Rating Report

South Coast British Columbia Transportation Authority (TransLink)

Insight beyond the rating.

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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) confirmed the Issuer Rating and Senior Unsecured Debt rating of South Coast British Columbia Transportation Authority (TransLink) at AA and its Commercial Paper rating at R-1 (middle), all with Stable trends. The ratings are supported by TransLink's diverse revenue streams, including its status as a taxing authority in the Metro Vancouver Regional District (Metro Vancouver), robust ridership growth and strong regional economic growth dynamics. TransLink's solid operating performance and robust long-term financial planning framework are also supportive of the ratings and Stable trends.

TransLink reported a surplus of $668 million in 2016 and a DBRS-adjusted surplus of $246 million after excluding one-time gains associated with a major real estate transaction. Passenger boardings rose by 4.5% year over year (YOY) in 2016, an encouraging development bolstered by strong regional economic growth, the integration of the new SkyTrain Evergreen Extension and the roll-out of the Compass automated fare card system. Ridership through the first half of 2017 is tracking 2.9% ahead of budget expectations and is up by 5.7% compared with the same period in 2016. DBRS expects that TransLink will meet or exceed the Q2 2017 surplus projection of $112 million.

The Province of British Columbia (the Province; rated AA (high) with a Stable trend by DBRS) eliminated all bridge tolls in the Province effective September 1, 2017. DBRS previously considered the debt associated with the Golden Ears Bridge as self-supporting because of the dedicated toll mechanism. As a result, DBRS now includes the $1.0 billion contractor liability in its calculation of TransLink's DBRS-adjusted net debt burden, which will increase to $3.9 billion, or $1,504 per capita (from $1,055), in 2017. DBRS notes that the provincial government has committed to providing offsetting operating grants for budgeted toll revenues to protect TransLink's operating budget. Based on the current investment plan, projections indicate that DBRS-adjusted net debt will reach $4.1 billion in 2019, or $1,557 per capita, a level that is still considered manageable for the ratings. However, over the medium term, investment plans for Phases Two and Three of the Mayors' Council's 10-Year Vision for Metro Vancouver Transportation (the Mayors' Vision) may result in a higher debt outlook, as major projects such as the Pattullo Bridge replacement, Millennium Line Broadway Extension (Broadway Subway) and South of Fraser Rapid Transit Network are undertaken.

Continued on P.2

Financial Information

	For the year ended December 31				
	2016	**2015**	**2014**	**2013**	**2012**
DBRS-adjusted surplus (deficit) ($ millions)	246.2	160.0	20.4	36.9	(51.0)
DBRS-adjusted net debt per capita ($)	1,055	1,018	1,019	1,036	1,061
Interest costs as % of total revenue	8.1%	8.9%	10.0%	10.0%	10.9%
Net post-capex surplus (deficit) as % of revenue (5-year rolling avg.) 1	-1.4%	-1.4%	-2.2%	-7.7%	-10.0%
Transit system ridership growth 2	4.5%	1.8%	0.3%	-2.1%	2.4%

1 Net post-capex surplus (deficit): operating surplus (deficit) (net of amortization expense) - net capex (gross capital spending - capital revenues)/total revenues.
2 Ridership methodology changed in 2016. Comparable year-over-year ridership growth (+4.5%) estimated based on boarded passengers.

Issuer Description

TransLink provides transit and transportation services and coordinates funding for the regional road network within Metro Vancouver. TransLink's service area covers 21 municipalities as well as Metro Vancouver Electoral Area A and Tsawwassen First Nation, which had a combined population of 2.6 million in 2016.

Rating Update (CONTINUED)

The outlook for the ratings is stable. Ratings improvement is constrained by a rising debt burden and the provincial decision to remove own-source revenue available for debt repayment from bridge tolls. Upward pressure on the ratings is not foreseen but could materialize if the debt burden were to be reduced significantly. While not anticipated, the ratings could experience downward pressure should operating performance deteriorate significantly on a sustained basis or if debt evolves materially above current projections.

