Rating Report
South Coast British Columbia Transportation Authority (TransLink)

DBRS Morningstar
August 27, 2020

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

Rating Update

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.

TransLink has been significantly affected by the Coronavirus Disease (COVID-19) pandemic. TransLink is maintaining service levels to support public health and economic recovery efforts, however, a significant budget gap has emerged as ridership, fuel tax, and parking-related revenues have fallen sharply. The near-term impact on operating results is likely to be largely (if not entirely) offset by expense management and additional federal/provincial operating funding. In July, the Federal Government announced $1.0 billion in funding for transit authorities with matching contributions from provincial governments. TransLink is now working with the Province to determine the amount and the timing of the funding.

The outlook for subsequent years is less clear and will depend on the strength of the recovery, the longer-term effects of the pandemic on ridership (e.g., increased remote work and housing location decisions), and the extent to which senior governments continue to provide operating support. DBRS Morningstar expects further support is likely to be forthcoming as the federal and provincial governments will require transit providers to maintain service levels for economic and public health reasons.

TransLink has curtailed some capital investment initiatives in light of financial pressures and longer term ridership uncertainty stemming from the pandemic, however, the Authority continues to move forward on several major expansion projects contained in the Mayors' Vision.

The outlook for capital spending and debt will depend on the extent to which further operating and capital support is provided by senior governments. The Government of Canada is widely expected to launch new infrastructure spending programs to stimulate economic activity in the coming year. As in past rounds, these programs are likely to emphasize public infrastructure, urban issues, and environmental considerations. The extent to which TransLink participates in these programs depends, in part, on the outlook for ridership and operating revenue. TransLink is required to prepare fully funded Investment Plans at least once every three years.

TransLink is now recasting its Investment Plan. Consequently, the Authority has not revised its multi-year debt forecast. However, the impact of the pandemic on ridership and revenue suggests that debt levels are likely to be lower than those forecast under the previous plan. Current projections suggest that debt will rise to $4.3 billion in 2021, which is about $600 million lower than previous projections.

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 significantly above current projections ($5.3 billion in 2023). DBRS Morningstar does not believe that an upgrade is likely over the medium term because of anticipated debt growth.

Financial Information

	As of December 31				
	2019	**2018**	**2017**	**2016**	**2015**
DBRS-adjusted surplus (deficit) ($ millions)	333	185	96	246	162
Net tax-supported debt per capita	1,445	1,476	1,451	1,045	1,017
Net tax-supported debt as a share of taxable assessment	0.3%	0.3%	0.4%	0.4%	0.4%
Net interest costs as share of revenue	7.9%	8.2%	8.8%	8.4%	9.1%
Post-CAPEX surplus (deficit) as % of revenue (5 year rolling avg) [1]	1.8%	0.9%	0.3%	-1.3%	-1.3%

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

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: Metro Vancouver, Electoral Area A. and Tsawwassen First Nation, which have a combined population of 2.7 million. The Authority has the largest service area of any Canadian transit authority (1,800 square kilometres).

Financial Performance

2019 Results

TransLink reported a surplus of $333.2 million (16% of revenue), which exceeded budget expectations ($189.2 million) and was well ahead of the prior year result ($185.5 million). The better-than-expected result reflect stronger-than-expected revenue growth and lower costs for bus and corporate operations.

The 2019 result equates to a DBRS Morningstar-adjusted post-capital expenditure (capex) surplus of $31 million. DBRS Morningstar makes several adjustments to reported results. For TransLink, the most significant adjustments include recognizing capital investment on a pay-as-you-go basis and removing significant one-time or non-recurring items.

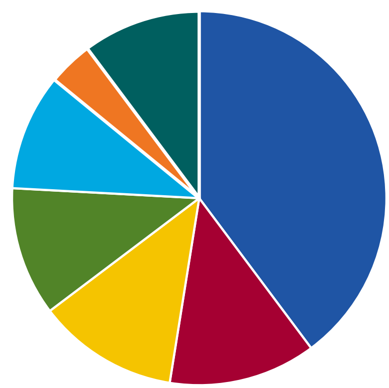
Exhibit 1 Revenue and Expense Profiles (2019)

Revenue by Source (2019)

- Transit fares 33%
- Fuel tax 19%
- Property tax 18%
- Government transfers 19%
- Other 10%

Expense by Category (2019)

- Salaries, wages and benefits 40%
- Contracted services 13%
- Amortization of TCA 12%
- Interest 11%
- Maintenance, materials and utitlities 10%
- Fuel and power 4%
- Other 10%



Source: TransLink.

Total revenue growth was strong in 2019, rising by $232.5 million to $2.1 billion (+12.6%), which largely reflects steady growth in ridership and the property tax assessment base as well as an increase in government transfers (Federal Gas Tax).

