Rating Report
South Coast British Columbia Transportation Authority (TransLink)

DBRS Morningstar
October 27, 2022

Contents

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Ratings

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

On October 14, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debt rating of South Coast British Columbia Transportation Authority (TransLink or the Authority) at AA and its Commercial Paper (CP) rating at R-1 (middle). All trends are Stable. The ratings remain well supported by TransLink's strong legislative framework, its effective financial management framework and practices, and the strength of the underlying economy.

For the year ended December 31, 2021, TransLink reported a deficit of $198.5 million, compared with a surplus of $429.6 million the prior year. This reflects senior government relief funding recognized in 2020 that was partially intended to offset net operating losses in 2021. On a DBRS Morningstar-adjusted basis, this equates to a surplus of $84.2 million after recognizing the senior government funding dedicated to cover operating losses for the year 2021.

For 2022, TransLink budgeted for a deficit of $46.9 million. Based on the second quarter report, TransLink is now forecasting a surplus of $89.2 million for 2022. This reflects a combination of additional senior government funding relief aimed to offset Coronavirus Disease (COVID-19) pandemic-related losses in 2023–25 and higher investment income offset by lower transit fare revenue. After excluding senior government relief funding and a write-down of previously capitalized costs, TransLink is forecasting a deficit of $56.5 million on a full-year basis, which is slightly behind budget largely because of a somewhat slower-than-anticipated recovery in ridership.

Given a permanent shift to hybrid working arrangements and ongoing aversion to crowded spaces, the pace of ridership recovery has been slower than planned. This has created a structural deficit that will need to be addressed over the longer term through the next iteration of the 10-year investment plan. TransLink expects that transit ridership may only reach 80% of pre-pandemic levels through the near to medium term. When combined with declining fuel-tax revenue, this will require new sustainable revenue sources in order to maintain financial sustainability. TransLink is working with its stakeholders to identify new revenue sources to mitigate these pressures.

In May 2022, TransLink's new 10-year investment plan was approved, which included a revised long-term debt forecast. Given the slower pace of planned investment and upfront provincial contributions, debt growth is expected to be slower than under the previous investment plan. DBRS Morningstar's measure of net tax-supported debt is forecast to rise to $4.0 billion (+3.0%) in 2022 before gradually reaching $4.6 billion by 2024. This would equate to net tax-supported debt per capita of $1,593 or 0.3% of Metro Vancouver's taxable assessment. These levels remain consistent with the AA ratings.

DBRS Morningstar expects the ratings to remain stable through the medium term. DBRS Morningstar could downgrade the Authority's ratings if operating results deteriorate significantly on a sustained basis and the debt burden rises materially above current projections ($4.6 billion in 2024). DBRS Morningstar does not believe an upgrade is likely over the medium term because of anticipated, albeit slower, debt growth.

Financial Information

	Fiscal year ended December 31				
	2021	**2020**	**2019**	**2018**	**2017**
DBRS Morningstar-adjusted surplus/(deficit) (CAD millions)	84	104	333	185	96
Net tax-supported debt per capita (CAD)	1,411	1,502	1,435	1,472	1,449
Net tax-supported debt as a share of taxable assessment (%)	0.3	0.4	0.3	0.3	0.4
Net interest costs as share of revenue (%)	7.6	8.6	7.9	8.2	8.8
Post-capex surplus/(deficit) as % of revenue (Five-year rolling avg)	(0.5)	0.0	1.8	0.9	0.3

Capex = capital expenditure.

Issuer Description

TransLink provides public transit and transportation services and coordinates funding for the regional road network within Metro Vancouver. TransLink's service area covers 21 municipalities within Metro Vancouver, Electoral Area A, and the Tsawwassen First Nation, all of which have a combined population of 2.8 million. The Authority has the largest service area of any Canadian transit authority (1,800 square kilometres).

Rating Considerations

Strengths

1. Taxing authority in an affluent region

TransLink has the legislated authority to increase property-tax revenues by up to 3.0% annually to meet its general operating requirements. Additional approvals are necessary to increase property-tax revenue beyond the 3.0% (i.e., to capture development growth). An increase of 1.15% per year has been approved by the Mayors' Council in the 2022 investment plan. Notwithstanding this requirement, TransLink's board of directors (the Board) has unfettered authority to raise property taxes in any amount it deems necessary to meet debt obligations. Furthermore, property tax revenues include the additional annual percentage increase to standard tax revenue for annual development growth.

2. Diverse revenue base

TransLink has a diverse revenue base made up of transit fares, property and fuel taxes, and federal and provincial capital transfers. In addition, in 2020–22, TransLink received emergency relief funding from senior governments to help offset losses caused by the pandemic. This diverse revenue base limits the impact of service disruptions or loss of ridership on financial results. For 2021, transit revenues accounted for 21% of DBRS Morningstar-adjusted revenues.

3. Comprehensive financial planning framework

TransLink's governing legislation requires TransLink to develop a 30-year strategy and fully funded, 10-year investment plans (updated at least triennially, although, the coronavirus pandemic has delayed the presentation of the latest plan). The comprehensive planning framework and complex governance structure require significant consultation and consensus decision making but ultimately result in a thoughtful and integrated transportation plan. The investment plan is required to contain a detailed financial plan, which includes a detailed outlook for the balance sheet and an income statement that are directly comparable with budget documents and audited financial statements.

