

CREDIT OPINION

2 December 2022

Update



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RATINGS

South Coast British Columbia Transport. Auth

Domicile	Vancouver, British Columbia, Canada
Long Term Rating	Aa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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South Coast British Columbia Transport. Auth (TransLink) (Canada)

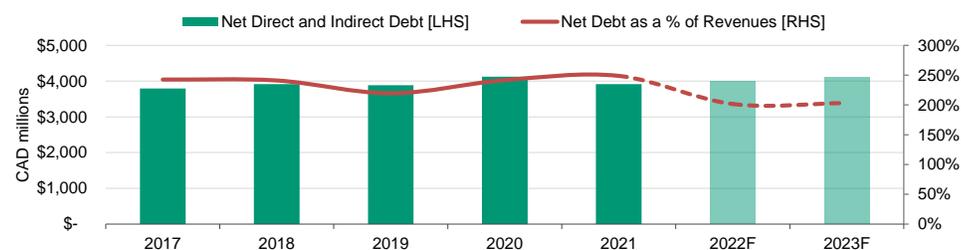
Update to credit analysis

Summary

The credit profile of the [South Coast British Columbia Transportation Authority](#) (TransLink, Aa2 stable) reflects its strategic importance as the main provider of transportation services in the Greater Vancouver region. TransLink's governance and institutional characteristics are very strong and benefits from its unique status as a taxing authority. However, despite continued improvement in ridership levels, passenger volumes and transit revenues will not return to pre-pandemic levels for several years, while high levels of inflation will continue to pressure operating and capital costs. These pressures have been mitigated by significant federal and provincial pandemic transfers and our expectation of further government support in case of additional stress. TransLink's long-term debt reduction strategy limits the rise in debt, which we now project at 220-230% of revenue in 2023.

Exhibit 1

Rising revenues, provincial pandemic funding and TransLink's debt avoidance strategy will mitigate the rise in the debt burden



Sources: TransLink and Moody's Investors Service

Credit strengths

- » Strategic importance as the main regional transportation provider
- » Taxing power provides access to diversified revenue sources
- » Strong governance and institutional characteristics

Credit challenges

- » Fiscal pressures from a prolonged ridership recovery and high inflation
- » High debt burden relative to peers, but long-term debt management strategy limits its rise

Rating outlook

The stable outlook reflects manageable fiscal pressures given management's ongoing cost mitigation efforts, which reflects the strong governance of Translink, and the supportive operating environment which combined will allow TransLink to continue to realize balanced operating results. Although TransLink's operating profile is sensitive to ridership changes given the high dependence on transit fares, we expect to see a gradual recovery in ridership levels and own-source revenue as the pandemic environment transitions to endemic.

The stable outlook also considers the sizeable liquidity which will continue to provide support to a controlled debt burden. It further reflects our view of additional government support in case of additional fiscal stress should ridership levels continue to lag pre-pandemic levels.

Factors that could lead to an upgrade

New significant and sustainable revenue sources for capital projects, a significant increase in transit use above pre-pandemic levels, coupled with a material decrease in TransLink's debt-to-revenue ratio below 200% would result in upward pressure on the rating.

Factors that could lead to a downgrade

The rating could be downgraded if the debt-to-revenue ratio increased above 300%. A long-term reversal in travel demand coinciding with a deterioration in TransLink's fiscal and liquidity profile would also result in downward pressure on the rating.

Key indicators

Exhibit 2

TransLink

(Calendar Year ending Dec 31)	2018	2019	2020	2021	2022F	2023F
Annual Ridership (millions) [1]	262.6	272.4	128.0	131.0	212.3	228.8
Net Debt (CAD millions)	3,915.6	3,888.0	4,125.9	3,912.6	3,981.4	4,100.6
Net Debt as a % of Revenues [2]	241.0	219.6	241.6	248.8	201.6	203.2
3-Yr Avg Interest Payments as % of Operating Revenues [2]	11.7	11.2	11.1	11.3	10.8	10.2
Farebox Recovery Ratio (%) [3]	50.1	50.8	29.8	28.7	34.4	35.9
Days Cash on Hand	165.6	152.5	139.0	187.5	591.3	489.9