- **Transit fares:** Transit fare revenue rose to $685.4 million (+7.4%). Steady population and economic growth paired with increased service offerings and increased public confidence in TransLink have driven ridership higher in recent years. In 2019, the number of journeys increased by 3.7% and the number of boardings increased by 3.6% (five-year compound annual growth rate of 5.6%). TransLink also increased fares by 3.0% on July 1, 2019.
- **Fuel tax:** Fuel tax revenue rose to $403.1 million (+14.7%). Fuel tax revenue can be volatile, reflecting general economic conditions, timing differences in fuel tax remittances and reimbursements, and local

fuel market conditions. The increase reflects higher fuel consumption and a fuel tax rate increase (+8.8%).

- **Property tax:** Property tax revenue rose to $382.7 million (+7.6%). TransLink has legislated authority to increase total property tax revenue by 3.0% annually, though the Mayors' Council has authority to increase the revenue requirement further. The Mayors' Council has adopted a policy of increasing the revenue requirement by 3.0% per legislation plus an additional amount to reflect development growth in the region (i.e., the increase in the real property base). In 2019, the Mayors' Council also increased the property tax requirement by a further $10 million as part of its strategy to pay for Phase 2.
- **Government transfers:** Government transfers rose to $398.5 million (+31.3%). Government transfers are received primarily to fund major capital projects. Revenue recognition requirements under *Public Sector Accounting Standards* require TransLink to recognize the revenue at the time costs are incurred. This requirement results in considerable revenue volatility and can lead to a disconnect between financial results and underlying operations. Government transfers also include some ongoing operating grants. The increase in 2019 is mainly attributable to receipt of a higher number of conventional buses during the year.
- **Other revenue:** The remaining revenue sources rose to $212.0 million (+5.7%). The increase reflects higher investment income (higher interest rates and cash balances) and higher miscellaneous revenue (e.g., parking sales tax, hydro levy, etc.).

Total expense growth was more modest, rising by $84.7 million (+5.1%). Expense growth stemmed from increased service offerings (conventional bus and SkyTrain). Notwithstanding the increase, total expense was $76.1 million (4.2%), lower than budgeted expense because of vacancies, contractual savings, lower fuel costs, fewer maintenance/repair costs, and lower amortization expense.

- **Bus operations:** Bus operations expenses rose to $758.9 million (+4.7%). The increase reflects the increased costs associated with service expansion in 2019, higher insurance costs, and the Province's new Employer Health Tax (payroll tax). During the year, TransLink increased service hours for conventional buses by 1.5% while access transit services increased by 5.0%.
- **Rail operations:** Rail operations expenses rose to $324.2 million (+4.9%). The increase reflects increased spending on maintenance/state of repair projects, as well as contractual and economic increases.
- **Amortization:** Amortization expense rose to $212.9 million (+7.6%), consistent with recent bus and rail purchases, station upgrades, and other infrastructure and system upgrades.
- **Interest:** Interest expense rose to $195.0 million (+6.3%), reflecting growth in outstanding debt and the cost of offsetting a forward contract.
- **Other:** The remaining expense categories, comprising corporate operations, roads and bridges, and transit police, collectively rose to $257.4 million (+3.7%). The increases reflect a variety of items including upgrades to the Compass system, refurbishment of ticketing systems, telecom costs, rapid bus construction costs, higher policing costs, and one-time costs associated with the regional transportation strategy and feasibility studies.

TransLink's capital spending includes maintenance, capital-related transfers to municipalities, and the construction or acquisition of new assets and infrastructure. Transfers to municipalities and some maintenance costs are expensed, while new capital purchases/builds and some maintenance costs are reflected in the acquisition of tangible capital assets under *Public Sector Accounting Standards*. In 2019, acquisition of tangible capital assets rose to $515.3 million (+34.7%), but was well below the budget forecast of $906.6 million.

2020 Budget and Outlook

TransLink prepares annual budgets that are approved by its Board of Directors. The 2020 Budget was similar to those of prior years. The budget was built on the ongoing service expansion and TransLink projected a $87.5 million surplus for the year, which equated to a DBRS Morningstar-adjusted post-capex deficit of $467.5 million after incorporating the significant growth in planned capex.

The pandemic has severely affected TransLink's finances. At the peak of the economic shutdown, TransLink's ridership was down 83%. At the same time, fuel tax and parking-related revenues contracted sharply (property tax revenue is unaffected). While the acute phase of the shutdown has passed, recovery in ridership and broader economic activity has been gradual and is likely to be uneven through the remainder of the year and into 2021. The recovery in ridership will depend on the resurgence of the coronavirus, the strength of the economic recovery, the extent to which companies continue to work remotely, and general concerns about using public transit during a pandemic.

