13 Municipal Finance Authority

Contributed by the Municipal Finance Authority of British Columbia

Responsibility

The Municipal Finance Authority of British Columbia (MFA) was established in 1970 by the *Municipal Finance Authority Act*, to contribute to the financial well-being of local governments in BC.

Regional districts and municipalities in British Columbia are required to finance all long-term borrowing requirements through the MFA, and Regional Hospital Districts may also access financing through the MFA.

The City of Vancouver is the only municipality in the province that retains the right to issue its own securities to finance capital projects.

Representation

The Province of British Columbia is divided into twenty-seven regional districts, each governed by a regional board consisting of representatives of its member municipalities, electoral areas, and in some cases, Treaty First Nations. There is one regional municipality (Northern Rockies Regional Municipality) that functions similarly to a regional district but is governed by a municipal council.

There are 40 members of the MFA who are appointed by the regional boards. The number of members a regional district is entitled to have on the MFA is based on the regional district's population.

The executive and administrative powers of the MFA are exercised and performed by a Board of Trustees consisting of the Chair and nine other members who are elected annually by the members. The Capital Regional District is guaranteed one trustee and the Metro Vancouver Regional District is guaranteed four trustees. The residual five trustees are elected from the remaining regional districts at large.

Long-Term Borrowing Process

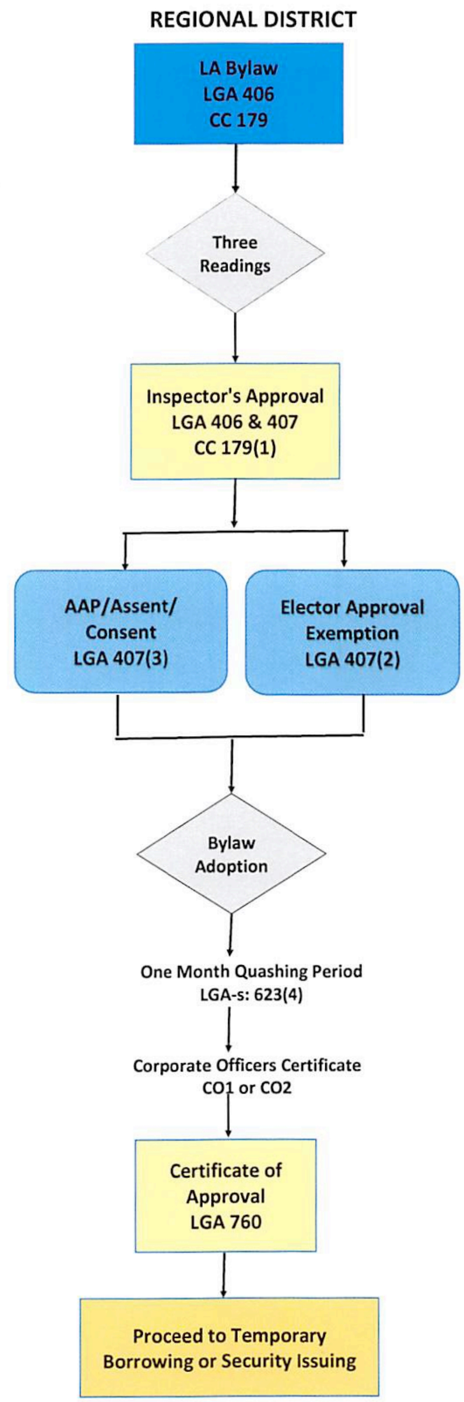
One of the MFA's key responsibilities is to provide long-term financing to local governments.

The *Community Charter* (CC) and the *Local Government Act* (LGA) require municipalities and regional districts to follow a robust approval process (taking up to a year) before long-term financing can be obtained.

Generally, borrowing requires a loan authorization (LA) bylaw, multiple approvals from the Inspector of Municipalities (a statutory position with the provincial Ministry responsible for local government), and elector approval through either an assent vote (referendum) or alternative approval process (AAP), although exceptions do apply.

The flow charts below and on the following pages outline the basic long-term debt approval process for both municipalities and regional districts.

Loan Authorization Bylaw Procedures



Once the LA bylaw has been adopted and the Certificate of Approval (C of A) has been received, the local government may proceed to temporary borrowing (interim financing intended to be used during construction) or security issuing for long-term borrowing.

To access temporary borrowing, a temporary borrowing bylaw must receive three readings and be adopted by the council or board; no additional approvals are required.

As municipalities can only access long-term financing through their regional districts, when a municipality is ready for long-term borrowing, its council must pass a Municipal Security Issuing Resolution (MSIR), requesting its regional district to consent to its borrowing and to include the borrowing in a regional district Security Issuing (SI) bylaw. The regional district will review municipal requests for financing and, if acceptable, will adopt a SI bylaw.