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. In addition, TransLink's Board of Directors (the Board) has unfettered authority to raise its property tax levy in any amount deemed necessary to meet debt obligations in a financial stress scenario. In the current approved investment plan, the Mayors' Council agreed to additional modest property tax increases over the legislated cap to reflect development and construction in the region.

2. Well-diversified revenue base

Under the *South Coast British Columbia Transportation Authority Act* (the Act), TransLink benefits from a well-diversified revenue base comprising property taxes, transit fares and a fuel tax. In addition, TransLink has an ongoing stream of government funding through the federal-gas-tax-sharing program. TransLink generates half of its revenue from non-transit sources, which diminishes the impact of service disruptions or loss of ridership on financial results.

3. Comprehensive financial planning framework

TransLink's governing legislation requires the planning framework to include a 30-year strategy and a fully funded ten-year investment plan (updated at least every three years), which replaces the three-year base plan and seven-year outlook used previously. Through this planning process, management remains focused on longer-term sustainability and decision makers remain engaged in the longer-term financial/operational issues facing TransLink.

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

Population growth in TransLink's service area of Metro Vancouver continues to outperform the national average. This trend is expected to continue, as BC Stats projects that annual population growth in Greater Vancouver will average 1.3% through 2026. In 2016, transit ridership increased by 4.5% over the prior year, the strongest growth in several years. For the six months ended June 30, 2017, ridership was up 5.7%, or 2.9% above budget expectations, which also reflects, in part, the opening of the Evergreen Extension and full Compass Card implementation. DBRS anticipates that ridership growth will roughly match the rate of population growth in Metro Vancouver over the medium term, with upside risk as service expansion continues.

Challenges

1. Policy and political risks

TransLink's long-term financial direction will be influenced to a high degree by the political and policy decisions of the Province and Mayors' Council on Regional Transportation. As evidenced by the recent decision to remove tolls on bridges in Metro Vancouver, revenue sources available to TransLink are largely determined by provincial legislation. The level of senior government funding for major capital projects such as the Pattullo Bridge replacement and rapid transit will also affect TransLink's borrowing needs and credit profile over the medium term. While not anticipated, changes to TransLink's governance structure, revenue sources, debt service safeguards and status as a taxing authority could alter DBRS's view of TransLink's credit risk.

2. Rising debt burden

Capital investment plans for the first phase of the Mayors' Vision will cause debt to rise over the medium term and higher than at the time of the last review. Debt related to the Golden Ears Bridge, previously considered to be self-supporting, will now be treated as part of the DBRS-adjusted net debt burden following the elimination of tolls by the provincial government. As a result, DBRS-adjusted debt will increase in 2017 by roughly $1.0 billion to roughly $1,500 per capita. DBRS-adjusted net debt is expected to reach $4.15 billion, or $1,557 per capita, in 2019 after accounting for population growth, which is still considered manageable for the ratings.

3. Mobilization risks of an ambitious investment plan

The Mayors' Vision represents an intense mobilization of resources for TransLink, as it moves to significantly expand its transit service offerings while simultaneously planning and executing a series of major capital expansion projects, including the replacement of the Pattullo Bridge, the Broadway Subway and a new light rail transit (LRT) rapid transit network in Surrey and Langley, British Columbia, along with routine state-of-good-repair work. Such projects entail a considerable ramp-up in staffing; major procurement; and project management, design and planning work that will need to be managed in addition to the routine operational risks from running a complex transit system.