In April 2020, TransLink developed four scenarios (each with a high/low case) for planning purposes, which ranged from a "quick recovery" to a "paradigm shift" (repeated major outbreaks, recurring economic shutdowns, 20% unemployment, anemic economic recovery). Under these scenarios, revenue cumulative losses ranged between $544 million and $1.4 billion over a two year period (2020 and 2021).

In response to the severe revenue loss and heightened uncertainty, TransLink conducted a comprehensive review of its activities to identify savings to stem financial losses. These measures included curtailment of discretionary spending, staffing restraint, service reductions, and deferral of some service expansion/capital spending.

The review also led to TransLink's spring announcement that it would significantly reduce service offerings and lay off 1,500 staff in May. Following discussions with the Province, TransLink subsequently cancelled the announced service reduction and rescinded the layoff notices. The Province committed to provide financial support to maintain transit services for public health and economic reasons.

In contrast to the situation in May, the financial outlook now has improved considerably. The pandemic has been handled well by the Province and ridership is gradually recovering. Ridership is tracking TransLink's "quick recovery" scenario which forecast a cumulative revenue loss of between $544 million and $945 million over the two-year period (2020 and 2021).

In addition, the federal government announced $3 billion in support for municipalities and transit operators in July. With a matching a provincial contribution, the three transit operators in British Columbia (BC Ferries, BC Transit, and TransLink) will receive approximately $1.0 billion. The specific timing and allocation mechanisms are now under discussion with an announcement expected in early fall.

TransLink has also identified $140 million in expense savings for 2020 with no meaningful impact to service levels. Measures include a deferral of road network contributions to municipalities, hiring restraint, service adjustments, and deferral of some capital spending. Expense savings also include the impact of lower fuel and electricity costs.

While there is some uncertainty about the timing of federal/provincial support, the outlook now suggests that any operating loss for 2020 is likely to be modest.

Medium-Term Outlook

The medium-term outlook remains subject to considerable uncertainty. TransLink expects ridership and economic activity will remain subdued through 2021, while the longer-term effects of the pandemic are less clear (e.g., broader adoption of remote work, a shift away from dense city life, etc.).

The Authority has yet to release a revised operating outlook, but is now beginning its 2021 budget process. In light of the pandemic, TransLink is also in the process of recasting its strategic goals. The new goals are expected to build on the previous set and include a greater emphasis on operational and financial sustainability. TransLink is also developing its 2021 Investment Plan, which must include fully-funded, multi-year budget forecasts.

DBRS Morningstar expects the operating loss (if any) to be relatively modest in 2021 as the impact of lower ridership is likely to be largely offset by ongoing expense management efforts and additional federal or provincial operating funding.

While neither level of government has committed to provide additional funds beyond those currently under negotiation, government efforts to support the economic recovery and stimulate growth will likely necessitate transit operators to maintain and possibly increase service offerings. The June 2020 Memorandum of Understanding between TransLink and Province recognizes both the financial pressures faced by TransLink, the longer-term importance of financial stability and ongoing state of good repair investments, as well as the need for TransLink to maintain service levels.[1]

In addition, there appears to be a strong probability that senior governments will announce new infrastructure programs in the coming year to support the economic recovery. The federal government has cited a stronger environmental focus of potential new programs, which aligns with TransLink's core activities (i.e., public transit) and its longer term environmental goals (e.g., 2018 Low Carbon Fleet Strategy, 80% carbon reduction by 2035, and carbon neutral by 2050). TransLink's requirement for fully

1 Memorandum of Understanding between Her Majesty the Queen in Right of the Province of British Columbia and South Coast British Columbia Transportation Authority. June 25, 2020. https://www.translink.ca/-/media/Documents/about_translink/corporate_overview/corporate_reports/2020-06-25-Memorandum-of-Understanding-TransLink-Province.pdf?la=en&hash=EA9D052BC8F8D2709E8E360F4201875FD9F7843F

funded investment plans may pose a challenge to new capital projects if senior governments are unwilling to temporarily fill the budget gap resulting from the loss of ridership.

TransLink is now developing its 2021 Investment Plan. While recent Investment Plans have emphasized service expansion and upgrades, the 2021 Investment Plan is likely to reflect a near-term shift in priorities in light of the pandemic, with a greater emphasis on the economic recovery.

Capital Plan

TransLink's most recent investment plan is the 2018–27 Investment Plan (Phase Two), which included total capex of $10.5 billion. The Phase Two update added $6.4 billion in incremental capex, mostly related to the inclusion of the Surrey LRT and the Millennium Line Broadway Extension. Most of the investment in the plan is for rail infrastructure (67%), followed by bus (25%), and roads and bridges (5%).

