Rating Report

South Coast British Columbia Transportation Authority (TransLink)

Insight beyond the rating.

Ratings

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Debt	Rating	Rating Action	Trend
Issuer Rating	AA	Confirmed	Stable
Senior Unsecured Debt	AA	Confirmed	Stable
Commercial Paper	R-1 (middle)	Confirmed	Stable

Rating Update

DBRS Limited (DBRS) has confirmed the Issuer Rating and Senior Unsecured Debt rating of the South Coast British Columbia Transportation Authority (TransLink or the Authority) at AA, and the Commercial Paper (CP) rating at R-1 (middle), all with Stable trends. The ratings and Stable trends are supported by the Authority's taxing power over a broad and relatively affluent tax base, robust financial planning framework, diverse revenue sources and reasonably strong operating performance. However, large capital needs that are expected to drive debt moderately higher over the medium term, combined with general risks to transit system operations constrain the ratings, while a review of TransLink's governance structure following the public rejection of a new regional sales tax to fund capital investment adds an element of uncertainty to the outlook.

TransLink's ridership was mostly stable in 2014, growing by just 0.3% year over year, well below budget expectations. As a result of weak ridership growth, operating performance deteriorated slightly, but remained well above the five-year average with the Authority reporting a DBRS-adjusted operating surplus of $20.4 million or 1.4% of revenues, before non-recurring items. Mid-year results for 2015 point to a projected year-end surplus of $32.7 million, significant stronger than the budget forecast of $2.0 million, attributable to timing delays on contributions to municipalities for their work on the Major Road Network (MRN) and modest revenue variances. The phased roll-out of the Compass Card system through the end of 2015 adds some operational risk and financial uncertainty to the medium-term outlook; however, indications are that the revised implementation schedule is on track and that risks are manageable.

Following the defeat of a proposal for a new 0.5% regional sales tax to fund capital projects in the Mayors' Council Transportation and Transit Plan (Mayor's Vision), a governance review has commenced to examine potential changes to the Authority's current governance structure to address public accountability concerns, led by the provincial Minister responsible for TransLink and a new Metro Vancouver task force. Despite near-term uncertainty, DBRS does not anticipate significant changes to the governance framework or that the outcome of the review will result in a material negative impact on the credit profile or TransLink's ability to meet debt servicing obligations. Investments outlined in the Mayors' Vision have been put on hold, with capital projects limited to those in the approved 2014 Base Plan. While this provides for near-term stability, new funding sources for long-term capital expansion are unclear. DBRS notes that borrowing requirements in approved capital plans are notably lower than entailed in the Mayors' Vision, with revisions to existing plans further reducing the expected trajectory and peak in DBRS-adjusted net debt to a level well within current rating thresholds.

Financial Information

	For the year ended December 31				
	2014	**2013**	**2012**	**2011**	**2010**
Transit system passengers (millions)	235	234	239	233	219
Population of service region (thousands)	2,474	2,443	2,410	2,373	2,351
Recurring surplus (deficit) ($ millions)	20.4	38.9	(51.0)	(49.4)	(42.6)
Net debt per capita ($)	1,022	1,037	1,061	1,064	1,045
Debt service coverage (times) 1	1.2	1.3	0.9	0.9	1.0

1 Recurring surplus plus depreciation and interest expenses, divided by net debt service costs.

Issuer Description

South Coast British Columbia Transportation Authority provides transit services and coordinates funding for the regional road network within Metro Vancouver. TransLink's service area covers 21 municipalities, as well as Electoral Area A and the Tsawwassen First Nation, with a combined population of 2.5 million in 2014.

Rating Considerations

Strengths

1. Taxing authority in an affluent region

TransLink has the ability to increase property tax revenues by up to 3% annually to meet its general operating requirements. In addition, in times of financial distress, TransLink can raise its property tax levy in any amount deemed necessary to meet debt obligations. DBRS views this power as analogous to a guarantee provided jointly by the municipalities in the Greater Vancouver Region (the Region), as it permits access to the tax bases of the municipalities. This indirect guarantee is buttressed by the combined financial strength of these 21 municipalities as a group.

2. Well-diversified revenue base

Under the *South Coast British Columbia Transportation Authority Act* (the Act) governing operations, TransLink benefits from a well-diversified revenue base composed of property taxes, transit fares and a fuel tax. This provides very strong support to TransLink, as over half of its revenue comes from non-transit sources, allowing it to better deal with a service disruption or loss of ridership. In addition, TransLink has an ongoing stream of government funding through the federal gas tax-sharing program.

3. Comprehensive financial planning framework

Management places strong emphasis on financial planning, which fosters sustainability and improved transparency with respect to the evolution of TransLink's fiscal position. The revised Act reinforces these practices by requiring the planning framework to involve a 30-year strategy, a fully funded ten-year investment plan (updated every three years), which replaces the three-year base plan and seven-year outlook used previously.

4. Significant user base in a region with above-average population growth

Population growth of the Metro Vancouver area, which TransLink services, has continued to outperform the national average. This trend is expected to continue, as The Conference Board of Canada projects that the annual population growth in the Region will average 1.6% annually over the next five years, whereas Canada's annual growth rate is forecast to be 1.1% or lower over the same period. Although ridership growth has been very weak, falling 1.0% at mid-year 2015, it is nevertheless projected to roughly match the rate of population growth of the Metro Vancouver area over the ten-year planning horizon.