Challenges

1. Restoring transit ridership

Prior to the pandemic, transit revenues accounted for 30% to 35% of total revenues, but fell to around 20% in 2020 and 2021. In spring 2020, ridership had fallen to 17% of previous levels, and while a recovery is under way, it continues to be more gradual than anticipated. The budget assumed ridership would return to just over 80% of pre-pandemic levels by fall 2022 with transit-related revenues accounting for approximately 30% of total revenues. However, through Q2 2022, ridership has been below budget and TransLink now anticipates ridership for the full year will only reach 70% of pre-pandemic levels. TransLink notes weekday ridership is at 70% while weekend ridership is closer to 80%.

2. Execution of planned service expansion

Although capital investment is proceeding at a slower pace under the recently updated 10-Year investment plan approved in May 2022, TransLink continues to expand its service offerings and upgrade its infrastructure. The current plan includes $6.9 billion in capital expenditure (capex), which compares to the net book value of TransLink's existing capital assets of $5.7 billion. TransLink is undertaking major projects concurrently, which require staffing increases; major procurement; and project management, design, and planning work that will need to be managed in addition to the routine operational risks of a complex transit system.

3. Policy and political risks

TransLink's operations and financial results are heavily influenced by local and provincial politics and policy decisions (for example, the elimination of bridge tolls and the Surrey Light Rail Transit system). In addition, senior government relief funding has been instrumental in insulating TransLink from the impact of reduced ridership.

4. Rising debt burden

The ongoing service expansion will require increased debt over the medium term; although, planned borrowing has slowed meaningfully relative to DBRS Morningstar's expectations at the time of its last review. DBRS Morningstar's measure of net tax-supported debt is projected to rise to $4.6 billion by 2024 from $3.9 billion in 2021. TransLink's key financial ratios are expected to remain commensurate with the current AA ratings.

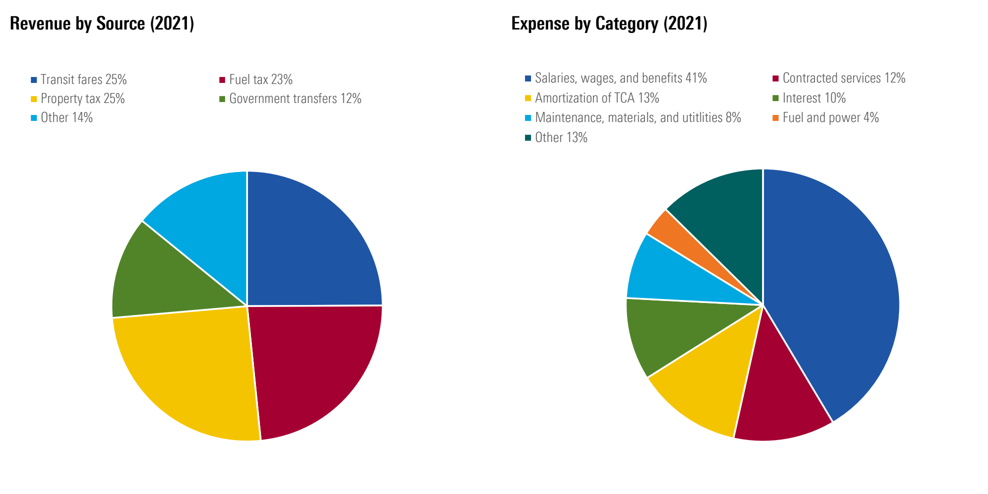
Financial Performance

2021 Results

For the year ended December 31, 2021, TransLink reported a deficit of $198.5 million, compared with a surplus of $429.6 million the prior year. In 2020, TransLink received $644.0 million in senior government relief funding to offset net operating losses in both 2020 and 2021, however because of accounting requirements, TransLink recorded the entire amount received in 2020. Of this extraordinary funding, $282.7 million was allocated to help cover operating losses in 2021.

On a DBRS Morningstar-adjusted basis, this equates to a surplus of $84.2 million after recognizing the senior government funding dedicated to cover operating losses for 2021, compared with a adjusted deficit of $104.1 million in 2020. In addition to the 2020 government funding, TransLink received additional senior government relief funding to help mitigate the operating losses sustained by lower than expected fuel-tax revenue and to implement free transit for children aged 12 and younger. Capital spending continued to decline year-over-year (YOY), which helped improve post-capex results.

Exhibit 1 Revenue and Expense Profiles (2021)



TCA = tangible capital assets. Source: TransLink (unadjusted). Note: Because of rounding, figures may not total 100%.

TransLink's financial performance was affected again by the coronavirus pandemic, which resulted in lower revenues on a YOY basis. As public measures began to lift, transit fare revenue increased by $28.0 million (+7.3%), as ridership saw a modest uptick of 2%. Similarly, fuel-tax revenues and parking-rights-tax revenue saw increases, with overall taxation revenue rising by $49.5 million (+5.8%). Government transfers declined by $590.0 million (-74.3%), however $325.0 million from the $644.0 million received and recognized in 2020 was carried over, with $282.7 million budgeted for 2021 and the remaining $42.3 million allocated to future years. Revenue from development cost charges increased by $25.0 million (+126.9%), while miscellaneous revenue also saw an increase of $3.6 million (+19.5%). Despite the increases across most revenue source categories, total revenues declined by $484.3 million (-22.6%), mainly attributable to the treatment of government transfers as required by the Public Sector Accounting Standards.