Major projects currently underway include:

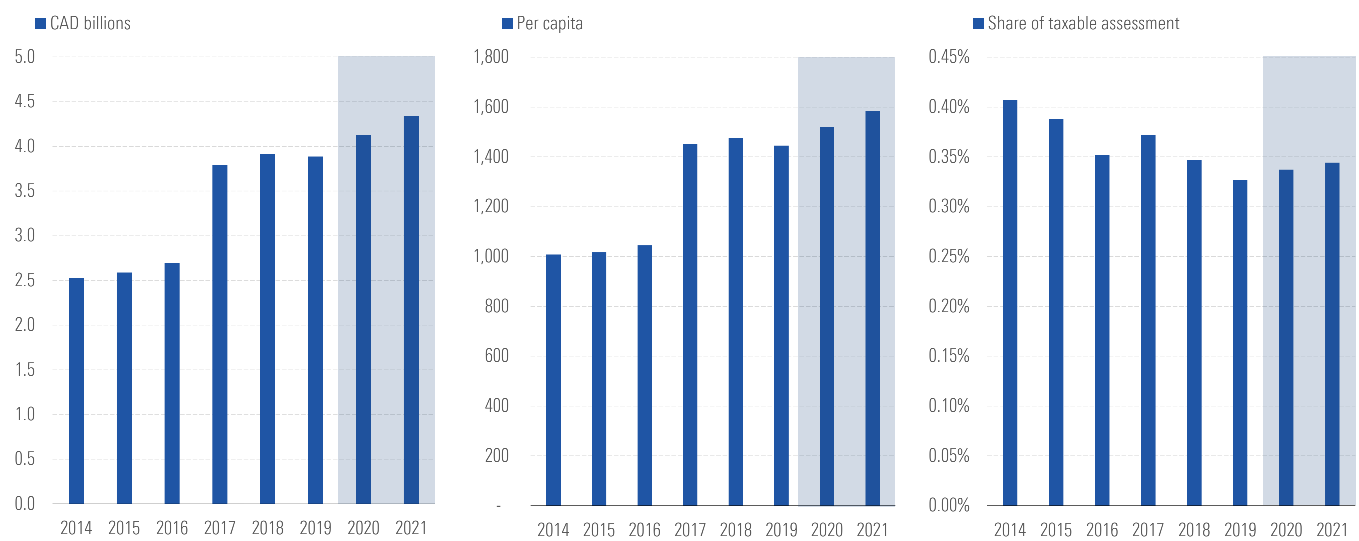
- **SkyTrain Vehicle Purchases:** The first phase (56 vehicles) began in 2016 and is now complete. The second phase is now underway and will see TransLink acquire 205 cars to replace aging cars and for the Broadway subway extension. The new vehicles will be brought into service between January 2024 and October 2027. TransLink is now in the process of selecting the preferred proponent.
- **Surrey Langley SkyTrain:** Originally planned to be an LRT project, TransLink is developing a two-stage plan to extend the existing Expo line to Langley Centre along the Fraser Highway. The project also includes 55 new SkyTrain vehicles and a new operations and maintenance centre. The current cost estimate is $3.1 billion. Existing federal and provincial funding ($1.6 billion) is sufficient for the first half (stage one) of the project, and TransLink seeking additional funding for the second half of the project.
- **PTIF Implementation:** TransLink received $705.7 million in federal and provincial funding under the Public Transit Infrastructure Fund for 58 individual projects ranging from fleet expansion to station upgrades and state of good repair projects. These projects are now largely complete with funding winding down by March 31, 2021.
- **Broadway Subway Extension:** TransLink will extend the Millennium line 5.7 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 assuming 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 $799.3 million in capital investment (acquisition of tangible capital assets) in 2020, which appears ambitious, given past annual spending. In recent years, TransLink has budgeted for significant increases in capital investment but actual investment has typically fallen short, for timing and other reasons. For example, in 2019 TransLink planned for $906.6 million in capital investment but actual investment was $515.3 million (excludes transfers to municipalities).

Although the pandemic has had a significant impact on operations, its effect on capital projects has been more muted. Some projects were affected by construction site shutdowns, delays, and physical distancing requirements, and TransLink deferred some projects until the outlook for ridership is clearer (e.g., bus orders). However, TransLink has made faster progress on some state of good repair projects. With lower ridership, TransLink was able to begin work on projects earlier in the evening or, in some cases, during the day with little impact on service.