Challenges

1. Large capital needs pressure debt

TransLink's DBRS-adjusted net debt has risen by close to 56% since 2007, but has flattened over the past five years and actually declined in 2014. Capital needs in the current approved Base Plan suggest that debt will rise moderately over the medium term, albeit at a lower level than anticipated at the time of the last review. The rejection of a new regional sales tax to fund the Mayors' Council Vision will result in a lower profile for borrowing over the medium term; however, a new ten-year investment plan that will outline capital projects and funding sources has yet to be tabled, pending ongoing governance and planning reviews in the aftermath of the referendum.

2. Short-term fares subject to oversight

TransLink only has the ability to raise short-term fares by 2% per year without special authorization from the Mayors' Council by way of an approved ten-year investment plan. Nevertheless, TransLink is able to set long-term fares without the Mayors' Council's approval and, in addition, can raise short-term fares as needed if such an action is required to provide funding for debt obligations.

3. General risks to transit system operations

The management of a transit system carries considerable risks that can make financial planning difficult. These risks pertain to the capital intensity of transit services, fluctuations in ridership, fuel price volatility, strong labour unions and a constrained ability to grow revenue as a result of the public outcry that can follow increases to transit fares and taxes.

4. Ridership weakness

Disappointing ridership growth in recent years is becoming an area of concern for DBRS, with year-to-date estimates showing a 1.0% year-over-year decline in revenue passengers, compounding very modest growth of 0.3% in 2014 and a 2.1% decline in 2013, which TransLink partly attributes to the lingering effects of the fare increases introduced in 2013. Although TransLink benefits from a diverse range of revenue sources that significantly reduces reliance on the fare box, stagnant or declining ridership in the context of an expanding population base and new service routes (e.g., Evergreen Extension) is likely to confound financial pressures and risks undermining longer-term expansion plans.

Operating Performance

($ millions)	For the year ended December 31				
	2014	2013	2012	2011	2010*
Operating revenues	1,447	1,444	1,380	1,316	1,303
Operating expenses	1,427	1,405	1,431	1,365	1,346
Operating surplus (deficit)	20	39	(51)	(49)	(43)
Non-operating items	6	(2)	42	(3)	(16)
Net surplus (deficit) as reported	27	37	(9)	(52)	(59)

TransLink reported a DBRS-adjusted operating surplus of $20.4 million in 2014, excluding non-recurring items, a moderate deterioration from the prior year's surplus of $38.9 million. The net consolidated surplus, as reported in the financial statements after a gain from the disposal of assets, was $26.9 million. This result was $78.8 million favourable to the original budget plan, largely owing to the timing of contributions from municipalities to the MRN of roads and bridges, slower Compass implementation and unused contingency funds.

Operating revenues rose by 0.2% and were largely on budget. Higher government transfers, taxation, tolling revenues and the gain on the disposal of assets offsetting virtually flat revenues from transit fares, which were 4.3% below budget expectations. Ridership as measured by revenue passenger trips were essentially unchanged year over year, growing by just 0.3%, which TransLink partly attributes to the lingering effects of the fare increases introduced in 2013. Taxation revenues, the largest source of income for the Authority, were up by 0.4% supported by the maximum legislated increase of 3.0% on TransLink's portion of local property and replacement taxes, less various adjustments. Fuel taxes, the largest but most volatile stream of taxation, experienced a $9 million, or 2.6%, decline versus the prior year. Fuel deliveries within the region occur unevenly and are linked to a variety of difficult-to-forecast market factors, including retail prices and the exchange rate. Parking taxes remitted by local parking companies were up by 6.0%. Emissions testing revenues under the AirCare program declined by 39%, as the program wound down and ceased operations as at December 31, 2014, as was anticipated in the budget. Tolling revenues from the Golden Ears Bridge were up moderately, while contributions to the Canada Line were stable. Excluding Canada Line, transfers from other governments for capital activities rose by 8.8% above prior year levels to $71.1 million, above budget because of timing differences.

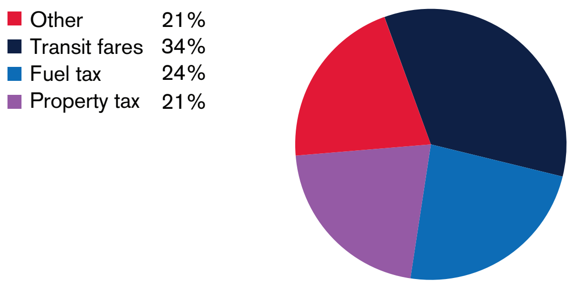
Operating expense growth outpaced revenues, rising by 1.6%. Bus services, the largest expense category, rose by 1.6% or $12.2 million as a result of the addition of a new B-Line service in Surrey in 2013, as well as labour and economic increases, higher fuel costs, partially offset by savings achieved through ongoing cost-efficiency measures and service optimizations. The rail division saw expenses rise by 2.7% driven by a range of factors, including higher staffing levels, collective agreement increases, overtime costs associated with SkyTrain resiliency, new West Coast Express operating crews and higher Canada Line contractual rates. Spending on roads and bridges fell by 4.8% year over year, largely because of lower capital contributions to local municipalities for MRN work for timing reasons. Corporate operations expenses, including one-time costs, rose by 5.9%, driven mainly by contractual salary increases, new positions transferred from rail services, software licenses, IT requirements and external services related to Compass implementation. One-time corporate costs totalled $4.6 million and were comprised of $3.0 million non-capitalized Compass smartcard expenses and $1.5 million for the development of the Mayor's Vision and strategic plan in advance of the transit plebiscite. Transit policing costs were also up on account of the settlement of a collective agreement dating back to 2011 and filling of vacant positions, offset by savings on overtime, professional and legal costs and from the deferral of equipment purchases.

