



**Municipal Finance
Authority of BC**

Sustainable Bond Framework

June 2022

About MFABC

The Municipal Finance Authority of British Columbia (MFABC) was created in 1970 to contribute to the financial well-being of local governments throughout BC. MFABC pools the borrowing and investment needs of BC communities through a collective structure. We provide a range of low-cost and flexible financial services to our clients equally, regardless of the size or location of the community. MFABC is independent from the Province of British Columbia and operates under the governance of a Board of Members appointed from the various Regional Districts within the province.

MFABC provides long-term and short-term lending, equipment financing, investment management, and other financial services to communities and public institutions in BC.

MFABC's Approach to ESG

In general, MFABC issues bonds twice annually to fund BC local government long-term infrastructure borrowing. This aggregation results in lower costs and the concentration of needed market expertise in one centralized entity. The projects MFABC funds are therefore not single purpose nor homogeneous. We serve all of our clients' infrastructure borrowing regardless of their location, size, or the specific project being funded. Segregating our borrowing needs and issuing a narrowly focused "Green" or "Social" Bond would raise the cost to our community clients, reduce liquidity of our bond portfolio, create more complexity, and require more staff time.

To facilitate ESG reporting related to our issuance, we developed a methodology and mapping tool for ESG Use of Proceeds data collection and reporting that is consistent with International Capital Market Association (ICMA) principles. Prior to each of our bond issues, we map a complete account of our Use of Proceeds to the 17 UN Sustainable Development Goals (SDGs) as well as Green Bond Principles and/or Social Bond Principles.

We are committed to working with our clients and partners, the Province of BC, investors, and industry leaders in sustainability disclosure to enhance reporting, standardize measurement, and improve reporting on BC local government projects.

Sustainable Bond Framework

MFABC has developed a Sustainable Bond Framework ("Framework") under which it can issue three types of bonds ("Bonds"):

1. **Green Bonds** – bond instruments where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing Green Assets (as defined in "Use of Proceeds" below) and which are aligned with the four core components of this Framework.
2. **Social Bonds** – bond instruments where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing Social Assets (as defined in "Use of Proceeds" below) and which are aligned with the four core components of this Framework.

- Sustainability Bonds** – bond instruments where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing Green Assets and Social Assets (as both terms are defined in “Use of Proceeds” below) and which are aligned with the four core components of this Framework.

Following the International Capital Market Association (ICMA) Green Bond Principles 2021, Social Bond Principles 2021, and Sustainability Bond Guidelines 2021, the Framework is based on four core components:

- Use of Proceeds**
- Process for Evaluation and Selection**
- Management of Proceeds**
- Reporting**

The Framework also describes the way MFABC Green, Social, and Sustainability Bonds support and contribute toward meeting the United Nations Sustainable Development Goals (SDGs). Upon issuance, additional details regarding the objective of the Bond, intended benefits, and Eligible Categories of the assets may be disclosed.

To garner efficiencies, and due to the smaller size of MFABC’s annual bond issuance program, MFABC is most likely to continue comingling borrowing needs across Green and Social Assets and primarily issuing Sustainability Bonds.

Use of Proceeds

MFABC’s Use of Proceeds documentation is enshrined in legislation. It is important to note that MFABC does not warehouse our public market bond proceeds – by issuing bonds to create a pool of available capital to on-lend at a later date. Rather, we issue bonds on a “back-to-back” basis to directly fund specific infrastructure projects or pools of projects. There is no delay in providing funds to our Members once our bonds are issued. Prior to being funded, these loan requests are vetted through one of the most robust and transparent approval systems in the world. By legislation, funds are borrowed for a specific purpose and time, and these loan requests are pre-vetted at the local, regional district, and provincial Ministry levels, before final review and approval by the MFABC staff and our Trustees and Members. In other words, all our capital market borrowing can be associated with specific projects. This allocation is pre-defined by legislated authority and investors can be confident their funds will be used to support those projects.