[1] Number of unconnected passenger trips (passenger journeys)

[2] Revenues are net of capital contributions

[3] Transit revenue as a percentage of operating expenses

2022F and 2023F are Moody's forecasts

Sources: TransLink and Moody's Investors Service

Detailed rating considerations

The credit profile of TransLink, as expressed by its Aa2 stable rating, combines a baseline credit assessment (BCA) of a1 and a high likelihood of extraordinary support coming from the [Province of British Columbia](#) (Aaa stable) in the event that the authority faced acute liquidity stress.

Baseline credit assessment

Strategic importance as the main transportation provider for the Greater Vancouver economy

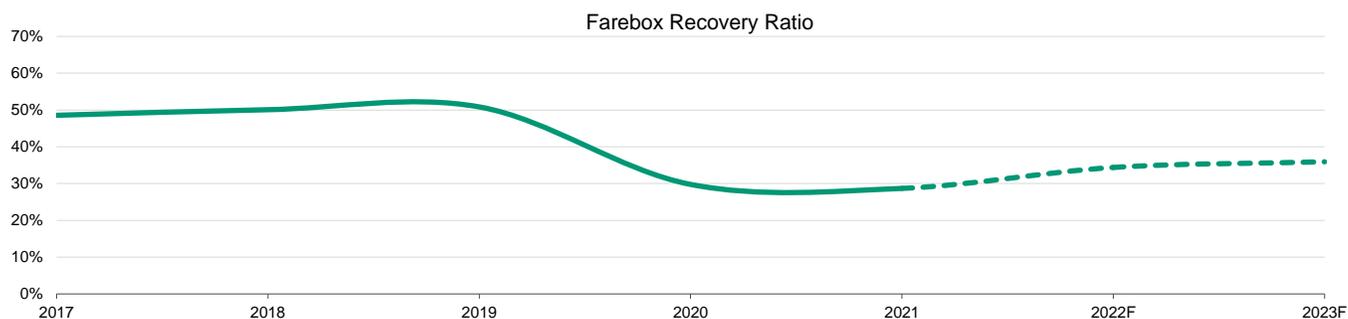
TransLink's services are essential to the functioning of the Greater Vancouver economy. It is the main provider of transportation services in the Greater Vancouver region and serves a large population of 2.8 million. It operates an extensive bus and rail network, including the SkyTrain rapid light-rail transit system, passenger ferries, an express commuter rail, and accessible transit service. TransLink is responsible for around 90% of the region's transit and therefore does not have viable competitors, which supports expectations of ridership recovery over the next two years. Its growth has been strongly correlated with long-term demand for public transit from a growing regional population.

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Prior to the coronavirus pandemic, its network provided around 272 million rides annually, with a farebox recovery ratio (farebox revenues relative to operating expenses) of 51% in 2019. Although these metrics weakened significantly during 2020, they began to gradually recover in 2021 as transit usage increased and travel restrictions eased, and we project further improvement in ridership levels to 75-80% of pre-pandemic levels in 2022 and 80-85% in 2023, with the farebox recovery ratios improving to around 35%.

Exhibit 3

The farebox recovery ratio will gradually improve in 2022 and 2023



Sources: TransLink and Moody's Investors Service

TransLink's responsibilities also extend beyond the delivery of public transit services. TransLink was created by the Province of British Columbia and assumed responsibility for the Greater Vancouver regional transportation system in 1999. It is responsible for (1) planning, constructing, funding, operating and maintaining a regional transport system, (2) constructing and maintaining a major road network (rapid transit and bus routes, bike lanes) that crosses the boundaries of several area municipalities, as well as (3) managing transportation demand-management strategies and programs. Key capital projects currently include revitalization, extension and renewal of the SkyTrain and bus fleets and expanding bike lanes across the region.