By spending category, the largest source of growth was salary, wages and benefits, which rose by 3.9% in line with contractually negotiated increases and new positions in rail services related to SkyTrain resiliency. Maintenance, materials and utilities also contributed to increased spending, along with moderately higher administration and contract services. Offsetting these increases were lower amortization, interest, rentals, leases and property taxes and reduced capital contributions related to the delayed MRN work carried out by municipalities. Despite realizing $48 million in cost savings for the year, service levels were maintained and customer performance ratings remained high and stable from the previous year.

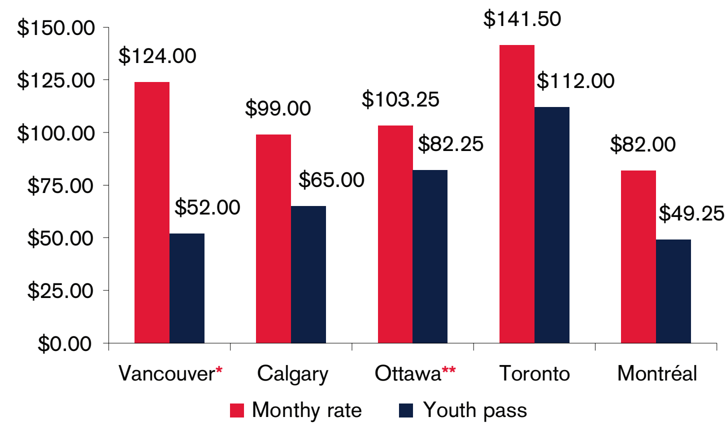
Capital expenditures in 2014 were above the five-year average at $228.4 million, but down 8.0% year over year and still well below levels realized in the lead up to the Olympic Games in 2010. Gross capital spending in 2014 included $120.4 million in new work in progress including the Evergreen Extension, Compass implementation and power upgrades on the Expo Line, as well as $36.2 million for vehicle replacement, including a new SeaBus vessel, $24.9 million for equipment and $20.3 million for station improvements at Broadway and Main Street SkyTrain Stations, along with station upgrades for the Compass system.

Operating Performance (CONTINUED)

2014 Revenues by Source



2015 Monthly Transit Fares



*Two zone fare **Regular fare

Operating Outlook

2015 Budget

The 2015 budget projected a modest $2.0 million consolidated surplus. Revenues were projected to grow by 2.8% from reported results in 2014, led by higher transit revenues, taxation and transfers for capital from senior governments. Transit fare revenues were budgeted to rise by 4.8%, assuming revenue passenger growth of approximately 2.9% from 2014 recorded levels, an ambitious target. Fares are not scheduled to be increased in 2015, and the revenue increase is expected to be derived primarily from higher ridership, reallocation of bus service to more high demand routes, adjacent and integrated development projects near transit stations and from wireless telecommunications royalties along transit routes. Taxation revenues are budgeted to rise 1.7% from 2014 actual levels, driven by the legislated 3% increase in TransLink's share of property taxes and parking right tax increases. Fuel tax revenue is expected to be relatively flat year over year, with higher volumes for gasoline offset by lower diesel volumes. Interest income is budgeted to decline by 4.0% on account of lower cash balances.

Expenses including amortization and interest costs were budgeted to rise by 4.1%, with higher base costs for most spending categories, including bus and rail services, corporate operations, roads and bridges and by significantly higher one-time corporate costs related to the implementation of Compass Card, the plebiscite vote, SkyTrain resiliency improvements and other contingencies. Excluding one-time costs and the now closed emissions testing program, the budget includes $58.9 million in base budget growth for ongoing operations. Ongoing corporate operational spending is set to rise by 14.6% net of interest and amortization, mainly reflecting a ramp up and phased roll-out of the Compass Card system through 2015 and modest investments in business technology. Rail Services budgeted for spending growth of 4.3%, driven by contractual labour increases, higher staff levels to address SkyTrain resiliency and the integration of the new Evergreen Extension into service in 2016, along with higher West Coast Express railcar lease payments and Compass costs. Bus services budgeted for 3.2% spending growth, largely reflecting a contractual labour and benefit increase and general inflation. The timing of capital contributions to municipalities led to budgeted growth of 5.1% for roads and bridges. Interest charges were budgeted to decrease by roughly 2.6% from 2014 as more interest is capitalized related to capital projects completed in 2015.

2015 Forecast (as of end of Q2 2015)

Through the first half of the year, TransLink recorded a surplus of $36.4 million, significantly stronger than budget forecasts. The variance is mostly attributable to lower expenses stemming from timing delays for capital contributions to municipalities for road and bridge work, as well as modest favourable revenue variances. Revenues before gains on the disposal of assets were running 1.1% ahead of budget at mid-year, and are projected at 0.2% ahead of budget at year end. Higher fuel tax receipts, stronger bridge tolling, transfers from governments and other miscellaneous income, such as Adjacent and Integrated Development projects, contributed to the favourable variance. Costs were lower than budget by 4.7% at mid-year and are projected to be 1.5% favourable to budget on an annual basis, largely owing to the delayed road and bridge work, various savings on labour due to unfilled vacancies, lower market prices for fuel and electricity, fare media and credit card fee savings, and timing-related savings on operating and one-time expenses for the Compass system.

Operating Outlook (CONTINUED)

TransLink expects to end the year with a consolidated surplus of $32.7 million, notably above the budgeted $1.9 million surplus. Weaker-than-expected transit revenues and modestly higher costs for corporate operations are to be offset by higher taxation receipts, Golden Ears Bridge tolling and further delays in capital contributions to municipalities for roads and bridges. Despite the favourable operating outlook, ridership of revenue passengers at mid-year was down 1.0% from 2014 levels and 2.5% below budget, indicative of ongoing ridership challenges on the system, exacerbated by lower fuel prices that make driving more affordable in the region.