TransLink's reported operating expenses in 2021 were $143.8 million (+8.4%) higher compared with the year prior mainly because of the stringent cost reduction measurements implemented in 2020. As operations were stabilized, and relief funding was secured to ensure service continuity, TransLink resumed their Major Road Network Operations, Maintenance, and Rehabilitation (OMR) program, stabilized service levels to match demand, and lifted the hiring freeze. Expenses from bus operations increased by $45.1 million (+4.8%) because of higher costs in labour as a result of contractual increases and an increase in service levels, as well as higher fuel costs. Rail operations expenses increased as well by $30.2 million (+6.8%), while expenses from roads and bridges saw a significant increase of $57.0 million (+36.0%) because of the resumption of the Major Road Network OMR program. Transit police expenses increased by $4.0 million (+9.7%), while corporate operations also saw an increase of $7.4 million (+5.3%) because of costs associated with contractual obligations and labour costs, and higher property taxes assessed.

2022 Budget and Outlook

TransLink prepares annual budgets on a Public Sector Accounting Board basis that the Board approves. For 2022, TransLink budgeted for a deficit of $46.9 million. In response to the ongoing coronavirus pandemic and a significant decline in ridership, TransLink has had to re-evaluate key priorities, including steps to slow the previously planned expansion of certain bus and rail services. The 2022 budget has identified four priorities:

- Rebuild customer ridership.
- Foster a safe, skilled, and resilient workforce.
- Deliver a reliable transportation system in a state of good repair.
- Achieve financial sustainability.

Total revenues (unadjusted) are budgeted to increase by 0.7% YOY in 2022, which primarily reflects increases across majority of TransLink's revenue sources. The budget assumes ridership would be at about 80% of pre-pandemic levels by fall 2022 and remain at that level until the end of the year. Taxation revenues are budgeted to increase by 5.0% compared with last year's budget. Transit fare revenues are projected to increase by 46.9% in 2022, driven by increases in ridership and the elimination of public health measures. Initially, TransLink did not anticipate additional senior government relief funding; however, in April 2022, TransLink received $176.0 million to help maintain current service levels. Revenue from development cost charges is projected to increase by 86.7%, which will offset losses caused by the pandemic in 2023–25, while revenues from investment income (-3.7%) and miscellaneous sources (-20.2%) are expected to decline.

In 2022, TransLink has tailored service levels to be in line with ridership demand. As a result, total expenditures are expected to increase by 3.5% YOY in 2022. This primarily reflects the increase stemming from contractual increases in existing agreements and labour rate increases, increase in property taxes, fuel costs, and maintenance costs. An increase in amortization of capital assets and capital infrastructure is anticipated because of ongoing large capex investments. The budget continues to prioritize cost efficiencies and cost reductions, while still fulfilling service commitments to the region.

Medium-Term Outlook

Based on the second quarter report, TransLink is now forecasting a surplus of $89.2 million for 2022. This reflects a combination of additional senior government funding relief aimed to offset pandemic-related losses in 2023–25 and higher investment income offset by lower transit fare revenue. After excluding senior government relief funding and a write down of previously capitalized costs related to the Surrey-Newton-Guildford Light Rail Transit project that is no longer moving ahead, TransLink is forecasting a deficit of $56.5 million on a full-year basis, which is slightly behind budget largely because of a somewhat slower-than-anticipated recovery in ridership.

Compared with last year, the medium-term outlook looks to be more certain and optimistic coming out of the pandemic. TransLink's 2022 budget and updated investment plan projects ridership to recover to reach just over 80% of pre-pandemic levels as of fall 2022; however, TransLink notes it is expected to remain stagnant at that rate until the end of the year as people continue to work remotely and general concerns remain about using public transit post-pandemic.

After the pandemic delayed its development, TransLink released its 10-year investment plan, which includes fully funded, multiyear budget forecasts and is essential to eliminating the Authority's structural deficit over the longer term while waiting for ridership to recover. This plan spans between 2022 and 2031, highlighting their focus on

- Stabilizing TransLink's finances.
- Maintaining the region's transportation system in a state of good repair.
- Right-sizing TransLink's services and expenditures over the next few years.
- Advancing a few select strategic projects.

Currently, the investment plan details its plans on how to achieve financial stability through to 2025, at which point, a new investment plan will be required to address any outstanding gaps to ensure continued sustainability.

While neither level of government has committed to providing additional funds beyond those already announced, government efforts to support the economic recovery and stimulate growth will likely necessitate transit operators to maintain and possibly increase service offerings. As such, DBRS Morningstar anticipates modest additional support funding could be forthcoming if deemed necessary to maintain service levels.

With an increasing emphasis on environmental, social, and governance (ESG) factors, TransLink's core activities (i.e., public transit) and its longer-term environmental goals (for example, the 2018 Low-Carbon Fleet Strategy, 80% carbon reduction by 2035, and carbon neutrality by 2050) are well aligned with government stakeholders and these stakeholders may be supportive of increased capital funding where a meaningful environmental benefit can be identified.

Capital Plan

In May 2022, TransLink released its 2022 investment plan, a new 10-year investment plan that included total capex of $13.3 billion. The plan is focused on four priorities: (1) stabilizing TransLink's finances; (2) maintaining the system in a state of good repair; (3) right-sizing services and expenditures; and (4) advancing select strategic projects including the Surrey Langley SkyTrain, and a new SkyTrain operations and maintenance centre. Most of the investment in the plan is for rail infrastructure (63%), followed by bus (25%), and roads and bridges (7%).