The pandemic has also eased some construction cost pressures in British Columbia. High levels of public and private sector investment along with tight labour market conditions contributed to rapid cost escalation in recent years. Private sector investment has fallen sharply through the downturn, which has reduced cost pressures faced by public sector procurement projects.

Exhibit 6 Net tax-supported debt



DBRS Morningstar reclassified the Golden Ears Contractor Liability ($1.0 billion) as tax-supported debt after the Province of British Columbia eliminated bridge tolls in September 2017. DBRS Morningstar has also restated net tax-supported as a share of taxable assessment using revised property tax assessment data.
Source: TransLink.

Debt and Liquidity Management

TransLink's debt burden is relatively low but has steadily risen in recent years with service expansion and capital upgrades. In 2019, TransLink's net tax-supported debt was unchanged at $3.9 billion, which equates to $1,445 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 $5.5 billion debt limit under the South Coast British Columbia Transportation Authority Act (the Act) (unchanged from last year). 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 (e.g., 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, 2019, TransLink was within both limits at 229.3% and 11.5%, respectively. In the absence of new federal and provincial funding, TransLink would have likely breached its internal policy limit because of the fall in operating revenue.

TransLink has good access to capital markets and a well-recognized borrowing plan. The Authority now issues debt at least annually in the domestic bond market and maintains an active CP program. TransLink's debt is fully denominated in Canadian dollars and the maturity profile is prudently structured.

Historically, TransLink borrowed through the Municipal Finance Authority of British Columbia (MFABC) and continues to have $1.1 billion (gross) owing through the provincial agency. TransLink continues to have legislated ability to access MFABC for funding, but borrowing through MFABC would require approval from Metro Vancouver because MFABC imposes joint and several liability on municipal issuers. TransLink has no intention of borrowing through MFABC in the coming years.

The Authority maintains $927.9 million in sinking funds as of December 31, 2019, of which $592.8 million was held by the MFABC and the remaining $335.0 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.

TransLink has a CP program with an authorized limit of $500 million. TransLink generally seeks to maintain $120 million in CP outstanding, but balances can rise higher to meet cash management needs during select periods of the year. During the past year, the maximum outstanding at any given time was $120 million. The CP program is backstopped by a $500 million credit facility ($440 revolver + $60 swingline) that matures in March 2023. 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 multi-employer defined benefit plan. The most recent actuarial valuation (2017) resulted in a funding surplus of $1.9 billion (108%). 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 (e.g.., extended health, dental, life insurance, etc.), which were estimated to be $143.7 million at December 31, 2019, up from $139.7 million (+2.9%) from the prior year.

TransLink manages its liquidity to reduce potential risks. While TransLink does not have a formal, Board-approved liquidity policy, the Authority has other policies and practices that establish minimum liquidity levels to mitigate funding and other risks. In practice, TransLink maintains a minimum of $350 million in unrestricted cash and cash equivalents, which is typically sufficient to meet the Authority's cash needs for a 90- to 120-day period.

At July 31, 2020, the Authority had $535.7 million in unrestricted cash and cash equivalents and a further $95.0 million in unrestricted investments. Beyond its unrestricted cash and investments (General Fund), the Authority also had a further $1.3 billion in its various restricted funds. Restrictions vary from internally-imposed requirements to stronger externally-imposed requirements. In a stress scenario, TransLink could readily access some of these funds. Investments comprise term deposits, debt issued by provincial and municipal governments, and other fixed-income debt rated AA (low) or better. TransLink's unrestricted cash and investment holdings exceed its annual debt service costs (principal and interest).

Medium-term Outlook

TransLink is now recasting its 10-year Investment Plan. Consequently, the Authority does not have a revised long-term debt forecast. Under the previous plan, DBRS Morningstar's measure of net tax-supported debt was forecast to rise to $5.3 billion in 2023 from $3.9 billion in 2019. At this level, DBRS Morningstar's measure of net tax-supported debt was projected to reach $1,866 per capita and 0.4% of Metro Vancouver's taxable assessment. At these levels, TransLink's credit profile would have remained consistent with the AA rating.

While there is longer-term uncertainty, the impact of the pandemic suggests a slower increase in debt in the near term. Current estimates suggest that net tax-supported debt will rise to about $4.3 billion in 2021, about $600 million lower than the previous forecast.