Important taxing powers provide access to diversified revenue sources and help stabilize operating volatility

As a transit agency with taxing powers, TransLink's institutional characteristics correspond to those of both a transit authority (responsible for regional transportation plans, significant revenues from farebox revenues) and a municipal government in Canada (legislated balanced investment plans, taxing authority), making it unique among the majority of mass transit providers. Although TransLink does not rely on operating grants from local governments or the province, it benefitted from significant new COVID-related provincial and federal transfers between 2020-2022.

TransLink's governing legislation allows it to raise property taxes or access any legislated revenue source at the discretion of its board of directors in order to meet its debt obligations. TransLink's taxation powers also allow it to have diverse revenue sources, including predictable property taxes which could be used to compensate for lost passenger revenues. Property taxes – which make up 20-25% of total revenues – tend not to fluctuate with economic shocks, insulating it from pandemic-related economic pressures including ridership declines. TransLink also receives revenue from fuel tax and parking rights tax which, however, are sensitive to changes in driving patterns.

TransLink's status as a taxing authority also provides significant debenture holder security, and enables it to raise taxes and revenue sources which could be used to compensate for lost passenger revenues. TransLink's legislation allows it to access, by law, any tax or legislated revenue source not included in its strategic plan if its board considers it necessary to do so in order to meet its debt obligations. Although TransLink may have limited willingness to raise taxes during a stressed environment (including the coronavirus pandemic), this status nevertheless provides fiscal flexibility. TransLink also has the ability – if legislated – to tap into unutilized revenue sources such as vehicle levies and area benefit taxes that could be used to meet future financial requirements.

Strong governance and institutional characteristics

We characterize TransLink's governance and management practices as strong. The authority uses multi-stage long-term investment plans that allow for a phased approach to future infrastructure investments, closely linking expenses to anticipated funding sources. Forecasting is done through a 30-year long-term regional transportation strategy (updated every 5 years) and 10-year fully funded investment plans (updated at least every 3 years). Throughout the pandemic, management has also used extensive scenario analysis

to identify and manage pressures early on, including multi-scenario revenue, expense and debt forecasts. In addition, the authority initiated significant cost reduction efforts during the pandemic, including a hiring freeze, service reductions, and deferring planned service expansions.

Oversight is provided by the Mayors' Council which reviews and approves TransLink's long-term transportation plans and provides certain oversight responsibilities for fares, executive compensation and customer surveys and complaints. The Mayors' Council, which primarily includes the mayors (or their representatives) from the 21 municipalities in Metro Vancouver, also appoints 7 of TransLink's 11 directors. The Mayors' Council Chair and Vice Chair also sit on the Board. The Province of British Columbia has the right to appoint another 2 board members, providing a level of provincial oversight as well. Despite the provincial government's role in creating it, TransLink operates fairly independently from the provincial government with autonomy in setting its budgets.

Debt accumulation is constrained by a legislated debt ceiling, which is currently CAD6.8 billion of gross debt, as well as an internal policy limit of 20% of gross interest costs as a percentage of operating revenues. Increases in TransLink's borrowing limit are subject to approval by the board of directors and Mayors' Council. The Mayors' Council also approves annual fare increases and annual property tax revenue increases beyond legislated limits, although fare increases have been limited to 2.3% annually until 2024. Given that raising taxes in the current environment could be politically unpopular, we do not anticipate significant tax increases beyond legislated limits in the near term.

Fiscal pressures from a prolonged ridership recovery and high inflation

Given the high dependence on transit fares, in addition to gas and parking taxes which depend on commuting trends, TransLink's operating profile is highly sensitive to ridership and mobility across the region, which has resulted in significant fluctuation in its own-source revenues since the onset of the coronavirus pandemic in 2020. We expect that this volatility will stabilize over the next 3-4 years as increasing ridership levels and tax revenues will lead to gradually rising revenues.