Major projects currently under way include the following:

- **SkyTrain Vehicle Purchases:** This project involves procurement of 205 cars to replace aging cars and for the Broadway subway extension. The new vehicles will be brought into service between 2024 and October 2027.
- **Surrey Langley SkyTrain:** TransLink is developing a plan to extend the existing Expo Line to Langley Centre along the Fraser Highway. The project includes 30 new SkyTrain vehicles and the current cost estimate is $3.95 billion.
- **Broadway Subway Extension:** TransLink will extend the Millennium Line 5.7 kilometres (km) west along Broadway to Arbutus Street with six stations. The project is mostly underground and technically complex. The $2.8 billion project will be a provincial public-private partnership (PPP) project but fully integrated into TransLink’s transit system. The project will be largely funded by the federal and provincial governments, with the Province of British Columbia (the Province) assuming the majority of construction and cost-related risks.
- **Expo and Millennium Line Upgrade Program:** The program totals $1.8 billion and comprises projects to increase capacity on the SkyTrain network (including the aforementioned SkyTrain vehicle purchases). Projects include fleet additions, expansion of vehicle storage facilities, upgrades to existing maintenance facilities, upgrades to power and operational systems, and various station improvements.

TransLink budgeted for $799.0 million in capital investment (acquisition and construction of tangible capital assets) in 2022, up from the 2021 budget. In recent years, TransLink has budgeted for significant increases in capital investment, but actual investment has typically fallen short—a trend that has been further complicated by the pandemic. In 2021, TransLink planned for $654.3 million in capital investment but actual investment was $358.5 million.

TransLink continues to evaluate and further plan for additional major projects, such as the Millennium Line-UBC Extension and Burnaby Mountain Gondola; however, timing and ultimate approval are subject to fully identified funding sources.

Debt and Liquidity Management

TransLink’s debt burden is relatively low and the pace of growth is moderating because of lower ridership and slower capital spend. In 2021, TransLink's net tax-supported debt declined by 5.2% to $3.9 billion. This equates to $1,411 per capita, or 0.3% of taxable assessment.

DBRS Morningstar’s measure of tax-supported debt comprises short- and long-term debt, PPP obligations (Canada Line/Golden Ears), and capital lease obligations, less debt reserve funds and sinking funds (self administered and those administered by the Municipal Finance Authority of British Columbia (MFABC)).

TransLink has internally and externally imposed debt limits:

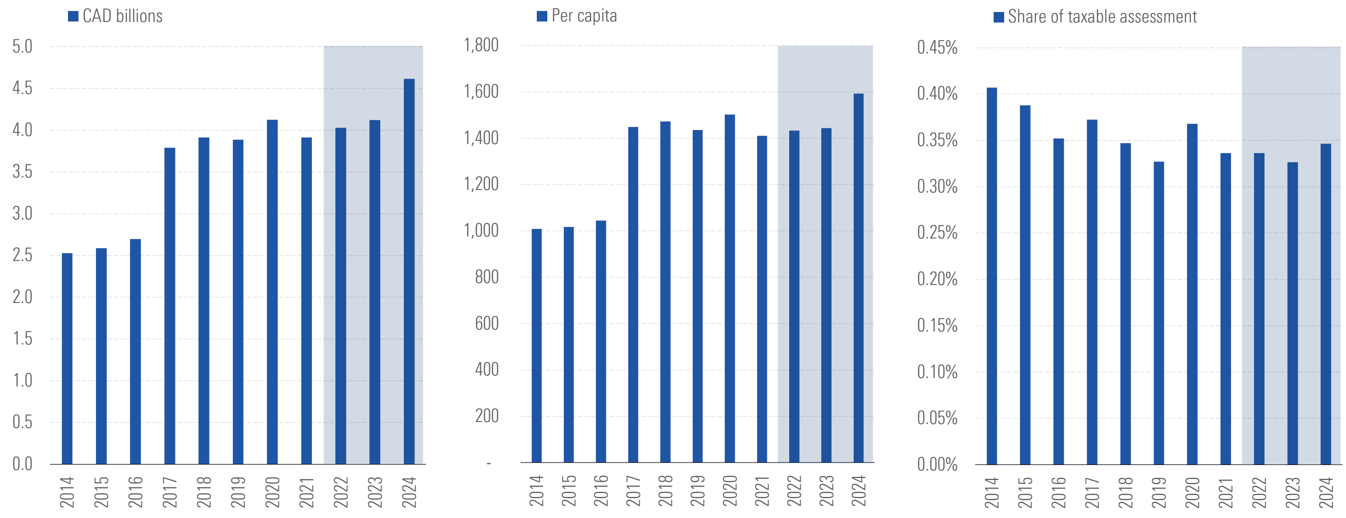
- TransLink is subject to a $6.8 billion debt limit under the South Coast British Columbia Transportation Authority Act (the Act; up from $5.5 billion previously). Increases to the debt limit must be approved by the Mayors’ Council (in consultation with Metro Vancouver) under the Act. The Act defines debt as the sum of current borrowings of TransLink secured by debentures, bonds, other forms of indentures, capital leases, short-term notes, lines of credit, and bank overdrafts, excluding any sinking funds or unamortized prepaid financing costs. Also excluded from this definition are any indirect concessionaire-type debt obligations (for example, PPPs).
- TransLink’s Board-mandated internal debt-management policy limits total net direct and indirect debt to 300% of operating revenues and limits gross interest charges to 20% of operating revenues. As at December 31, 2021, TransLink was at 277.7% and 12.9%, respectively.

TransLink has good access to capital markets and a well-recognized borrowing plan. The Authority maintains ongoing access to domestic capital markets and issues debt as capital needs require. Its CP program is active with $30.0 million currently outstanding. TransLink’s debt is fully denominated in Canadian dollars, and the maturity profile is prudently structured.