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 both the transit system as well as the major roads, bridges, and bike network 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:

- Around 240 bus routes
- Over 1,700 buses (excluding HandyDART)
- Over 400 SkyTrain cars and 50+ stations (Expo-Millennium Line and Canada Line)
- Three SeaBus vessels (four once the Chinook is fully operational)
- More than 40 West Coast Express cars, 6 locomotives and 8 stations
- Nearly 350 HandyDART vehicles

Transportation infrastructure:

- **Major road network:** TransLink co-funds and co-manages 2,660 lane-kilometres of the major road network with the municipalities.
- **Cycling:** TransLink shares in the cost of developing and maintaining the region's 12 kilometres of TransLink bike paths.
- **Bridges:** TransLink operates and maintains the Golden Ears Bridge, Pattullo Bridget, Knight Street Bridge, Canada Line bike and pedestrian bridge, and the Westham Island 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 for both operating and capital purposes, and there is a reasonable level of cooperation 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 a Board of Directors 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 financial plans. Some financial decisions require approval of the Mayors' Council (e.g., fare and tax increases beyond legislative limits, debt limit increases, etc.).

- **Board of Directors:** The Board is responsible for the selection and appointment of the CEO and for general oversight of the entity (e.g., 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 limits 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, service expansion and other spending initiatives are constrained by revenue 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. These influences are evident from the Authority's earlier plans to significantly reduce service levels to stem financial losses. The plan required approval from both the Board of Directors and the Mayors' Council.

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 (2015), several management changes occurred, including the recruitment of a new Chief Executive Officer (2016), and the Authority's strategic focus narrowed. TransLink's strategic goals were narrowed to fulfill the Mayors' Vision (2016), maintain TransLink's assets in a good state of repair, and improve the customer experience. These goals are now being recast in light of the pandemic, but the core attributes will likely be unchanged.

Over the past four years, TransLink has implemented its new fare payment system (Compass) and introduced significant service expansions. The improving customer experience has helped to shift the political focus and greatly reduced the number of negative media reports about the Authority. Prior to the pandemic, the Mayors' Council had demonstrated greater confidence in the Authority and had focused increasingly on the longer-term strategic direction of the organization and broader transportation planning.

The relationships with the provincial and federal governments improved in recent years following the election of the federal Liberal Party in 2015 and the provincial New Democratic Party in 2017. Both governments have prioritized urban issues, particularly public transit, housing, and the environment. Consequently, there has been strong alignment between TransLink's plans and provincial and federal policy priorities. The pandemic has reinforced the linkages between TransLink and senior governments. The federal and provincial governments are set to provide TransLink with additional operating funds and possibly new infrastructure funding.

Economy

Vancouver is Canada's third-largest city, with a population of 2.7 million. It is the commercial centre of the Province of British Columbia and has an annual economic output of more than $150 billion.

The region experienced steady population growth in recent years, ranging between 1.2% and 1.5% 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. Population growth in the Province has also been supported by the increase to Canada's immigration quotas made under the Liberal government and a favourable shift in interprovincial migration following the downturn in the energy sector.

Economic growth has been similarly strong. The Conference Board of Canada estimates that real GDP growth (basic prices) was 2.9% in 2018 and 2.8% in 2019. Growth was relatively broad based with gains in consumption, residential and non-residential investment, and trade supported by an improving global economy, a weak Canadian dollar, lower oil prices, and accommodative monetary policy.

The favourable economic conditions and steady population growth supported significant growth in the labour force and employment. Between 2014 and 2019, employment in the Vancouver census metropolitan area increased by 197.7 (+15.5%), and the unemployment rate fell to 4.6% from 5.8%. Tight labour market conditions led to wage pressures in some industries and supported steady growth in household income.

Residential and non-residential investment were significant contributors to economic growth in the region. In recent years, housing market conditions had moderated in the Vancouver area following the introduction of a series of policy measures by the federal and provincial governments.

Taken together, strong population growth, rising employment, and favourable economic conditions supported significant ridership growth while significant property development led to higher property tax revenue. The increasing population and housing affordability challenges in the region have resulted in significant development pressures for TransLink as the population pushes farther from the centre toward the more affordable outlying areas of the Metro Vancouver region.

Pandemic and Economic Outlook

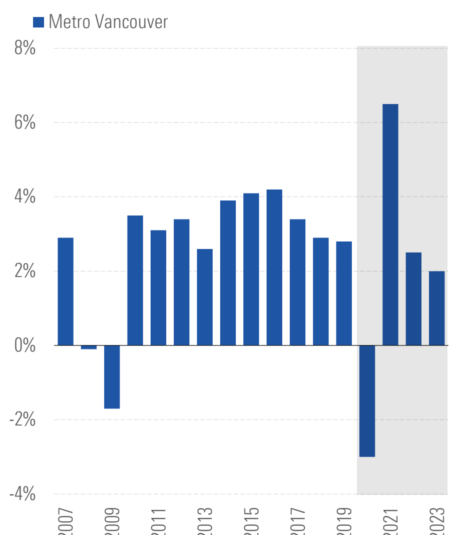
Economic conditions have deteriorated significantly because of the pandemic, the associated shutdown of non-essential services, and the collapse in travel and tourism. Industries significantly affected include retail, transportation services, accommodation and food services, entertainment and sporting events, personal services, and various other travel or tourism-related fields.