Leading up to the pandemic, transit fares accounted for approximately 30-35% of TransLink's operating revenues, while gas and parking taxes accounted for an additional 20-25%. Similar to most transit agencies serving large metropolitan populations, transit-related revenues were down significantly in 2020 compared to pre-pandemic levels, while revenues recovered gradually in 2021 but which was hampered by multiple waves of COVID-19 outbreaks. Low ridership and multiple waves of coronavirus outbreaks created significant operating shortfalls, including net losses (net of expense savings) of CAD337 million for 2020 and CAD198 million in 2021. Nevertheless significant federal and provincial operating funding in 2020 and 2021, which totaled CAD661 million, allowed TransLink to post positive operating results. A modest unused portion was carried over to 2022, and will also cover the lower planned fare increases over the next four years. An additional CAD176 million federal and provincial funding received in May 2022 in our view will help TransLink post a modest consolidated surplus.

At the same time, the current high level of inflation, which we expect will remain above historical trend levels in 2022 and 2023, will put upward pressure on both operating and capital expenses, including wage and benefit costs and materials and supply costs. In our view, TransLink has flexibility in addressing some of these pressures by reducing the scope of non-critical capital projects, and deferring non-critical projects.

High debt burden relative to peers, but long-term debt management strategy limits its rise

TransLink's debt burden (net direct and indirect debt as a % of revenues) stood at 249% in 2021, above its pre-pandemic level of 221% (2019). TransLink's debt levels remain high for its rating category as the authority issues debt to fund a significant portion of its capital plan which is large relative to most peers since it covers the capital needs of the entire region serviced by TransLink. TransLink expects to issue on average CAD300 million annually in green bonds over the next two years to support new expansion capital projects, including the expansion of the SkyTrain lines. These levels represent a return to more predictable increases in debt levels.

Debt accumulation is capped at a legislated debt limit of CAD6.8 billion, although the debt ceiling has been increased several times since 2014 – most recently from CAD5.5 billion in 2022 - to accommodate higher debt requirements for capital costs. Offsetting some of these pressures is the federal government's commitment to provide an additional CAD3 billion in annual funding for transit projects across Canada starting in 2026, increasing visibility into future funding support.

In May 2022, TransLink received upfront cash payment of CAD2 billion from the province of British Columbia which represents the present value of foregone future toll revenues associated with the Golden Ears Bridge, with the lump sum amount as a settlement that

replaces annual funding that TransLink has been receiving from the province since the province's 2017 decision to eliminate bridge tolls. We expect that TransLink will use the proceeds for a combination of funding its capital projects which will help reduce further debt issuances, and for long-term investments.

Given the slower pace of debt accumulation than we previously projected, coupled with our projection of a continued recovery in revenues, we expect that the debt burden will fall to 222% at year-end 2022 and modestly increase to 236% in 2023, slightly below our previous projection of 240-250% but still elevated compared to peers. At the same time, debt affordability will also improve, with the 3-year average interest expense declining from 11.3% of revenues in 2021 to 10.8% in 2022 and 10.2% in 2023. At the same time, TransLink's revenue diversity and status as a taxing authority allow it to sustain a higher debt burden than other public mass transit enterprises at the same rating level.

TransLink also has access to a CAD500 million commercial paper program for short-term borrowing (current usage is nil) which is backstopped by a CAD500 million credit line. In addition, TransLink maintains approximately CAD1.2 billion in sinking funds and debt reserve funds which provide significant support to bondholders and represent about 20% of gross debt.

Extraordinary support considerations

Moody's assigns a high likelihood of extraordinary support from the Province of British Columbia to prevent a default by TransLink, reflecting the major public policy role played by TransLink in providing mass transit services as well as key roads and bridges to the largest metropolitan area in Western Canada. The high likelihood of support also reflects the province's strong regulatory oversight over TransLink. A default by TransLink would likely lead to a sharp increase in borrowing costs for public sector entities in British Columbia, thereby providing incentive to the province to act to prevent a default by the authority.

ESG considerations

TransLink's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 4

ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.



Source: Moody's Investors Service

TransLink's ESG Credit Impact Score is moderately negative (**CIS-3**) reflecting moderately negative exposure to environmental risks, moderately negative exposure to social risks and neutral-to-low governance risk.