Historically, TransLink borrowed through the MFABC and continues to have $1.0 billion (gross) owing through the provincial agency. TransLink continues to have legislated ability to access the MFABC for funding, but borrowing through the MFABC would require approval from Metro Vancouver because the MFABC imposes joint and several liability on municipal issuers. TransLink has no intention of borrowing through the MFABC in the coming years.

The Authority maintains $1.1 billion in sinking funds as of December 31, 2021, of which $648.6 million was held by the MFABC, and the remaining $444.7 million were self administered. TransLink’s policy for self-administered sinking funds requires the Authority to set aside funds to fully repay the face value of debt at the end of the determined amortization period, which could be longer than the term of the given debenture.

Exhibit 2 Net Tax-Supported Debt



DBRS Morningstar reclassified the Golden Ears Contractor Liability ($1.0 billion) as tax-supported debt after the Province eliminated bridge tolls in September 2017.
Source: TransLink.

TransLink has a CP program with an authorized limit of $500 million. TransLink generally seeks to maintain an active CP program with modest balances outstanding, but balances can fluctuate to meet cash management needs during select periods of the year. During the past year, the maximum outstanding at any given time was $30 million. The CP program is backstopped by a $500 million credit facility ($440 million revolver + $60 million swingline) that matures in March 2026. TransLink has policies in place governing the use of its CP program, including weekly maturity limits as well as restrictions on the use of the credit facility.

TransLink does not have unfunded pension liabilities. The Authority participates in British Columbia's Public Service Pension Plan, which is a multiemployer defined benefit plan. The most recent actuarial valuation (2020) resulted in a funding surplus of $2.7 billion. The actuary does not attribute portions of the surplus to individual employers. The Authority, like many public-sector entities, has more significant employee future benefit obligations (for example, extended health, dental, life insurance, etc.), which were estimated to be $138.2 million at December 31, 2021, up from $132.3 million (+4.5%) from the prior year.

TransLink has policies and practices that establish minimum liquidity levels to mitigate funding and other risks. Through a board-approved policy, TransLink maintains minimum accumulated funding resources (cash and investments) equal to 15% of total ongoing operating expenditures plus ongoing debt servicing costs for the first three years of the investment plan, and 12% in the remaining seven years.

At June 30, 2022, the Authority had $408.7 million in unrestricted cash and cash equivalents and a further $150.3 million in unrestricted investments. TransLink’s unrestricted cash and investment holdings exceed its annual debt service costs (principal and interest).

Beyond its unrestricted cash and investments (General Fund), the Authority also has a further $3.7 billion in its various restricted funds. This marks a substantial increase from prior years and reflects a $2.0 billion upfront payment from the Province to replace future monthly toll revenue payments for the Golden Ears Bridge (GEB) for the period from April 1, 2022, to December 31, 2050.

Medium-term Outlook

In May 2022, TransLink's new 10-year investment plan was approved, which included a revised long-term debt forecast. Given the slower pace of planned investment, and use of a portion of the GEB upfront payment to fund capital, debt growth is expected to be slower than under the previous 2018 10-year investment plan. DBRS Morningstar's measure of net tax-supported debt is forecast to rise to $4.0 billion (+3.0%) in 2022 and gradually reach $4.6 billion by 2024. This would equate to net tax-supported debt per capita of $1,593 or 0.3% of Metro Vancouver's taxable assessment. These levels remain consistent with the AA ratings.

The outer years of the 10-year investment plan point to net tax-supported debt peaking at $6.2 billion in 2028' although, this remains subject to further refinement when the plan is updated next in 2025.

Economy

Vancouver is Canada’s third-largest city, with a population of 2.8 million. It is the commercial centre of the Province and has an annual economic output of approximately $154 billion (real GDP).

According to the Conference Board of Canada, real GDP rebounded sharply by 4.6% in 2021, surpassing pre-pandemic levels. Despite the strong rebound, growth was uneven as some sectors continued to be affected by supply-chain disruptions, while the November 2021 flooding and the shift in consumer spending patterns toward services, and away from goods, as public health measures were relaxed added further noise.