MFABC intends to allocate an amount equivalent to the net proceeds from the sale of any Sustainable Bond issuances to finance or refinance, in whole or in part, one or more new or existing Eligible Green or Social Assets in the following Eligible Asset Categories outlined below.

Asset Category	Eligible Criteria	UN SDG Alignment
Green Categories Renewable Energy	Proceeds may be allocated to the construction, development, operation, acquisition, maintenance, connection, transmission, and distribution including, but not limited to, following renewable energy generation sources: a) Wind b) Solar	

		<ul style="list-style-type: none"> c) Geothermal d) Waste biomass e) Tidal f) Run of river and small-scale hydroelectricity <25 MW g) Refurbishment of existing hydroelectricity facilities h) Heat recapture <p>In addition, proceeds may be allocated to expenditures related to transmission and distribution networks projects that aim to connect renewable energy sources and/or support increased deployment of renewables on the grid.</p>	
	Energy Efficiency	<p>Proceeds may be allocated to products and systems that reduce energy consumption or mitigate greenhouse gas (GHG) emissions, including:</p> <ul style="list-style-type: none"> a) Energy efficient heating and cooling systems b) Energy efficient lighting and appliances c) Centralized energy control systems d) Energy storage systems e) Smart grid investments for more efficient transmission and distribution of energy f) Other energy efficiency retrofits 	
	Sustainable water and wastewater management	<p>Proceeds may be allocated to the construction, development, operation, acquisition, and maintenance of infrastructure for:</p> <ul style="list-style-type: none"> a) Collection, treatment, recycling or reuse of water, rainwater, or wastewater b) Flood prevention, flood defense or storm water management 	
	Clean Transportation	<p>Proceeds may be allocated to the construction, development, operation, acquisition, and maintenance of low carbon transportation assets, including:</p> <ul style="list-style-type: none"> a) Fully electric, hydrogen, or other zero-direct emissions transport including private vehicles, passenger trains, urban subway/metro, trams, and their directly supporting infrastructure b) Public walking and bicycle infrastructure c) Electric charging and hydrogen fuelling infrastructure 	

		d) Public transit connections to airports	
	Green Buildings	<p>Proceeds may be allocated to the construction, development, acquisition, re-development, operations, and maintenance of properties that have received or are expected to receive applicable green building certification(s).</p> <p>Eligible green building certifications are LEED (Gold or Platinum) or BOMA BEST (Gold or Platinum), or other equivalent domestic or international certifications.</p>	
	Environmentally sustainable management of natural resources and land use	<p>Proceeds may be allocated to the conservation of biodiversity and terrestrial and aquatic ecosystems through preservation, restoration and sustainable management activities as applied by public sector and not-for-profit environmental organizations or equivalent private initiatives.</p> <p>Promote, restore, or preserve biological diversity in urban areas such as parks, green rooftops, and other green spaces.</p>	
	Climate Change Adaptation	<p>Proceeds may be allocated to the redesigning, retrofitting, and upgrading of buildings and infrastructure (including policy, projects, and capital investment) to mitigate the negative impact of climate change and build resilience for extreme weather events, e.g., flooding, extreme rain, high wind, or extreme temperatures.</p> <p>Climate risk information and planning: information support systems (e.g., climate observation, early-warning systems); hazard/vulnerability and cascading-effects analysis; heat/air quality mapping; integrated water-drainage modelling; Climate Lens approach development.</p> <p>Procurement, restoration and conservation of natural areas and urban forest in response to climate change and carbon sequestration.</p>	
	Pollution Prevention and Control	<p>Proceeds may be allocated to the construction, development, operation, acquisition and maintenance of land, facilities, systems, or equipment used for:</p> <ul style="list-style-type: none"> a) Collection, treatment/remediation, recycling or reuse of emissions, waste, hazardous waste, or contaminated soil b) Facilities, systems, and equipment that are used to divert 	