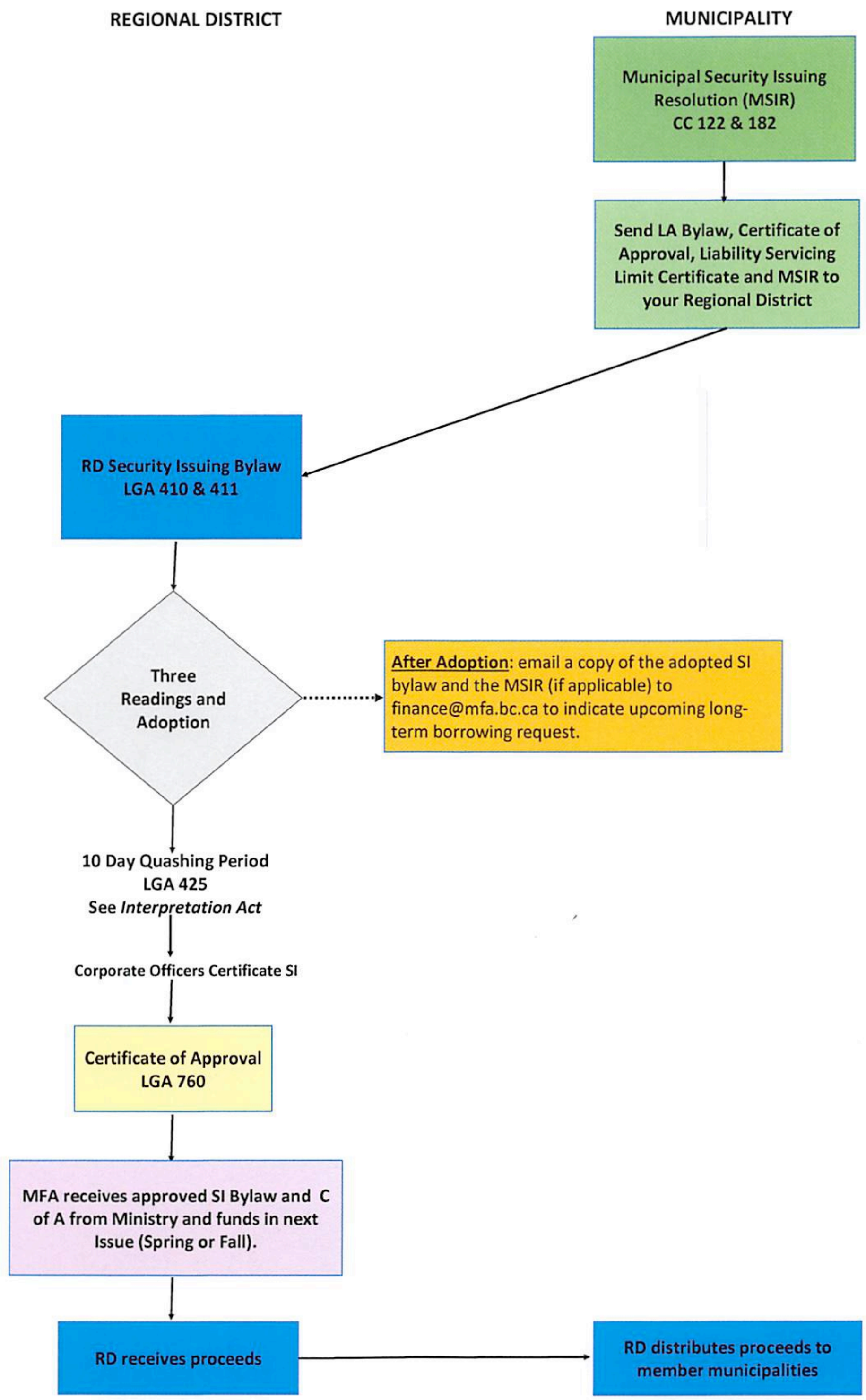
Regional districts do not require an MSIR, but they do have to include their own borrowing in a SI bylaw which authorizes the regional district to borrow from the MFA for a specific amount, term, and purpose.

After adoption, the regional district must wait 10 days to ensure the SI bylaw is not challenged in court and will then forward it to the Inspector of Municipalities requesting a C of A.

Once a C of A is issued, the bylaw and C of A are forwarded to the MFA, where they are added to the list of long-term borrowing requests from the other regional districts around the province. Twice each year, the requests are presented for review at the annual and semi-annual meetings of the members of the MFA.

The flow chart on the following page outlines the basic security issuing process for both municipalities and regional districts.

Security Issuing Procedures



Funding

Following member approval and after reviewing market and economic conditions, the MFA may authorize the issue and sale of securities in an amount sufficient to meet the long-term borrowing requests.