Operating Performance

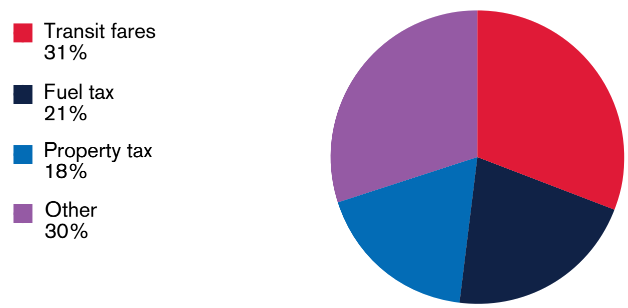
($ millions)	2016	2015	2014	2013	2012
	For the year ended December 31				
Operating revenues	1,730	1,625	1,447	1,444	1,380
Operating expenses	1,484	1,465	1,427	1,407	1,431
DBRS-adjusted operating surplus (deficit)	246	160	20	37	(51)
Non-recurring items	422	2	6	(0)	42
Net surplus (deficit), as reported	668	162	27	37	(9)

TransLink reported a surplus of $668 million, or roughly 39% of revenue. The DBRS-adjusted operating surplus was $246 million, or 14.2% of revenue, excluding the impact of a $422 million gain from the sale of surplus land. TransLink sold the Oakridge Transit Centre to a developer, with TransLink receiving $88 million in cash in December 2016, with the balance to be paid over the next six years secured by a mortgage against the property. The proceeds of the sale will be used to fund capital infrastructure and land purchases for major projects.

Revenues (excluding non-recurring items) rose by a healthy 6.5%, supported by higher taxation revenues, with the largest increase coming from fuel tax receipts. TransLink's property tax revenues rose by 3.1%, in line with legislated limits. Parking sales tax revenues were up moderately, while hydro levy and replacement tax revenues also rose modestly. Transit revenues from fares and programs (university passes, etc.) rose by 5.9%, reflecting strong growth in ridership, which TransLink estimates was up by 4.5% in 2016 based on system-boarding data. This represents the strongest ridership growth in several years and a notable rebound since an outright decline was recorded in 2013. Government transfers recognized in revenue rose by 5.1% to $240 million, with capital funding representing 92.0% of the total and the balance mostly comprising the provincial operating contribution for Canada Line ($19.3 million).

Total expense rose by 1.3% YOY, mostly driven by higher spending on bus services and corporate programs, offset by lower outlays for roads and bridges, largely reflecting a prior-year adjustment and the timing of contributions to municipalities. Ongoing corporate costs rose by 12.8% but mostly reflected contracted services related to Compass implementation, higher credit card fees associated with direct fare sales of Compass Cards and tickets, general inflation and contractual increases and a number of reviews and studies. Integrating the Evergreen Extension also contributed to one-time corporate spending, but this was down from the prior year. Spending on rail services was down slightly (-0.9%), reflecting a mix of positive and negative cost factors.

Exhibit 1: TransLink Revenues by Source (2016)



Interest expense rose by 2.9% because of higher debt outstanding, while amortization rose more notably, reflecting capital additions of $454 million from Expo Line propulsion upgrades, the new Hamilton Transit Centre and the Evergreen Extension. Combined spending on salaries, wages and benefits was 3.2% higher than the prior year.

Operating Outlook

2017 Budget and Forecast (as at Q2 2017)

TransLink's 2017 operating and capital budget projected a surplus of $308.3 million, partly reflecting a budgeted one-time gain of $150 million on the Oakridge Transit Centre site, which was sold sooner than expected in the prior year. The focus of the budget was the implementation of the first phase of the Mayors' Vision, including a significant expansion in permanent bus service hours in 2017, increased SkyTrain and SeaBus service levels and a major increase in accessible HandyDART trips. The first wave of bus service enhancements added 89,000 service hours, and the second wave is being rolled out in September 2017, which will increase service hours by 105,000 hours.

As at June 30, 2017, year-to-date (YTD) results are tracking ahead of expectations, with strong growth in ridership (+5.7% YTD) driven by strength in the local economy and expansion of the transit network. TransLink has reported a YTD surplus of $80.3 million versus a budget projection of $43.4 million. On a full-year basis, a narrower surplus of $111.6 million is projected as compared with budget, largely because of the removal of the budgeted gain on sale of the Oakridge Transit Centre ($150 million) and a change in the expected timing of federal government transfers for bus replacement ($121 million). These negative variances are offset by higher ridership and a lower expense track than budgeted (-3.0%) primarily from the timing of capital funding to municipalities for the major road network.