Medium-Term Outlook

As indicated in the 2014 Base Plan, TransLink is forecasting modest consolidated surpluses in both 2016 and 2017, and given the solid year-to-date performance in 2015, this plan appears to be on track. However, the operating environment remains challenging for the Authority as it must contend with persistent inflationary pressures and significant capital investment needs absent new funding sources for projected system growth. New revenues will be primarily limited to legislated property tax rate increases and the 2% annual fare increases, fuel tax growth from higher consumption and ridership growth. Conversely, expenditures will be dependent on the Authority's ability to achieve further operating efficiencies, negotiate affordable labour agreements and maintain assets in a state of good repair. The Authority is set to enter a significant new bargaining cycle with a number of major contracts expiring in March 2016, which could lead to further salary and benefit pressures over the medium term. Internal policies require TransLink to maintain budget contingencies equal to 1% of operating expenditures, which provides modest flexibility to manage in-year pressures as they arise.

The phased roll-out of the $194 million Compass Card system through the end of 2015 adds some operational risk and financial uncertainty to the medium-term outlook; however, indications are that the revised implementation schedule is on track and that risks are manageable. The West Coast Express has shifted all customers to the Compass Card, as well as all students using the U-Pass program. Compass vending machines are being installed at stations across the SkyTrain network in a phased approach, as well as at private authorized vendors. As of October 1, 2015, the entire bus network has shifted to a single-zone fare system, primarily to improve the flow of riders and reduce congestion by not requiring users to tap off on buses; however, multi-zone bus fares could be reintroduced following a more comprehensive fare review following Compass roll-out. By the end of October 2015, it is anticipated that sales channels for Compass fare media will be operational. Fare gates that are currently open in the transition period will begin closing in a phased approach through the end of the year, signaling substantial completion of the Compass implementation.

TransLink expects that the implementation of Compass will provide detailed data on usage patterns that will aid in further optimization of service across the network, which should be supportive of revenue passenger growth. Disappointing ridership growth in recent years is becoming an area of concern for DBRS, with year-to-date estimates showing a 1.0% year-over-year decline in revenue passengers, compounding very modest growth of 0.3% in 2014 and a 2.1% decline in 2013. Although TransLink benefits from a diverse range of revenue sources that significantly reduce reliance on the fare box, stagnant or declining ridership in the context of an expanding population base and new routes, such as the Evergreen Extension, could confound the financial challenges of maintaining the existing system in a state of good repair and risks undermining longer-term expansion plans.

The rejection by voters in Metro Vancouver of the 2015 Transportation and Transit Plebiscite, which would have introduced a new regional 0.5% sales tax to fund an ambitious ten-year $7.5 billion capital investment plan over and above planned investments has introduced significant uncertainty into the future direction of transit governance and funding in the region. TransLink management will continue to implement the existing fully funded 2014 to 2016 Base Plan in the absence of a new investment plan, providing near-term stability. DBRS will monitor the ongoing governance review process, including the forthcoming reports of the new Task Force (see below), as it informs the future direction planning, funding and accountability for TransLink. DBRS does not anticipate that governance changes would have a negative effect on the credit profile or the ability of the Authority to meet its debt servicing obligations.

Capital Plan

In June 2014, the Mayors' Council Vision was presented, which entailed $7.5 billion in new capital investment over ten years and included a new Pattullo Bridge, light rail transit in Surrey and Langley, extension of the Millennium subway line and new rapid bus lines, among other enhancements. Funding for the plan was based upon a reliance on contributions from senior governments, increased transit revenues as a result of expanded ridership, bridge tolls and a new 0.5% regional sales tax. The provincial government mandated a public referendum on the new tax. In July 2015, the result of the referendum was made public with 62% of voters rejecting the proposal. As a result, TransLink continues to implement the 2014 Base Plan. It is currently unclear when a new ten-year investment plan will be approved; however, DBRS anticipates it will be completed before the end of 2016 when the current Base Plan will expire. With no new funding sources identified, the current mandate of the Authority is to maintain the existing capital asset base in a state of good repair. The extent of any additional borrowing requirements, beyond those articulated in the 2014 Base Plan, will not be known until after this review process is completed and a new investment plan is introduced.

TransLink's Capital Plan projections for 2014 to 2023 point to $2.97 billion in gross capital investment, to be offset by $1.1 billion in senior government contributions, for a net cost to the Authority of $1.8 billion. The plan focuses primarily on transit and rapid transit, including contributions for the new Evergreen Extension, EXPO Line upgrades, Compass Card infrastructure and bus replacements, with lesser shares allocated to roads and bridges, including the refurbishment of the Pattullo Bridge. Over the course of the outlook period, TransLink plans to invest approximately $150 million per year, of which government contributions are expected to be approximately 37%.

The 2015 capital program budget totals $214.8 million, including $24.2 million in contributions to municipalities for the MRN and bike programs, with anticipated government grants offsetting $91.2 million of the expense. The total capital budget, including new projects in 2015 and those currently in progress is $2.8 billion, with $933 million in senior government funding for a net cost of $1.8 billion. From a cash flow perspective, new spending in 2015 will have a net cash impact of $70.4 million, while the total capital budget for all projects will have a net cash impact of $332.0 million. Projects in the 2015 plan include a significant funding contribution for the provincially constructed 11-kilometre Evergreen Extension, construction of the new Hamilton Transit Centre bus facility in Richmond, fare gate installation for Compass, Expo Line propulsion power upgrades, SkyTrain station upgrades and railcar refurbishments, conventional bus replacement, Pattullo Bridge upgrades to keep it safe for use and contributions to municipalities for the MRN.