Exhibit 5

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-3

Moderately Negative



GOVERNANCE

G-2

Neutral-to-Low



Source: Moody's Investors Service

Environmental

TransLink's E issuer profile score is moderately negative (**E-3**). The moderately negatively exposure to physical climate risks reflects the risk that TransLink's routes in the Greater Vancouver Area can be exposed to significant weather events including extreme heat and drought. In addition, TransLink maintains a large fleet of gas and diesel powered vehicles which exposes the agency to carbon transition risk. However, TransLink incorporates meaningful environmental sustainability and green initiatives into its strategic plans. These plans include reducing its carbon emissions through converting its fleet to zero emissions vehicles through electrification, and achieving net-zero GHG emissions of its fleet by 2050 with an interim reduction target of 45% from 2010 levels by 2030. The neutral-to-low carbon transition risk reflects our view that increased capital spending to reduce emissions and increase electrification will be partially balanced by increased ridership as both TransLink's and governmental policies, as well as public preference, shift from carbon inefficient travel to energy-efficient modes of transportation.

Social

TransLink's S issuer profile score is moderately negative (**S-3**). Demand for TransLink's services depend strongly on demographic and social trends in its service area. A potential shift to hybrid workplace arrangements could lead to long-term changes in passenger demand and ridership levels related to the pandemic. At the same time, significant fare increases to increase revenues could be subject to social and political resistance. This is partly mitigated by increasing population levels and predictable demographic trends in the Greater Vancouver region serviced by TransLink which have supported historical increases in ridership. Given its large workforce and strong collective bargaining units, TransLink is moderately exposed to human capital risks given less flexibility to control cost growth.

Governance

TransLink's G issuer profile score is neutral-to-low (**G-2**). Governance considerations include robust planning and financial management through a 30-year long term regional transportation strategy and rolling 10-year capital investment plans. TransLink's governance is structured so that it provides consensus from all area mayors, and facilitates long-term investment plan and successful implementation. In recent years, strong management has significantly strengthened TransLink's brand image following previous public perception concerns.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology

The assigned BCA of a1 is close to the scorecard-indicated BCA of a2. For details about our rating approach, please refer to the [Mass Transit Enterprises Methodology](#) (December 2017) and [Government-Related Issuers Methodology](#) (February 2020).

Exhibit 6

TransLink

Fiscal year ended December 31, 2022

Factor 1 : Size (15%)	Measure	Score
a) Issuer Size - Annual Ridership (Million)	131	Aa
b) Market Size - Service Area Population (Million)	2.8	Aa
Factor 2 : Market Position (35%)		
a) Operating Environment	Aa	Aa
b) Service Area Characteristics	Aa	Aa
c) Market Share - Utilization (%)	47.3	A
Factor 3 : Financial Flexibility (20%)		
a) Level of Self-Support - Farebox Recovery Ratio (%)	28.7%	A
b) Budget Flexibility (3 Year Avg Fixed Costs as % of Oper. Exp.)	14.8%	Aa
Factor 4 : Debt & Financial Metrics (30%)		
a) Leverage - Net Debt/Revenues	2.49	Baa
b) Budget Balance -Interest as a % of Operating Revenues (3 Year Avg)	11.3%	Baa
c) Budget Balance - Net Margin (3 Year Avg)	18.7%	Aaa
d) Liquidity - Days Cash on Hand	187.5	Aa
Baseline Credit Assessment (BCA):		
Adjustments / Notching Factors		
Factor 3: Budget flexibility		
2) Independent taxing authority	0.5	
Other		
3) Credit event / Trend not yet reflected in existing data set	-1	
Baseline Credit Assessment (BCA)		
a) Indicated Rating from Grid After Notching Adjustment		a2
b) BCA assigned		a1

Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
SOUTH COAST BRITISH COLUMBIA TRANSPORT.	
AUTH	
Outlook	Stable
Baseline Credit Assessment	a1
Issuer Rating -Dom Curr	Aa2
Senior Unsecured -Dom Curr	Aa2

Source: Moody's Investors Service

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