When the MFA receives the issue proceeds from investors, 1% of the proceeds of each funding request is deducted and placed in a Debt Reserve Fund. Payments equivalent to 99% of gross requests are then sent to the appropriate regional districts/regional hospital districts. The regional districts are then responsible for distributing the proceeds to participating member municipalities.

Interest on long-term debt is payable semi-annually and a principal payment is payable annually.

The MFA has the power to provide for the creation, management, and application of sinking funds or other means of securing the repayment of securities issued by the MFA, including the redemption by call of securities issued, subject to redemption in advance of maturity.

Protection for Investors

As mentioned above, the MFA has a Debt Reserve Fund into which each regional district and regional hospital district sharing in the proceeds of a securities issue must contribute. Monies paid into the Debt Reserve Fund, and net income earned thereon, are obligations of the MFA to each regional district and regional hospital district and must be refunded to them when the final installments of their loans have been repaid.

If at any time the MFA lacks sufficient funds to meet principal or interest due on its obligations to the bondholders, it must utilize the Debt Reserve Fund, all or any part of which is available to satisfy the MFA's obligations, regardless of the sources of the monies in the fund. If payments are made from the Debt Reserve Fund, the MFA will recover such payments from the member involved, to restore the Debt Reserve Fund. If the Trustees think that payments made from the Debt Reserve Fund will not be recovered within a reasonable period, they may levy upon all taxable land and improvements in the province a tax sufficient to restore the fund to its required amount. It is mandatory for the Trustees to levy such a tax if the balance in the Debt Reserve Fund is less than fifty percent of the required amount. The Trustees' power to impose taxes does not require the permission or approval of any other governmental authority.

To date, there has never been a payment default, and the Debt Reserve Fund has never been utilized. The provincial government has undertaken to ensure that the Debt Reserve Fund will be maintained in accordance with the *Municipal Finance Authority Act* and the Inspector of Municipalities may inspect the fund from time to time and issue a certificate that it has been maintained at the proper level.

Monies in the Debt Reserve Fund may be invested within the guidelines outlined in the *Municipal Finance Authority Act*. Such investments must mature or be callable within five years and at least 25% of the fund must be callable within 90 days. Equity investments are not permitted.

Additional Protection for Investors

Limitations on the requisition limit for each regional district service are specified in its letters patent or service establishment bylaws.

The annual debt servicing costs (principal and interest payments for leases or other long-term liabilities and debt) which a municipality may contract is limited to 25% of certain annual, sustainable, own-source revenues as described in the *Community Charter* and the Municipal Liabilities Regulation. The Inspector of Municipalities must ensure that a proposed municipal borrowing will not cause the municipality to exceed its liability limit before approving a borrowing bylaw.

Short-Term Financing

In 1990, the *Municipal Finance Authority Act* was amended to add short-term financing for regional districts and municipalities to the objectives of the MFA.

Participation

Participation in the short-term financing programs by local governments and public institutions is voluntary. The approval process and requirements vary by client type and the type of loan requested. For further information, contact finance@mfa.bc.ca.

Purposes for Which Short-term Financing May Be Approved

The MFA may provide financing for one or more of the following purposes:

(a) temporary financing of capital projects (loan authorization bylaw and temporary borrowing bylaw required)

(b) short-term capital borrowing up to five years (short-term capital borrowing bylaw required)

(c) revenue anticipation borrowing (revenue anticipation borrowing bylaw required)

(d) liabilities under agreement (Council/Board resolution required)

Equipment Financing

This program replaced the MFA's former Leasing Program and is also voluntary. The Equipment Financing Program offers low, variable interest rates and a fixed monthly payment schedule to help finance equipment and vehicles.

Participation in the program is open to municipalities, regional districts, school districts, colleges, and universities. The approval process and requirements vary by client type and loan term. For further information, contact finance@mfa.bc.ca.

Pooled Investments

The *Municipal Finance Authority Act* was amended in 1988 to extend the objectives of the Authority to provide short-term investment opportunities for regional districts and municipalities in BC by the establishment and operation of pooled investment funds.

The MFA currently offers 6 pooled funds: Money Market Fund and Government Focused Ultra-Short Bond Fund (investments of less than one year up to two years); Short-Term Bond Fund and Fossil Fuel Free Short-Term Bond Fund (investments from two to five years); as well as the Mortgage Fund (investments of three years or longer); and the Diversified Multi-Asset Class Fund (investments of 10 years or longer).

The MFA also offers three Pooled High Interest Savings Accounts to provide clients with competitive interest rates and full liquidity in safe and highly rated Canadian chartered banks (CIBC, National Bank of Canada and Scotiabank).

Participation

Participation in MFA investment options is voluntary**.**

Investment Activities

The investment activities of the funds are governed by the *Municipal Finance Authority Act* and a charter of investment policies, objectives, and guidelines.

For further information on the Municipal Finance Authority of BC, please contact:

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