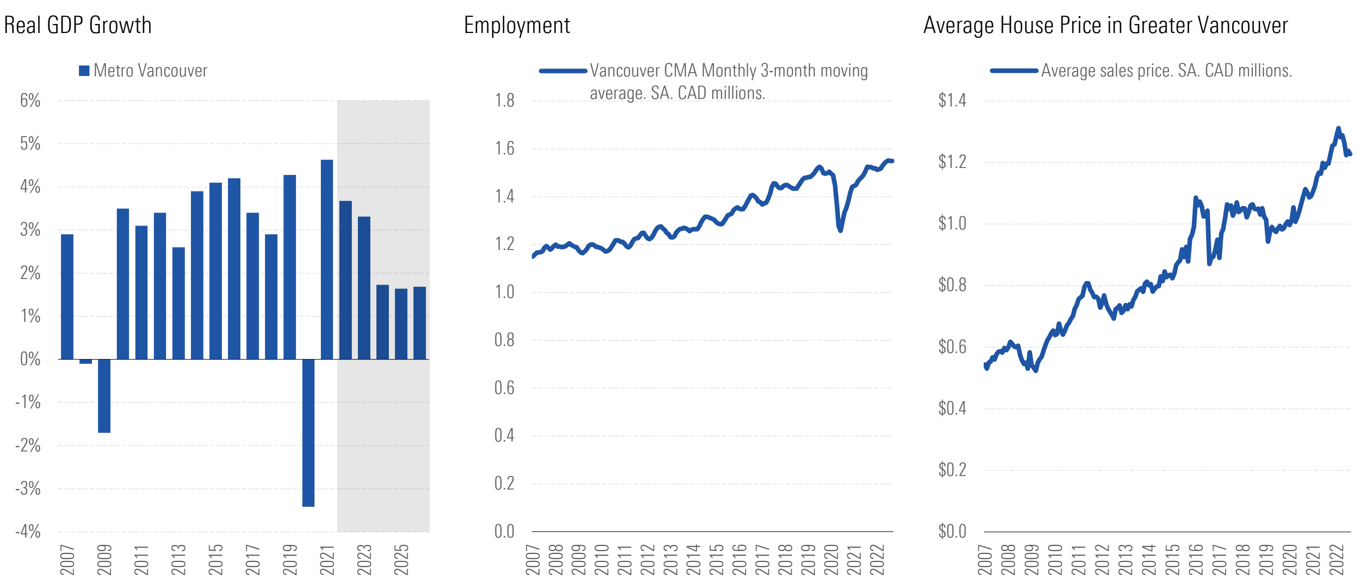
The region has experienced steady population growth, averaging 1.4% annually over the past five years. The relatively strong population growth reflected the underlying strength of the local economy and the desirability of the region as a place to live. However, widespread travel restrictions imposed throughout the coronavirus pandemic, led to slower growth of just 1.0% in 2021. With increasing federal immigration quotas and travel restrictions largely relaxed, population growth is expected to accelerate again.

In 2021, the unemployment rate improved to an average of 7.0%, compared with 9.1% in 2020, led by gains in wholesale and retail trade, professional services, healthcare, and social assistance. According to the Statistics Canada's Labour Force Survey, published in September 2022, the Vancouver Census

Metropolitan Area's three-month seasonally adjusted moving average unemployment rate improved to 4.5%.

Despite a moderation in population growth, housing activity remained robust. Housing starts increased by 16.3% in 2021, but remained below pre-pandemic levels. Meanwhile, home sales increased by 42.2%, while the MLS composite benchmark price increased by 17.3% YOY. However, with interest rates rising quickly as global central banks work to quell inflation, the housing market is quickly losing steam with sales activity down significantly YOY as of September 2022 and prices also showing signs of moderation.

Exhibit 3



Sources: The Conference Board of Canada (real GDP estimates), Statistics Canada (employment), and the Canadian Real Estate Association (house prices)

Economic Outlook

According to the Conference Board of Canada's most recent (May 12, 2022) forecast, Vancouver's economy is forecast to grow by 3.7% in 2022, and 3.3% in 2023, before averaging around 1.7% over the subsequent three years. With increasing concerns about slowing global growth, DBRS Morningstar believes these growth forecasts are subject to notable downside risks, especially for 2023, as it may be difficult for policymakers to achieve the desired soft landing.

With a weakening economic backdrop, it remains unclear what impact this will have on passenger volumes. The ongoing resumption of in-person activities is likely to be offset by a weaker labour market while ongoing coronavirus transmission contributes to the general hesitancy around using public transit.

Economic and System Use Data

	2021	2020	2019	2018	2017
Transit system journeys (CAD millions)	131	128	272	263	248
Transit system ridership growth (%)	0.8	(53.0)	3.7	5.9	5.9
Population (thousands, Metro Vancouver)	2,773	2,746	2,709	2,659	2,617
Population growth rate (%)	1.0	1.4	1.9	1.6	1.3
Unemployment rate (Metro Vancouver; %)	7.0	9.1	4.6	4.4	4.7
Employment (thousands, Metro Vancouver)	1.500	1,375	1,503	1,454	1,426
Housing starts (# of units; Metro Vancouver)	26,013	22,371	28,141	23,404	26,204
Taxable assessment (CAD billions)	1,164	1,121	1,189	1,128	1,019

Sources: Haver Analytics/Statistics Canada, The Conference Board of Canada, TransLink, the Province.

Governance and Government Relations

TransLink is established under the South Coast British Columbia Transportation Authority Act and is responsible for planning, financing, and managing the integrated regional transportation system of the Greater Vancouver region. The system includes the transit system as well as the major roads, bridges, and bike networks in the region.

TransLink's service area encompasses the entire Metro Vancouver Regional District, which comprises 21 municipalities, one electoral area, and one Treaty First Nation (Tsawwassen First Nation).

Transit network:

- **Bus:** More than 245 bus routes and a fleet of more than 1,700 vehicles.
- **SkyTrain:** Three rapid transit lines (79 km) with 53 stations.
- **SeaBus:** Passenger-only ferries linking downtown Vancouver with North Vancouver.
- **West Coast Express:** Regional train service linking Mission, British Columbia, to Vancouver (69 km) with eight stations.
- **HandyDart:** Custom transit service for people with disabilities with a fleet of almost 350 vehicles.

Transportation infrastructure:

- **Major road network:** TransLink cofunds and comanages 2,660 lane-kilometres of the major road network with the municipalities.
- **Cycling and walking:** TransLink invests in regional cycling and walking infrastructure across the region and has the largest transit-integrated bike parkade network in Canada.
- **Bridges:** TransLink owns and maintains the GEB, Pattullo Bridge, Knight Street Bridge, Westham Island Bridge, and the Canada Line bike and pedestrian bridge.