DBRS anticipates that positive ridership trends and transit revenue gains, combined with disciplined expense management, should result in TransLink meeting or exceeding its forecast surplus of $111.6 million.

Medium-Term Outlook

The medium-term outlook for TransLink's operating performance is positive. The organization is in the first stages of implementing Phase One of the Mayors' Vision, including the most significant expansion of transit services since 2009 and a number of complex high-profile capital projects, which will need to be managed and executed with care to avoid financial and operational risks. Ridership figures are up notably, bolstered by strong economic growth in the region and the roll-out of service improvements. TransLink continues to plan for a cumulatively balanced operating budget over the ten-year planning horizon of the current investment plan, and results have been tracking ahead of budget expectations in recent years.

Public confidence in the organization appears to have improved with the successful roll-out of the Compass Card and the first wave of service expansion. The automated fare card system should make the system more responsive to users and provide management with deeper analytics for business decisions around service provision and optimization as well as support growth in fare revenue. Early indications suggest that the fare card system is resulting in longer passenger journeys and thus higher revenue per trip, potentially from greater ease of use and lower fare evasion. This is likely to continue to improve as new enhancements, including open payments with credit and debit cards, are introduced in the coming years.

The approved Phase One investment plan includes $1.0 billion for expanded operations and $1.2 billion in expanded capital investment. The plan relies on a mix of existing revenue sources and new regional revenue sources, including the following:

- Sale of surplus TransLink property ($100 million over ten years — completed with the sale of the Oakridge Transit Centre).
- Transit fare increases averaging 2% to 3% per year for three years.
- Modest property tax increases in addition to the current legislated cap to reflect development and construction ($365 million over ten years).
- Regional development fee to be implemented by 2020 ($127 million over ten years).

The incremental operating costs of the investment plan will be funded using the property tax adjustment, the proposed development fee, increased transit service revenue, fare increases and revenue from existing sources. Incremental costs for capital expansion will be funded with a $370 million federal contribution from the Public Transit Infrastructure Fund (PTIF Phase One), representing up to 50% of eligible capital project costs; a matching provincial contribution of $244 million; and $140 million in incremental gas tax funds from the Greater Vancouver Regional Fund. Borrowing of $385 million will also be required. The plan projects that transit ridership will increase at a compound annual growth rate of 1.6% over the next ten years, supporting annual growth in transit revenues of roughly 3.9% per year through 2026.

Funding for the second and third phases of the Mayors' Vision has yet to be finalized. The new regional development fee requires enabling legislation, and TransLink and provincial officials continue to discuss the form and structure of the proposed fee (i.e., whether it will apply at a lower rate across the entire region or be focused on development around transit corridors). If the fee is not approved, certain phases of service expansion may need to be deferred.

TransLink recently launched an independent commission to make recommendations on mobility pricing, which is envisioned to be a potential source of revenue to help fund Phase Three of the 10-Year Vision. The commission comprises 14 community leaders and will explore region-wide solutions to reduce traffic congestion, promote fairness and support transportation investment for all users. The commission will make recommendations on how to price transportation in the region, including a range of

Operating Outlook (CONTINUED)

potential fees and charges for using all forms of transportation and transit, including the major road network, transit and services such as bike sharing, taxis or ride-hailing applications. In the wake of the elimination of bridge tolls, which were seen as being unfair to users from areas reliant on the bridges, the commission has been tasked with finding pricing models that would be applied consistently to avoid disadvantaging certain geographic regions or modes of transportation. Stakeholder consultations are set to commence in the fall of 2017, with an initial report expected in April 2018.

Capital Plan

Gross capital acquisitions in 2016 totalled $421.9 million, up significantly from the prior year, reflecting the purchase of new buses and railcars, completion of Expo Line Propulsion upgrades, the new Hamilton Transit Centre and the completion of the Evergreen Extension.