Debt and Liquidity

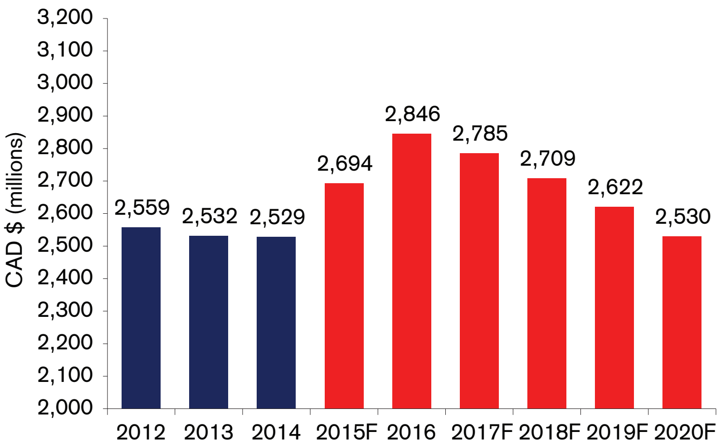
DBRS-adjusted net debt declined by 0.1% year over year to $2.52 billion, as new issuance was offset by the maturity of approximately $134 million in sinking fund bonds previously issued through Municipal Finance Authority of BC (MFABC), and by the amortization of deferred concessionaire credits for Canada Line. This equates to a per capita debt burden of $1,022 for Metro Vancouver residents, down slightly from $1,036 in 2013, viewed by DBRS as manageable for the rating. Sinking fund balances, both self-administered and held at the MFABC, declined slightly in 2014 as the funds used to repay debt maturities exceeded contributions and interest earned. In 2014, TransLink issued a $130 million senior unsecured bond due June 2025 in support of the capital program, in line with expectations at the time of the last review. Net interest charges as a share of revenues remained elevated at 10%, but were stable from the prior year. A board-mandated debt management policy limits TransLink's total net direct and indirect debt to 350% of operating revenues and gross interest charges to 20% of operating revenues. At December 31, 2014, TransLink was well within both limits at 275% and 13.1%, respectively, as calculated by the Authority.

At year end, cash and marketable securities totalled $575 million, down slightly from the prior year primarily because of lower cash proceeds from government capital transfers in 2014 and a lower balance on unspent transfers restricted from prior periods. As a share of current liabilities, cash and securities were largely stable at 148%. The debt service coverage ratio slipped slightly to 1.2 times from 1.3 in 2013, on account of modestly weaker operating performance. Free cash flow remained negative at approximately $74 million, as net capital expenditure remained elevated above cash generated from operations, indicative of elevated capital investment to maintain TransLink's expansive and aging transit and transportation portfolio.

As a further source of liquidity, TransLink maintains a $500 million CP program, which at the time of writing was approximately 18% utilized. The CP program is supported by a three-year $450 million bank credit agreement as a liquidity backstop expiring in March 2018. In addition, the credit agreement provides for a $50 million swing-line.

Debt and Liquidity (CONTINUED)

DBRS-Adjusted Net Debt ($ millions)



Source: TransLink projections; DBRS-adjusted. F = Forecast.

Medium-Term Outlook

DBRS notes that current management expectations for future debt growth have been revised down from the Board-approved 2014 approved base investment plan, reflecting a decision to scale back the nearly $300 million earmarked in the 2014 Base Plan for rehabilitation of the Pattullo Bridge. TransLink is now working to accelerate efforts among stakeholders and funding partners, including the provincial and federal governments, to replace the bridge on a faster time horizon. The Authority now estimates that it will spend up to $25 million on a repair program to keep the bridge in safe working order before it is replaced. A prior plan had estimated that rehabilitation, including seismic upgrades, would cost approximately $100 million. The more limited program will allow the Authority to direct the difference toward future replacement costs, along with proceeds from planned asset sales.

The reduction in planned borrowing related to the scaled back Pattullo Bridge rehabilitation has resulted in a lower projected path for DBRS-adjusted net debt over the next decade, from a previous estimated peak of $3.1 billion in 2017, to a current projected peak of $2.8 billion in 2016 or roughly $1,120 per capita based on estimated population growth of 1.3% in 2015 and 1.5% in 2016. Based on current management expectations, DBRS-adjusted net debt will rise by just over $160 million in 2015 as planned issuance is to be partially offset by contributions to sinking funds and a decline in Canada Line deferred concessionaire credits. In 2016, DBRS-adjusted net debt is similarly set to rise by $150 million, before receding steadily thereafter to $2.5 billion by 2020. Over the forecast period, debt service coverage ratios are unlikely to improve meaningfully, as operating performance is expected to fluctuate between modest deficits and surpluses over the medium term given the high fixed cost based and persistent inflationary pressures facing the Authority.

Local Economy

Metro Vancouver is Canada's third-largest metropolitan area after Toronto and Montréal with a population of nearly 2.5 million. The region comprises 23 local governments with the City of Vancouver at the center. Population growth has ranged between 1.1% and 1.3% in recent years with the outlying municipalities accounting for much of the growth. The region continues to be a popular destination for international and domestic migration. The Metro region is the commercial center of the province with a diversity of industries ranging from manufacturing and trade to film, technology and tourism. The province is widely expected to lead the country in growth this year and next and the Conference Board of Canada expects Metro Vancouver to grow 3.4% in 2015 and 3.5% in each the two subsequent years. Gains are expected to be broad-based on an improving U.S. economy and a weaker Canadian dollar.

The manufacturing industry is expected to experience among the strongest growth and will benefit significantly from the start of construction under Seaspan's federal shipbuilding contract. In contrast, the Conference Board of Canada expects moderation in the construction industry as many non-residential projects have recently concluded and a number have yet to start, though in coming years activity should pick up. The service sector is also expected to perform strongly led by gains in trade, finance, insurance, real estate and business services.

