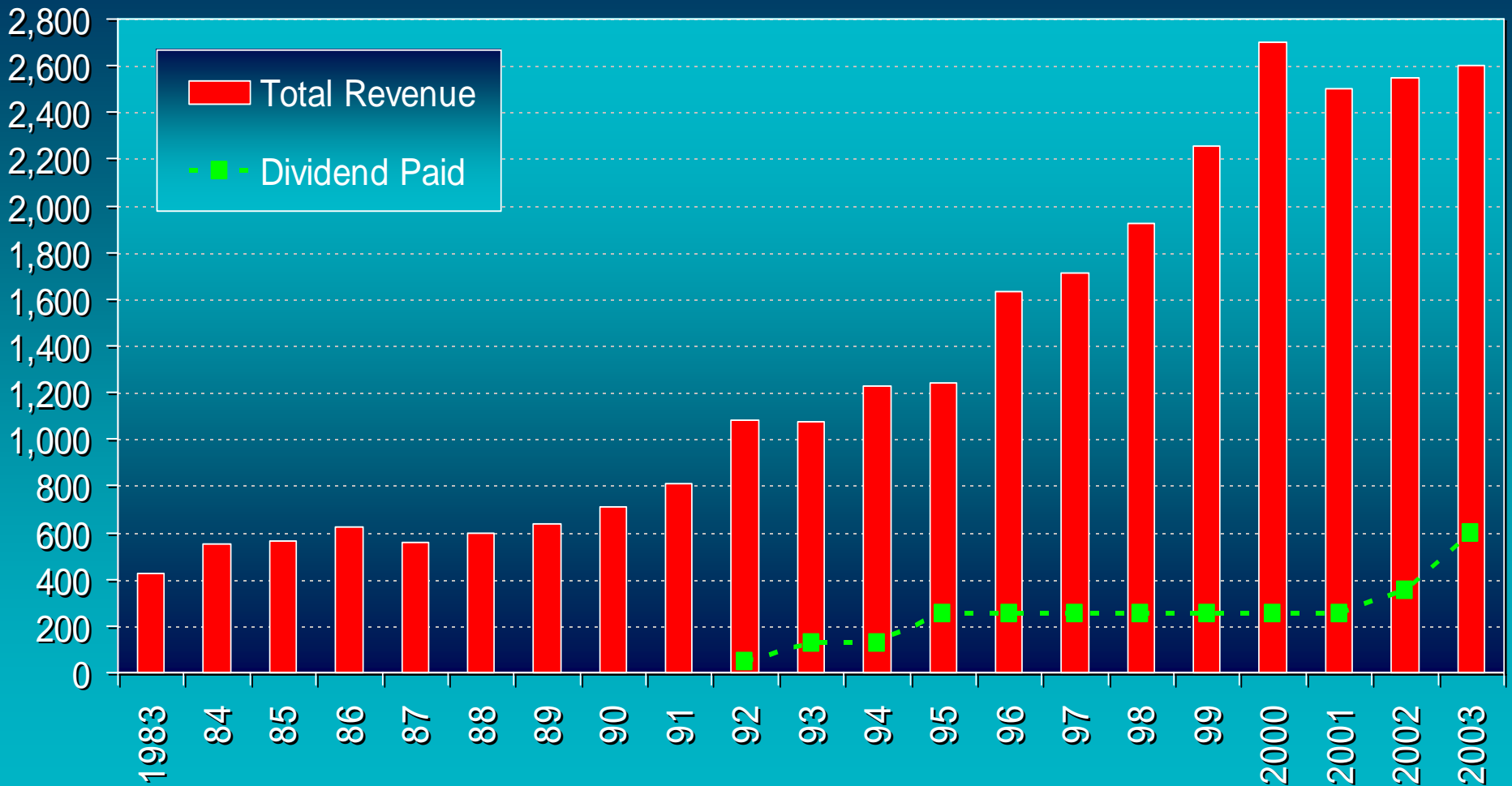
- A Reduction in finance costs by an average of 2% compared to banks or finance companies**
- A Ability to terminate/payout lease within 24 hours without penalty**

MFA Leasing



MFA Operating Fund Revenues

(x \$1,000)



The MFA is no longer supported by taxes

Ideas for Asian Bond Banks

A Start off small at first

- > focus on capital financing to begin

A Then offer more than just capital financing

- > share ideas, workshops, education sessions, etc.

A Offer same rates to all members

A Institute a Borrowing Power formula

- > ensures members do not exceed ability to pay

Ideas Continued ...

A Audited financial statements

- > Provides information on other members' health; catch any problems quickly

A Create a Debt Reserve Fund

- > A buffer zone for the investors

A Ability to levy a property tax (never used by MFA since 1971)

- > Rating agencies place importance on this feature



Municipal Finance Authority of BC