TransLink's capital investment plans are based on the 2017–2026 Investment Plan, as approved by the Mayors' Council in July 2017. Total capital expenditure in the next ten years will total roughly $3.6 billion, including $1.3 billion for rail, $1.5 billion for bus and $430 million for capital contributions for municipalities for the major road network. The plan targets a 10% increase in bus service and a 20% increase in rail services and requires the acquisition/development of 171 buses, 50 SkyTrain cars, a SeaBus, five West Coast Express cars and a locomotive, and three transit exchanges. The plan also includes significant state-of-good-repair work, increased investment in the major road network, walking and bicycle infrastructure and greater accessibility at transit stations and stops. Phase One also funds design and planning work on larger transformational projects such as the proposed tunnelled Broadway Subway and the 10.5-kilometre 11-stop Surrey-Newtown-Guildford LRT, the first phase of the broader South of Fraser Rapid Transit Network.

TransLink's top capital priority is now the replacement of the Pattullo Bridge connecting New Westminster to Surrey, which is approaching the end of its useful service life. TransLink has publicly noted that procurement for the replacement must commence in 2017 to remain on schedule for completion by 2023, which requires that the project be in a funded investment plan with Mayors' Council approval. TransLink is in negotiations with the provincial government regarding provincial capital funding and a financing strategy for the bridge. TransLink has also applied for federal funding under the $2.0 billion National Trade Corridors Fund. DBRS will monitor the project plans for potential impact on the outlook for borrowing, which is highly unlikely to be considered self-supporting in the absence of tolls.

In the federal government's 2017–18 budget, $2.2 billion in PTIF (Phase Two) funding was announced for the Metro Vancouver area, which will be used for the Broadway Subway and the first Surrey LRT, in addition to expected provincial and regional contributions. Phase Three of the Mayors' Vision includes construction of the second Surrey LRT to Langley, additional bus service, six new transit exchanges and further upgrades to SkyTrain stations and walking, cycling and road infrastructure to complete the Mayors' Vision. TransLink's contribution to major capital projects and ongoing operating costs in Phase Two and Phase Three will, in part, depend on the successful introduction of the aforementioned new revenue sources (development fee/mobility pricing).

For 2017, TransLink's capital spending is expected to total $742.8 million before offsetting funding from senior governments and other sources of $450.9 million, resulting in a net cash cost to TransLink of $291.9 million.

Debt and Liquidity

DBRS-adjusted debt comprises long-term debt, short-term debt, public-private partnership (PPP) obligations (Canada Line/Golden Ears) and capital lease obligations, less debt reserve funds and debt sinking funds (self-administered/Municipal Finance Authority of BC (MFABC)). TransLink's Board-mandated gross borrowing limit of $4.0 billion is defined as gross long-term and short-term debts outstanding and does not include PPP debt or sinking fund balances held internally and externally.

DBRS-adjusted debt rose by a moderate 5.3%, or $136.5 million to $2.7 billion, in 2016. TransLink increased borrowing through its Commercial Paper facility by $120 million (to $239 million) and issued $150 million through a re-opening of an existing long-term senior unsecured debenture. This borrowing was offset by debt repayments, sinking fund contributions and amortization of the SkyTrain Canada Line deferred concessionaire credit. Debt considered to be self-supporting was essentially stable at $1.05 billion in 2016. This debt represented the liability of TransLink to the contractor to design, finance, construct, operate, maintain and rehabilitate the Golden Ears Bridge through 2041, supported by tolling revenues generated from the bridge (see the Outlook section).

Debt and Liquidity (CONTINUED)

TransLink's DBRS-adjusted net debt stood at 156% of revenue in 2016, down from 189% in 2010. Net interest charges (interest charges and capitalized interest less sinking fund earnings) as a share of revenues edged down slightly to 8.1% from 8.9% the prior year. TransLink's Board-mandated internal debt management policy limits total net direct and indirect debt to 300% of operating revenues and gross interest charges to 20% of operating revenues. As at December 31, 2016, TransLink was well within both limits at 259% and 12%, respectively.