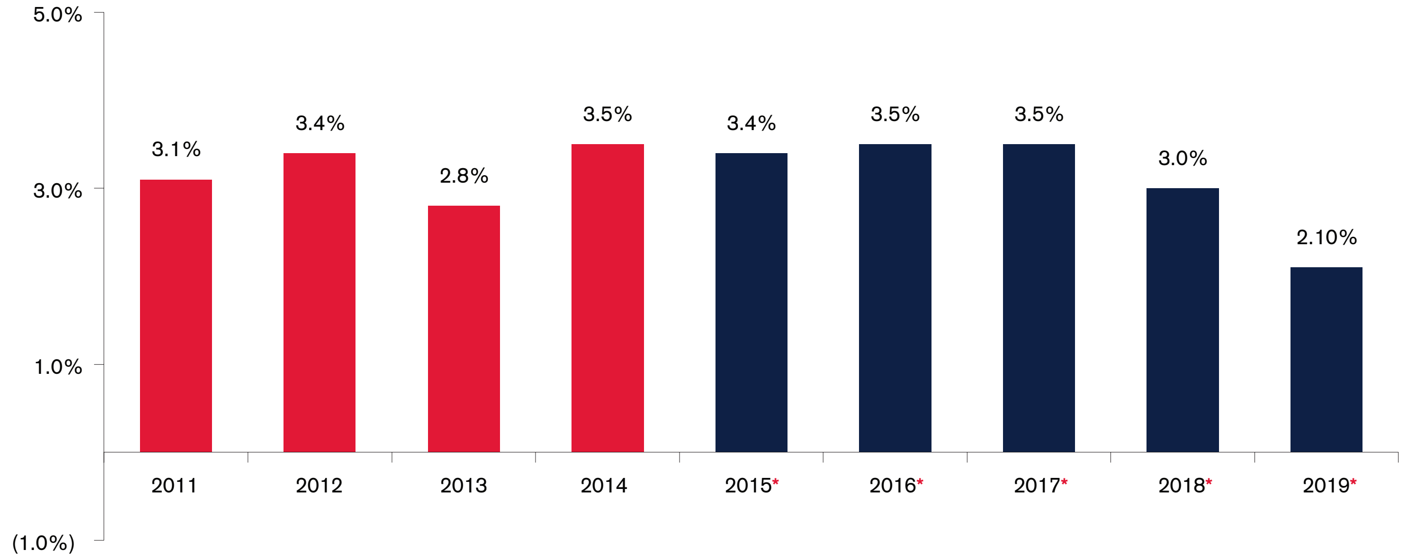
The Vancouver labour market has performed well in recent years. Employment has risen to more than 1.3 million and the unemployment rate has fallen to 5.7% (SA, three-month moving average). Employment is expected to continue to rise on the general strength of the local economy and the unemployment rate to remain stable. Incomes are expected to continue to rise, though median family total income in the region does fall slightly below the provincial and national average.

The Metro Vancouver property tax base remains stable and growing. Residential prices and construction continue to advance. Year-to-date, the value of residential building permits is up nearly 40% over the prior year and non-residential construction investment is up nearly 10%.

In the near term, adverse risks to the outlook remain, but are offset by improving U.S. economic conditions, which are expected to benefit the BC economy. Potential risks include a deterioration in export markets or a significant weakening in housing activity in the Metro Vancouver area.

Local Economy (CONTINUED)

Metro Vancouver - Real GDP Growth



Source: The Conference Board of Canada
* Forecast

The South Coast British Columbia Transportation Authority Act

On June 25, 2014, the Province passed new legislation, which provides for a new governance structure for TransLink. As a result of this legislation, the Regional Transportation Commissioner position has been eliminated and most responsibilities of the Commissioner's office have been transferred to the Mayors' Council, including the authority to approve new short-term fares or fare increases beyond the annual 2% permitted in legislation, oversight and disposition of major assets, and determination of executive compensation levels. Beginning January 1, 2015, the board will comprise seven members appointed by the Mayors' Council (as selected from a list compiled by an independent screening panel), plus the chair and vice chair of the Mayors' Council and up to two members appointed by the Province. Previously, there was no provincial representation on the board.

The Act preserves the ability of the board to annually raise property tax revenues by 3%, long-term fares as desired and short-term transit fares by 2% under normal conditions, while also protecting TransLink's ability to raise taxes and fares without limit in times of financial stress.

The Act continues to foster prudent financial planning by requiring management to prepare and adhere to a long-term strategy while also following a fully funded investment plan to guide expenditures over a shorter horizon. The long-term strategy must be outlined in a 30-year plan, updated every five years, while the investment plan covers a ten-year time frame and must be updated every three years. Both planning documents must now be approved by the Mayors' Council as opposed to just considering input from Council as had been the case previously. This is intended to ensure that the Mayors' Council will be supportive of required fare increases above those already permitted in legislation and the associated capital investment, as they are now both part of the fully funded ten-year investment plan.

Legislation was introduced that requires any new funding source not already available to TransLink under the Act, or any increase of the limits on or rates of increase provided for in the Act, be decided upon by way of a referendum, as was undertaken in 2015. As a result of the No vote on the plebiscite, the existing long-term strategy and base plan continue to apply until new plans are adopted by the Mayors' Council.