Legislative Framework and Governance

The legislative framework is generally supportive of financial sustainability and provides for adequate provincial and municipal monitoring, though, revenue sources are limited by provincial legislation. Senior government funding is meaningful and reliable, and there is a reasonable level of co-operation with senior governments.

There were no major changes to TransLink's governance framework over the past year. Under the Act, TransLink has a two-tiered governance structure with both the Board and the Mayors' Council providing oversight and direction. The more complex governance structure requires significant consultation and consensus decision making, but it ultimately results in thoughtful and integrated transportation planning.

- **Mayors' Council:** The Mayors' Council comprises the 21 mayors of the Metro Vancouver region, the Chief of the Tsawwassen First Nation, and the elected representative of Electoral Area A. The Mayors' Council is responsible for appointing the Board, reviewing long-term plans, and approving investment plans. Some financial decisions require approval of the Mayors' Council (for example, fare and tax increases beyond legislative limits, debt limit increases, etc.).

- **The Board:** The Board is responsible for the selection and appointment of the CEO and for general oversight of the entity (for example, conduct of business, supervision of management, approval of major policies and plans, etc.).

The Act requires management to prepare and adhere to a long-term strategy with medium-term investment plans. The long-term strategy is outlined in a 30-year plan, updated every five years, while the investment plan covers a 10-year period and must be updated every three years. Both planning documents are approved by the Mayors' Council.

TransLink's legislation fosters prudent financial management. TransLink is required to have fully funded investment plans, which effectively limit the scope of service expansion and other spending initiatives to revenue growth. However, the legislation does provide the Authority with a degree of flexibility to respond to shocks. TransLink has a balanced budget requirement—operating expenditures may not exceed revenue plus past accumulated surpluses. The legislation allows TransLink to budget for operating losses, provided there are past accumulated surpluses that can be drawn down. This requirement limits the extent to which the balance sheet can deteriorate.

While the legislation does enable TransLink to budget for losses, other factors limit the extent to which losses can persist. TransLink's 10-year investment plans (refreshed at least once every three years) must be fully funded. Consequently, revenue constrains service expansion and other spending initiatives over the medium term. At the same time, management has a strong focus on operational and financial sustainability, while British Columbia's political culture places a significant emphasis on fiscal sustainability and prudence.

Relations with Senior Governments

TransLink's relationship with the Mayors' Council improved in recent years with increasing public confidence in the Authority. Following the failed plebiscite in 2015, several management changes occurred, and the Authority's strategic focus narrowed. TransLink's strategic goals were narrowed to fulfill the Mayors' 2016 Vision, maintain TransLink's assets in a good state of repair, and improve the customer experience. These goals have been recently recast in light of the pandemic, but the core attributes are largely unchanged.

The relationships with the provincial and federal governments remains strong with the re-election of the provincial New Democratic Party in 2020 and the federal Liberal Party in 2021. Both governments have prioritized urban issues, particularly public transit, housing, and the environment. Consequently, there has been strong alignment between TransLink’s plans and the provincial and federal government's policy priorities. The pandemic has re-inforced linkages between TransLink and senior governments, and provided TransLink with additional operating funds to offset the decline in revenues resulting from the pandemic.

ESG Credit Risk Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. In 2022, TransLink introduced its Climate Action Strategy, which aims to achieve net-zero greenhouse gas (GHG) emissions by 2050 and ensure its infrastructure and operations are resilient to the impacts of climate change. This builds on the Low-Carbon Fleet Strategy introduced in 2020. This first portion of the Climate Action Strategy is funded, but TransLink will need to work with is stakeholders to pursue additional funding and revenue sources if these targets are to be achieved. For more details about which environmental factors could have an effect on the credit analysis, please refer to the following checklist.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit, please refer to the following checklist.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the following checklist.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?	N	N
	Carbon and GHG Costs	Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk?	N	N
		Will recent regulatory changes have any adverse impact on economic resilience or public finances?	N	N
		Carbon and GHG Costs	**N**	**N**
	Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N
		Is the economy reliant on industries that are vulnerable to import or export price shocks?	N	N
		Resource and Energy Management	**N**	**N**
	Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N
	Climate and Weather Risks	Will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N
	Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social		**Overall:**	**N**	**N**
	Human Capital and Human Rights	Compared with regional or global peers, how competitive, flexible, and productive is the domestic labour force?	N	N
		Are labour or social conflicts a key source of economic volatility?	N	N
		Are individual and human rights broadly respected and in line with the population's expectations?	N	N
		Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
		Human Capital and Human Rights	**N**	**N**
	Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?	N	N
	Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance		**Overall:**	**N**	**N**
	Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	N	N
	Institutional Strength, Governance, and Transparency (Governments Only)	Compared with other governments, do institutional arrangements provide a similar degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies protected from inappropriate political influence?	N	N
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
	Peace and Security (Governments Only)	Is the government likely to initiate or respond to hostilities with neighboring governments?	N	N
		Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
		Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N
		Peace and Security (Governments Only)	**N**	**N**
	Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
		Consolidated ESG Criteria Output:	**N**	**N**

Statement of Financial Position (CAD millions)