TransLink's balance sheet strength improved modestly during the year. Sinking fund balances, both self-administered and held at MFABC, rose by $55.6 million to $857.3 million, as new contributions and interest earned exceeded funds used to retire sinking fund bonds. Total cash and marketable securities stood at $524.8 million, and TransLink reported $333.4 million in unrestricted cash and investments as at YE2016, an increase of 22.6% YOY. As a share of current liabilities, cash and securities stood at 99.1% at year end. As a further source of liquidity, TransLink maintains a $500 million Commercial Paper program, which at the time of writing was approximately 48% utilized. The Commercial Paper program is supported by a three-year $450 million bank credit agreement as a liquidity backstop expiring March 2020. In addition, the credit agreement provides for a $50 million swingline. The debt service coverage ratio improved to 2.3 times from 1.9 times the prior year on account of stronger operating performance.

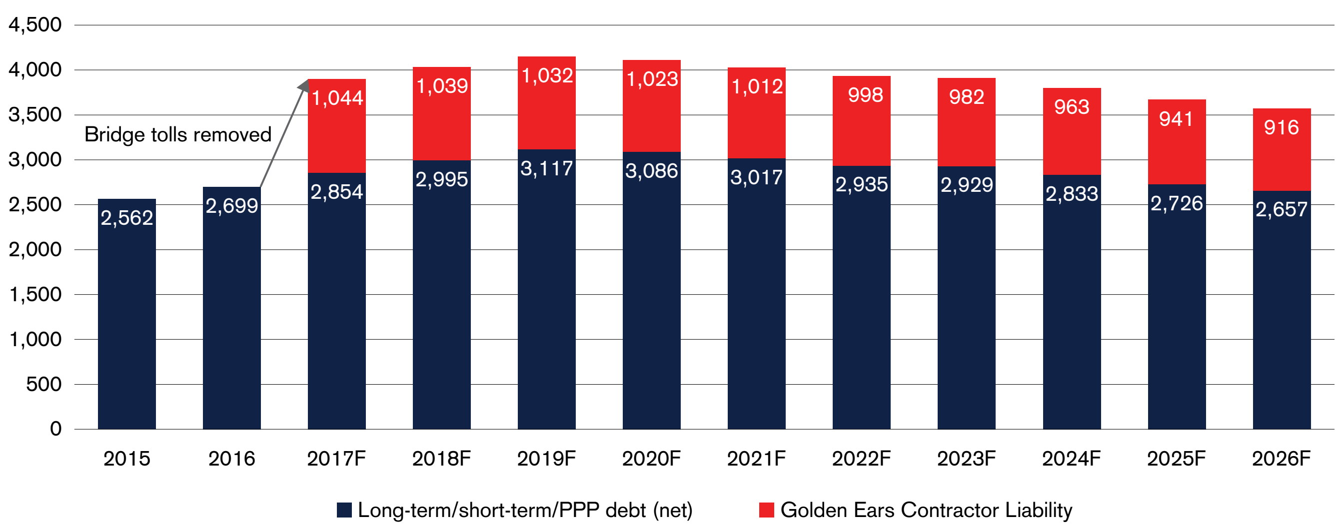
Outlook

With the elimination of bridge tolls effective midnight September 1, 2017, DBRS no longer considers the Golden Ears Bridge contractor liability as a self-supporting obligation. Debt or long-term capital obligations are considered self-supporting provided that the services or assets have commercial value, are operated on a commercially sustainable basis, are highly unlikely to require government support and are mostly (if not entirely) supported by user fees, a rate base, a levy or an otherwise distinct revenue stream (e.g., toll revenue) dedicated to servicing and repaying the associated debt or long-term capital obligation. DBRS notes that the provincial government has committed to providing offsetting operating grants for budgeted toll revenues to protect TransLink's operating budget.