2015 Provincial Review

Following the negative outcome of the plebiscite, the provincial Minister responsible for TransLink commenced a review of the Authority to address public concerns related to accountability and future funding. Metro Vancouver has also established a temporary sub-committee of its Intergovernment and Finance Standing Committee, the Transportation Planning and Governance Review Task Force (the Task Force). Under the terms of reference set by Metro Vancouver, the Task Force has been charged with working with TransLink's Mayors' Council to investigate governance structures for the delivery of public transit,

The South Coast British Columbia Transportation Authority Act (CONTINUED)

and to examine options on how to strengthen the linkages between Metro Vancouver's Regional Growth Strategy and TransLink's transportation planning function. The Task Force is set to report by the end of October 2015; however, DBRS notes that indications from the Province suggest that major changes to TransLink's current governance structure, which was refined in 2014, are unlikely. Moreover, DBRS does not expect that any changes at TransLink as a result of the provincial review will result in a material negative impact on the Authority's credit fundamentals, including safeguards in place to ensure it can meet debt servicing obligations on a timely basis, but will monitor evolving developments for potential impact on the credit profile as review progresses.

DBRS also notes that the search for a new permanent TransLink CEO has also resumed following the approval of the revised compensation framework by the Mayors' Council.

Financial Ratios	**2014**	**2013**	**2012**	**2011**	**2010***
Operating surplus (deficit)/total revenues	1.4%	2.7%	(3.7%)	(3.8%)	(3.3%)
Net surplus (deficit)/total revenues	1.9%	2.5%	(0.7%)	(4.0%)	(4.5%)
Financial assets/current liabilities	147.7%	148.6%	125.0%	143.1%	60.6%
Net interest costs/total revenues	10.0%	10.0%	10.9%	11.3%	11.0%
Debt service coverage (times) 1	1.2	1.3	0.9	0.9	1.0
$ per capita (in Metro Vancouver):					
- Net long-term debt	1,022	1,037	1,061	1,064	1,045
- Net long-term debt, self-supported debt and commitments 2	1,602	1,694	1,733	1,590	1,539
Interest Costs and Debt Service ($ thousands)					
Net interest costs 3	144,855	145,074	150,409	149,031	143,471
Net debt service costs 4	239,560	244,794	253,184	247,058	236,436

* The Authority adopted Canadian Public Sector Accounting Standards (PSAB) effective as of January 1, 2011 and fiscal 2010 results have been restated for comparison purposes. Prior year's results may not be perfectly comparable. 1 Recurring surplus plus depreciation and interest expenses, divided by net debt service costs. 2 Includes the contractor liability related to the Golden Ears Bridge and other capital commitments. 3 Defined as interest expense plus capitalized interest, net of interest earned on sinking fund assets. 4 Net debt costs are defined as net interest costs plus principal repayment on debt and capital leases.

Economic Statistics	**2014**	**2013**	**2012**	**2011**	**2010**
Transit system passengers (millions) 1	235	234	239	233	219
- Year-over-year	0.3%	(2.1%)	2.4%	6.6%	15.7%
Population (thousands, Metro Vancouver)	2,474	2,443	2,410	2,373	2,351
- Year-over-year	1.3%	1.4%	1.6%	0.9%	2.1%
Unemployment rate (Metro Vancouver)	5.8%	6.6%	6.8%	7.5%	7.4%
Employment (thousands, Metro Vancouver)	1,276	1,248	1,247	1,224	1,201
Housing starts (# of units) (Metro Vancouver)	19,212	18,696	19,027	17,867	1,201

Source: BC Statistics and Statistics Canada. 1 Revenue passengers.

Consolidated Statement of Operations ($ thousands)	For the year ended December 31				
	2014	**2013**	**2012**	**2011***	**2010***
Operating revenues	1,447,315	1,443,732	1,379,870	1,315,862	1,303,270
Operating expenses	1,426,878	1,404,858	1,430,825	1,365,286	1,345,874
Changes in non-controlling interest of subsidiary 2	-	-	-	-	-
Operating surplus (deficit)	20,437	38,874	(50,955)	(49,424)	(42,604)
Non-recurring items	6,437	(2,109)	41,600	(3,048)	(15,966)
Capital funding 3					
Net surplus (deficit) as reported	26,874	36,765	(9,355)	(52,472)	(58,570)
Operating Revenues					
Transit	495,609	495,575	460,600	444,743	437,905
Taxation	744,157	741,307	714,414	682,350	689,846
AirCare, Golden Ears tolling & Canada Line contributions	72,884	78,261	78,400	71,386	68,398
Amortization of deferred concessionaire credit	23,273	23,273	23,337	23,345	23,078
Interest income	34,739	34,208	31,662	26,058	19,865
Miscellaneous revenues	5,576	5,771	5,581	4,984	-
Capital funding 3	71,077	65,337	65,876	62,996	64,178
Total revenues	1,447,315	1,443,732	1,379,870	1,315,862	1,303,270
Operating Expenses 1					
AirCare	15,806	16,163	17,380	19,100	18,837
Bus services	764,137	751,931	765,892	749,215	722,017
Corporate	85,213	80,445	73,657	67,970	88,104
Rail services	345,290	336,368	329,070	310,040	289,827
Roads and bridges	182,074	191,269	216,363	194,796	214,832
Transit police	34,358	30,624	28,463	27,384	28,223
Other expenses					
Total expenses	1,426,878	1,406,800	1,430,825	1,368,505	1,361,840
Non-recurring items		(1,942)	-	(3,219)	(15,966)
Total operating expenses before non-recurring items	1,426,878	1,404,858	1,430,825	1,365,286	1,345,874
Capital Expenditures	**228,413**	**248,296**	**177,391**	**106,096**	**89,573**
Cash Flow (DBRS-Adjusted) ($ thousands)					
Recurring surplus (deficit)	20,437	38,874	(50,955)	(49,424)	(42,604)
Items not involving cash 4	130,248	94,157	90,593	99,370	105,510
Change in non-cash working capital	(3,887)	29,677	20,343	(19,299)	(45,591)
Operating cash flow from operations	146,798	162,708	59,981	30,647	17,315
Net capex 5	(220,706)	(248,463)	(85,890)	(93,543)	(88,572)
Free cash flow	(73,908)	(85,755)	(25,909)	(62,896)	(71,257)