		waste from landfills or reduce emissions including composting facilities	
	Terrestrial and aquatic biodiversity	Proceeds may be allocated to projects that contribute to the enhancement or conservation of terrestrial or aquatic biodiversity, such as: conservation and protection of coastal, marine and watershed environments	 
Social Categories	Affordable Basic Infrastructure	<p>Proceeds may be allocated to the construction, development, operation, renovation and/or maintenance of facilities, services, systems, or equipment used for:</p> <p>a) Development of infrastructure to provide underserved/remote communities that have limited access or no access to services such as clean drinking water, sewers, sanitation, transport, and energy</p>	  
	Access to Essential Services	<p>Proceeds may be allocated to the construction, development, operation, acquisition, and maintenance of publicly available, free, or subsidized essential services, including:</p> <p>a) Education (including public universities, schools, and training centres)</p> <p>b) Healthcare (public hospitals, medical equipment, mental health facilities and programs, homes, or health facilities for aged or people with disabilities) Care Centres (childcare centres, community centres, eldercare centres)</p> <p>c) Rehabilitation of parks and other public spaces</p>	
	Affordable Housing	Proceeds may be allocated to the construction, rehabilitation and/or preservation of quality affordable housing for low- and moderate- income, and other target populations including seniors and vulnerable or underserved residents	 

Process of Project Evaluation and Selection

By the very nature of local government mandates, we believe that all projects we fund can be considered as social, green, or both in nature. Examples include providing new services like recreation centres, adding enhanced water treatment facilities, increasing community fire protection, or upgrading to solar street lighting.

The responsibility for operational oversight of MFABC's sustainability activities is held by our Business and Sustainability Committee (the "Committee") whose mandate is to:

- Provide oversight and management of the Framework
- Determine the eligible green and social projects that would qualify for proceeds from a green, social or sustainability bond issuance

Members of the Committee will include representatives from MFABC's Business & Client Services, Finance & Accounting, and Technology & Stakeholder Relations functions.

The Sustainable Bond Asset Portfolios will be reviewed by the Business and Sustainability Committee ahead of any new bond issue to ensure that all Eligible Assets meet the Eligible Asset Categories. Assets that have been terminated or no longer comply will be removed from the Sustainable Bond Asset Portfolios. In practice, given strict legislative restrictions on how our Members can use MFABC loan proceeds (see "Use of Proceeds" and "Allocation of Proceeds" sections), it would be very rare for assets to be removed from the Sustainable Bond Asset Portfolios.

Management of Proceeds

The Finance & Accounting Team will track the allocation of net proceeds from the sale of any Green, Social, or Sustainability Bonds to eligible Green and Social Assets. It is MFABC's intention to maintain, directly or indirectly, an aggregate amount of assets in each of the Sustainable Bond Asset Portfolios on a regular basis to ensure the total Eligible Assets in each portfolio is equal to or greater than the aggregate amount of proceeds raised by each of the applicable Bonds. Pending allocation, an amount equal to the net proceeds from the sale of any of the applicable Bonds may be temporarily invested in cash or cash equivalents, and/or held in accordance with MFABC's internal liquidity policy.

Reporting

MFABC intends to make and keep readily available Sustainable Bond reporting within a year from any issuance, to be updated annually until full allocation and in case of any material changes. MFABC Sustainable Bond reporting will be made publicly available on MFABC's website and may include, but will not be limited to:

Allocation Reporting

- Funds raised from each Green, Social, or Sustainability Bond
- Aggregate amounts of funds allocated to each of the Eligible Asset Categories

Any unallocated proceeds at the reporting period end would form part of this reporting; however, the legislative system under which BC Local Governments borrow makes this a highly unlikely outcome. Most projects financed via MFABC bond issuance have already started before MFABC

disburses funds, with the loan most often used to finish the project and/or to pay out related short-term borrowing. In the unusual eventuality that a local government borrows more than needed to complete the project, investors can take comfort in the fact that legislation limits what can be done with this excess borrowing:

- Pay back MFABC
- Retire, purchase, or cancel debentures issued for that purpose
- Invest in a temporary reserve fund which must be spent on a similar service. i.e., unused funds must be retained for future similar capital-related expenditures.