Vancouver's unemployment rate rose to 13% (July) from 4.4% before the pandemic (February 2020). And while various federal and provincial support programs have offset some income losses, these programs are now winding down with recipients returning to the labour market or transitioning to the Employment Insurance program and various transitional support programs.

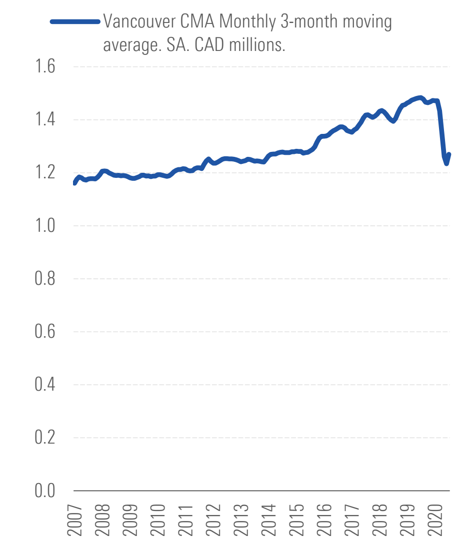
With many organizations continuing work from home measures, greatly reduced tourism, hybrid models for post-secondary education, and generally weaker economic conditions, TransLink's near- to medium-term ridership outlook is considerably weaker. However, the longer-term outlook is less clear. TransLink is now exploring how ridership may evolve in light of potential broader economic and societal changes brought on by the pandemic.

Exhibit 6

Real GDP Growth



Employment



Average House Price in Greater Vancouver

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

Housing market conditions have remained reasonably stable throughout the downturn. Transactions fell during the early months of the pandemic, but house prices have moved modestly higher. Housing starts have fallen but nevertheless remain relatively healthy by longer-term standards. However, the outlook for the housing market remains uncertain—particularly given high household debt levels and the prospect of federal income support programs winding down while economic conditions remain precarious. Taken together, these factors suggest slower-than-previously-expected growth in property tax revenue for TransLink.

Economic and System Use Data

	2019	2018	2017	2016	2015
Transit system journeys ($ millions) [1]	272	263	248	234	239
Transit system ridership growth (%) [1]	3.7	5.9	5.9	4.5	1.8
Population (thousands, Metro Vancouver)	2,691	2,652	2,613	2,582	2,544
Population growth rate (%)	1.5	1.5	1.2	1.5	1.5
Unemployment rate (Metro Vancouver) (%)	4.6	4.4	4.7	5.4	5.9
Employment (thousands, Metro Vancouver)	1,474	1,426	1,401	1,359	1,299
Housing starts (# of units) (Metro Vancouver)	28,141	23,404	26,204	27,914	20,863
Taxable assessment ($ billions) [2]	1,189	1,128	1,019	767	667

Notes:
1. TransLink ridership methodology changed in 2016. Comparable year-over-year ridership growth (+4.5%) estimated based on boarded passengers.
2. DBRS Morningstar has restated amounts for taxable assessment for the past five years. Previously, DBRS Morningstar incorrectly used residential property tax assessment. Data now reflects both residential and nonresidential.
Sources: Haver Analytics/Statistics Canada, Conference Board of Canada, TransLink, Province of British Columbia.

Statement of Financial Position ($ millions)

	As of December 31				
	2019	**2018**	**2017**	**2016**	**2015**
Financial Assets					
Cash and cash equivalents	502	517	424	252	211
Accounts receivable	247	251	121	134	102
Loan receivable	190	251	310	325	-
Restricted cash and cash equivalents and investments	1,101	980	780	504	501
Investments	61	61	61	81	61
Assets held for sale	-	-	-	-	-
Debt reserve deposits [1]	28	29	33	35	36
	2,129	**2,089**	**1,729**	**1,332**	**912**
Liabilities					
Accounts payable and accrued liabilities	368	340	269	235	242
Debt [2]	2,738	2,665	2,463	2,347	2,144
Deferred government transfers	1,188	1,249	1,150	941	1,124
Golder Ears Bridge contractor liability	1,033	1,040	1,046	1,049	1,051
Deferred concessionaire credit [3]	479	503	526	549	572
Employee future benefits	144	140	131	120	110
Deferred revenue and deposits	62	55	46	36	15
Deferred lease inducements	13	13	12	13	13
	6,027	**6,005**	**5,643**	**5,289**	**5,271**
Net Debt	**(3,898)**	**(3,916)**	**(3,914)**	**(3,957)**	**(4,359)**
Non-financial Assets					
Tangible capital assets	5,381	5,079	4,907	4,868	4,607
Supplies inventory	85	74	65	62	56
Prepaid expenses	31	28	21	12	12
	5,497	5,182	4,994	4,941	4,675
Accumulated Surplus	**1,599**	**1,266**	**1,080**	**984**	**316**