*1 The Authority adopted Canadian Public Sector Accounting Standards (PSAB) effective as of January 1, 2011 and fiscal 2010 results have been restated for comparison purposes. Prior year's results may not be perfectly comparable. Furthermore, the presentation of expenses is notably different from prior years and expenses prior to 2010 could not be regrouped into the new presentation format. 2 Translink had 90% ownership of Transportation Property and Casualty Company Inc. prior to September 30, 2010, and then subsequently bought out the 10% minority shareholder. Represents the portion of annual income belonging to the minority shareholder. 3 Consists of federal gas tax funding received by Translink through the Union of BC Municipalities and other senior government capital contributions. Starting from fiscal 2010, the Capital Funding revenue category includes Operating Revenues to reflect PSAB requirements for transfers from government to be deferred and recognized as revenue as related stipulations in the relevant agreements are met, rather than recorgnized when received. 4 Amortization of capital and other assets and changes in non-controlling interest of TPCC. 5 Net proceeds from the sale of capital assets less capital expenditures. Starting in 2012, no longer includes capital funding since capital funding has been included in operating revenue given PSAB requirements to defer the recognition of senior government capital contributions.

Consolidated Balance Sheet ($ thousands)	As of December 31				
Assets	**2014**	**2013**	**2012**	**2011**	**2010***
Cash and marketable securities	574,620	638,938	545,130	498,269	224,535
Accounts receivable	102,644	97,103	107,037	79,059	74,987
Inventories	51,266	46,869	43,372	39,434	36,335
Prepaid expenses	12,516	9,315	8,431	7,452	8,672
Current assets	741,046	792,225	703,970	624,214	344,529
Assets held for sale	4,868	14,164	-	-	-
Long-term investments	23,980	22,248	29,420	20,258	20,509
Debt reserve deposits 1	36,104	39,677	41,263	42,250	40,857
Debt sinking funds 1	693,328	717,710	685,541	558,889	447,855
Capital assets	4,511,992	4,451,189	4,385,782	4,426,404	4,497,087
Deferred charges		-	-	-	-
Total Assets	**6,011,318**	**6,037,213**	**5,845,976**	**5,672,015**	**5,350,837**
Liabilities					
Accounts payable and accrued liabilities	234,446	235,987	222,694	180,563	203,658
Short-term debt	89,587	89,540	89,241	88,615	88,025
Current portion of capital lease obligations	1,596	2,716	2,450	-	-
Current portion of long-term debt	63,433	101,833	121,762	78,926	78,873
Total current liabilities	389,062	430,076	436,147	348,104	370,556
Employee future benefits	99,875	89,082	78,251	67,144	57,397
Long-term debt	2,506,779	2,475,452	2,425,492	2,292,237	2,095,070
Contractor liability 2	1,051,375	1,045,059	1,032,744	1,020,150	1,000,845
Deferred concessionaire credits 3	595,669	618,942	642,215	665,552	684,641
Capital lease obligations	1,059	1,078	1,925	-	-
Other	13,021	12,984	1,650	446	-
Deferred government capital contributions	1,201,165	1,238,101	1,137,878	1,179,353	990,827
Total liabilities	5,858,005	5,910,774	5,756,302	5,572,986	5,199,336
Retained earnings	153,313	126,439	89,674	99,029	151,501
Total Liabilities and Equity	**6,011,318**	**6,037,213**	**5,845,976**	**5,672,015**	**5,350,837**

DBRS-Adjusted Net Debt ($ thousands)	**2014***	**2013***	**2012***	**2011***	**2010***
Gross debt	2,659,799	2,666,825	2,636,495	2,459,778	2,261,968
Deferred concessionaire credits 3	595,669	618,942	642,215	665,552	684,641
Capital lease obligations	2,655	3,794	4,375	-	-
Less: sinking funds	(693,328)	(717,710)	(685,541)	(558,889)	(447,855)
Less: debt reserve deposit	(36,104)	(39,677)	(41,263)	(42,250)	(40,857)
Total DBRS-Adjusted Net Debt	**2,528,691**	**2,532,174**	**2,556,281**	**2,524,191**	**2,457,897**
Self-supported debt 2	**1,051,375**	**1,045,059**	**1,032,744**	**1,020,150**	**1,000,845**
Capital commitments	**383,700**	**560,036**	**588,113**	**229,119**	**158,870**

* The Authority adopted Canadian Public Sector Accounting Standards effective as of January 1, 2011 and fiscal 2010 results have been restated for comparison purposes. Prior year's results may not be perfectly comparable. 1 Debt reserve deposits and sinking fund assets are administered by MFABC. 2 Represents the amount of funding received to date for the Golden Ears Bridge to be repaid in the future by Translink through capital payments. 3 Funding provided by the concessionaire towards the construction of the Canada Line, amortized post completion over the term of the concession.

Rating History

	Current	2014	2013	2012	2011	2010
Issuer Rating	AA	AA	AA	NR	NR	NR
Senior Unsecured Debt	AA	AA	AA	AA	AA	AA
Commercial Paper	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Previous Action

- Confirmed, November 3, 2014.

Related Research

- Rating Canadian Municipal Governments, June 2015.

Commercial Paper Limit

- $500 million

Previous Report

- South Coast British Columbia Transportation Authority (TransLink), Rating Report, November 3, 2014.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.