Impact Reporting

Impact reporting will initially take the form of Case Studies of selected projects funded through our bond issuance and become more robust over time. Over time, our goal is to collect and provide detailed KPI reporting for the vast majority of our Sustainable Assets (our loan portfolio). The report will include qualitative and quantitative key performance indicators on the Eligible Assets, reported at category level. Below are examples of impact measures that may be reported depending on the Eligible Asset.

Asset Category	Key Performance Indicators
Renewable energy	<ul style="list-style-type: none"> • Total installed capacity (MW) • GHG emissions avoided per year (tCO₂e)
Energy efficiency	<ul style="list-style-type: none"> • Expected energy savings per year (MWh) • GHG emissions avoided per year (tCO₂e)
Sustainable water and wastewater management	<ul style="list-style-type: none"> • Wastewater treated to appropriate standards or raw/untreated wastewater discharges avoided (liters) • Wastewater avoided, reused, or minimized at source (liters) • Vulnerability assessment and adaptation plan
Clean Transportation	<ul style="list-style-type: none"> • Total in km of new or improved train lines/dedicated bus, BRT, LRT corridors bicycle lanes • Annual GHG emissions reduced/avoided in tCO₂e • Increase in number of people with access to public transit
Green buildings	<ul style="list-style-type: none"> • GHG emissions avoided per year (tCO₂e) • Floor space of green real estate (m²) • Water reduced/avoided (litres)
Environmentally sustainable management of living natural resources and land use	<ul style="list-style-type: none"> • Maintenance/safeguarding/increase of protected area/habitat in km² • Absolute number of indigenous species, flora or restored through the project • Annual GHG emissions reduced/avoided in tCO₂e • Environmental remediation or protection plans • Details on positive impacts of rehabilitated sites
Climate change adaptation	<ul style="list-style-type: none"> • Reduction in flood damage costs • Number of adaptation and resilience measures installed

	<ul style="list-style-type: none"> Reduction in the number of wildfires, and/or in the area damaged by wildfires (km²)
Pollution prevention and control	<ul style="list-style-type: none"> Recycling rates in a given municipality Energy recovered from waste (MWh or KJ) Number of people or percentage of population provided with improved municipal waste treatment or disposal services
Terrestrial and aquatic biodiversity conservation	<ul style="list-style-type: none"> Area protected (km²) Maintenance/safeguarding/increase of natural landscape area in urban areas (km²)
Affordable Basic Infrastructure	<ul style="list-style-type: none"> Additional people served by infrastructure type (#) Number of people with access to improved sanitation facilities under the project
Access to Essential Services	<ul style="list-style-type: none"> Number of hospitals and other healthcare facilities built/upgraded Number of education facilities built and/or initiatives provided Number of vulnerable individuals benefiting from training/education programs
Affordable Housing	<ul style="list-style-type: none"> Units built or refurbished Number of people with access to safe, affordable, and sustainable housing

Amendments to this Framework

The Committee will review this Framework on a regular basis, including its alignment to updated versions of the ICMA Green, Social, and Sustainability Bond Principles and Guidelines.

Such review may result in this Framework being updated and amended. Any future updated version of this Framework that may exist will either maintain or improve the current levels of transparency and reporting disclosure requirements. The updated Framework, if applicable, will be published on MFABC’s website.

Disclaimer

This Sustainability Bond Framework does not constitute an offer or solicitation, or invitation to apply for, or a recommendation to buy securities to any person in any jurisdiction and may not be relied upon for investment purposes. MFABC is not liable or responsible to any person for any harm, loss, damage, proceedings, costs, claims, liabilities, damages, and/or expenses in connection with the use of this Framework. Any offers or invitations to apply for securities will be made in accordance with all applicable laws.