As of December 31

	2021	2020	2019	2018	2017
Financial Assets					
Cash and cash equivalents	576	398	502	517	424
Accounts receivable	159	894	247	251	121
Loan receivable	131	182	190	251	310
Restricted cash and cash equivalents and investments	1,237	1,033	1,101	980	780
Investments	166	96	61	61	61
Assets held for sale	-	-	-	-	-
Debt reserve deposits[1]	26	29	28	29	33
Total financial assets	**2,295**	**2,632**	**2,129**	**2,089**	**1,729**
Liabilities					
Accounts payable and accrued liabilities	364	374	368	340	269
Debt[2]	2,938	3,035	2,738	2,665	2,463
Deferred government transfers	1,326	1,196	1,188	1,249	1,150
GEB contractor liability	1,013	1,024	1,033	1,040	1,046
Deferred concessionaire credit[3]	433	456	479	503	526
Employee future benefits	138	132	144	140	131
Deferred revenue and deposits	64	60	62	55	46
Deferred lease inducements	14	15	13	13	12
Total liabilities	**6,290**	**6,293**	**6,027**	**6,005**	**5,643**
Net Debt	**(3,995)**	**(3,661)**	**(3,898)**	**(3,916)**	**(3,914)**
Nonfinancial Assets					
Tangible capital assets	5,704	5,580	5,381	5,079	4,907
Supplies inventory	91	84	85	74	65
Prepaid expenses	30	27	31	28	21
Total nonfinancial assets	**5,825**	**5,690**	**5,497**	**5,182**	**4,994**
Accumulated Surplus	**1,830**	**2,029**	**1,599**	**1,266**	**1,080**

Source: TransLink.

Note: TransLink's financial statements are prepared in accordance with Canadian public sector accounting standards.

1 Debt reserve deposits are held by MFABC.

2 Net of sinking funds held by MFABC.

3 Funding provided by the concessionaire toward the construction of the Canada Line, amortized post-completion over the term of the concession.

Statement of Operations (CAD millions)

For the year ended December 31

	2021	2020	2019	2018	2017
Revenue					
Taxation	899	850	907	819	821
Transit	414	386	685	638	591
GEB tolling	-	-	-	-	30
Government transfers	204	794	399	303	167
Amortization of deferred concessionaire credit	23	23	23	23	23
Investment income	53	54	58	53	50
Development cost charges	45	20	-	-	-
Miscellaneous revenue	22	18	17	12	7
Loss on disposal of tangible capital assets	1	(0)	1	(0)	(1)
Total revenue	**1,661**	**2,145**	**2,089**	**1,849**	**1,688**
Expense					
Bus operations	979	934	927	868	826
Corporate operations	147	140	148	146	136
Rail operations	472	442	446	422	408
Roads and bridges	215	158	193	189	184
Transit police	46	41	42	39	37
Total expense	**1,859**	**1,715**	**1,756**	**1,664**	**1,592**
Surplus (Deficit)	**(198)**	**430**	**333**	**185**	**96**
DBRS Morningstar Adjustments					
Nonrecurring items[1]	283	(325)	-	-	-
DBRS Morningstar-Adjusted Surplus (Deficit)	**84**	**104**	**333**	**185**	**96**
Capital Expenditures	358	422	515	382	235

Source: TransLink.

Note: TransLink's financial statements are prepared in accordance with Canadian public sector accounting standards.

1 DBRS Morningstar has made adjustments to exclude extraordinary government funding recognized in 2020 that is intended for future years ($325M).

Calculation of Net Tax-Supported Debt (CAD millions)

As at December 31

	2021	2020	2019	2018	2017
CP	30	60	60	120	240
Unsecured bullet maturity bonds (TransLink)	2,511	2,515	2,154	1,955	1,558
Bonds and debentures held by MFABC	1,045	1,114	1,116	1,169	1,310
Capital leases	0	0	1	2	4
Golden Ears contractor liability[1]	1,013	1,024	1,033	1,040	1,046
Deferred concessionaire credits	433	456	479	503	526
Less:					
MFABC-administered sinking funds	(649)	(653)	(593)	(581)	(649)
Self-administered sinking funds	(445)	(361)	(335)	(264)	(209)
Debt reserve deposit	(26)	(29)	(28)	(29)	(33)
Net tax-supported debt	**3,913**	**4,126**	**3,888**	**3,914**	**3,792**

Sources: TransLink and DBRS Morningstar calculations.
1 DBRS Morningstar reclassified the Golden Ears Contractor Liability ($1.0 billion) as tax-supported debt after the Province eliminated bridge tolls in September 2017.

Calculation of Post-Capex Surplus (Deficit) (CAD millions)

For the year ended December 31

	2021	2020	2019	2018	2017
DBRS Morningstar-adjusted surplus (deficit)	84	104	333	185	96
Amortization	234	229	213	198	192
Capex	(358)	(422)	(515)	(382)	(235)
Post-capex surplus (deficit)	**(40)**	**(89)**	**31**	**1**	**53**

Sources: TransLink and DBRS Morningstar calculations.

Calculation of Net Interest Costs (CAD millions)

For the year ended December 31

	2021	2020	2019	2018	2017
Interest expense	182	189	195	183	182
Interest capitalized during the year	3	4	4	3	2
Sinking fund earnings (MFABC and self administered)	(37)	(37)	(35)	(35)	(36)
Net interest costs	**149**	**156**	**165**	**152**	**148**

Sources: TransLink and DBRS Morningstar calculations.

Rating History

	Current	2021	2020	2019	2018	2017
Issuer Rating	AA	AA	AA	AA	AA	AA
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 Report

- South Coast British Columbia Transportation Authority: Rating Report, November 1, 2021.

Related Research

- *Rating Canadian Municipal Governments*, April 14, 2022.
- *DBRS Morningstar Criteria: Commercial Paper Liquidity Support for Nonbank Issuers*, March 1, 2022.

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.dbrsmorningstar.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.

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