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 ($ millions)

	For the year ended December 31				
	2019	**2018**	**2017**	**2016**	**2015**
Revenue					
Taxation	907	819	821	826	773
Transit	685	638	591	542	511
Golden Ears Bridge tolling	-	-	30	52	48
Government transfers	399	303	167	241	229
Amortization of deferred concessionaire credit	23	23	23	23	23
AirCare	-	-	-	-	-
Miscellaneous revenue	9	12	7	6	6
Loss on disposal of tangible capital assets	1	(0)	(1)	422	2
Total revenue	**2,082**	**1,849**	**1,688**	**2,152**	**1,628**
Expense					
Bus operations	919	868	826	790	770
Corporate operations	148	146	136	145	123
Rail operations	446	422	408	364	361
Roads and bridges	193	189	184	152	178
Transit police	42	39	37	34	33
Total expense	**1,748**	**1,664**	**1,592**	**1,484**	**1,465**
Surplus (deficit)	**333**	**185**	**96**	**668**	**162**
DBRS Adjustments					
Non-recurring items [1]				(422)	
DBRS-adjusted surplus (deficit)	**333**	**185**	**96**	**246**	**162**
Capital Expenditures	**515**	**382**	**235**	**422**	**268**

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

1. In 2016, TransLink sold the Oakridge Transit Centre and recognized a $422 million gain.

Calculation of Net Tax-Supported Debt ($ millions)

	As of December 31				
	2019	**2018**	**2017**	**2016**	**2015**
Commercial Paper	60	120	240	240	120
Unsecured bullet maturity bonds (TL)	2,154	1,955	1,558	1,360	1,212
Bonds and debentures held by MFABC	1,116	1,169	1,310	1,441	1,521
Capital leases	1	2	4	2	2
Golden Ears contractor liability [1]	1,033	1,040	1,046	-	-
Deferred concessionaire credits	479	503	526	549	572
Less:					
MFA-administered sinking funds	(593)	(581)	(649)	(695)	(684)
Self-administered sinking funds	(335)	(264)	(209)	(162)	(118)
Debt reserve deposit	(28)	(29)	(33)	(35)	(36)
Net tax-supported debt	**3,888**	**3,914**	**3,792**	**2,699**	**2,589**

1. DBRS Morningstar reclassified the Golden Ears Contractor Liability ($1.0 billion) as tax-supported debt after the Province of British Columbia eliminated bridge tolls in September 2017.

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

	For the year ended December 31				
	2019	**2018**	**2017**	**2016**	**2015**
DBRS-adjusted surplus (deficit)	333	185	96	246	162
Amortization	213	198	192	182	168
Capital Expenditures	(515)	(382)	(235)	(422)	(268)
Post-CAPEX surplus (deficit)	31	1	53	6	63

Source: TransLink and DBRS Morningstar calculations.

Calculation of Net Interest Costs ($ millions)

	For the year ended December 31				
	2019	**2018**	**2017**	**2016**	**2015**
Interest expense	195	183	182	173	168
Interest capitalized during the year	4	3	2	8	11
Sinking fund earnings (MFABC and Self-administered)	(35)	(35)	(36)	(36)	(30)
Net interest costs	**165**	**152**	**148**	**145**	**148**

Source: TransLink and DBRS Morningstar calculations.

Rating History

	Current	2019	2018	2017	2016	2015
Issuer Rating	AA	AA	AA	AA	AA	AA
Long-Term Debt	AA	AA	AA	AA	AA	AA
Short-Term Debt	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, September 19, 2019.

Related Research

- Rating Canadian Municipal Governments, May 13, 2020.
- DBRS Morningstar Criteria: Commercial Paper Liquidity Support for Non-Bank Issuers, March 10, 2020.

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.

About DBRS Morningstar

DBRS Morningstar is a global credit ratings business with approximately 700 employees in eight offices globally.

On July 2, 2019, Morningstar, Inc. completed its acquisition of DBRS. Combining DBRS' strong market presence in Canada, the U.S., and Europe with Morningstar Credit Ratings' U.S. footprint has expanded global asset class coverage and provided investors with an enhanced platform featuring thought leadership, analysis, and research. DBRS and Morningstar Credit Ratings are committed to empowering investor success, serving the market through leading-edge technology and raising the bar for the industry.

Together as DBRS Morningstar, we are the world's fourth-largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.