The Golden Ears contractor liability will now be included in DBRS-adjusted net debt beginning in 2017. With this change, net debt is expected to rise by 44.5% to $3.9 billion, or $1,504 per capita (from $1,055 in 2016). Excluding the impact of the Golden Ears liability, net debt would have risen by 5.8%. Debt growth is expected to slow in 2018 and 2019 to 3.5% and 2.8%, respectively. DBRS expects debt to reach $4.1 billion, or $1,557 per capita, in 2019 and is considered to be manageable for the ratings. Based on investments approved to date and population projections, debt is expected to trend modestly lower to $3.57 billion, or roughly $1,200 per capita, through 2026.

However, the financing strategy for the replacement of the Pattullo Bridge is a source of uncertainty for TransLink's debt burden in the near term and will be monitored in the coming months for potential impact on the credit profile. Future investment plan updates encompassing the second and third phases of the Mayors' Vision may also lead to debt growth beyond that envisioned in the current investment plan, and DBRS will continue to evaluate the outlook for borrowing as new information becomes available.

Exhibit 2: TransLink DBRS-Adjusted Debt ($ Millions)



Notes: DBRS adjusted. F = forecast.

Local Economy

With a population of slightly more than 2.5 million, Metro Vancouver is Canada's third-largest metropolitan area. The region continues to be a popular destination for international and domestic migration and serves as the commercial centre of the Province, hosting a diversity of industries ranging from manufacturing and trade to film, technology and tourism. The region comprises 23 local governments, with the City of Vancouver situated at the centre. Population growth in the Metro Vancouver region was 1.6% through 2016, up from 1.4% recorded the prior year, driven mostly by faster growth in the outlying municipalities of Burnaby, Surrey and Langley.

Growth in regional real gross domestic product (GDP) has been robust, with Metro Vancouver output expanding by a solid 3.8% in 2016, according to the Conference Board of Canada, buoyed by broad-based gains across services and goods industries. The regional labour market has mirrored this strength, with employment rising by 4.7% in 2016 to nearly 1.4 million. Employment gains are expected to continue over the next several years but at a more moderate rate. The area's unemployment rate stood at 5.9% in 2016.

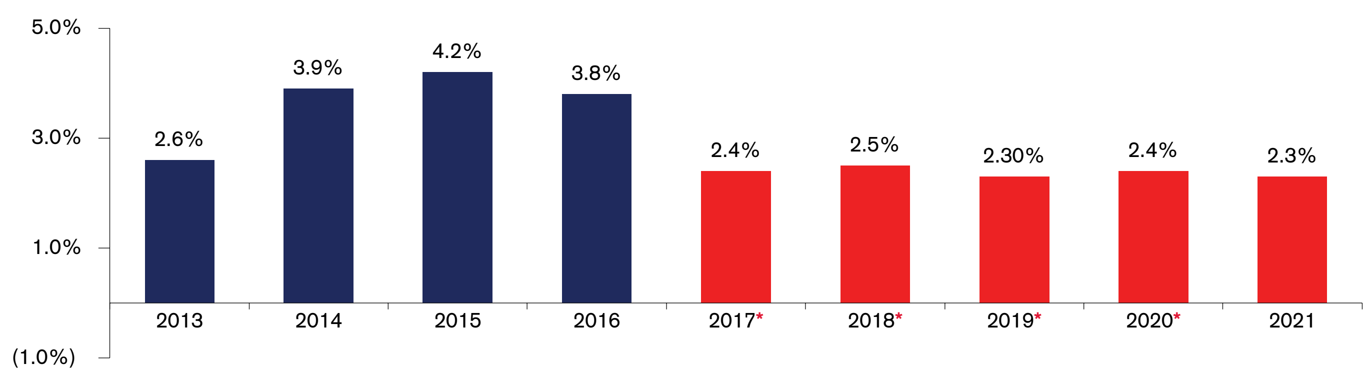
Outlook

Vancouver is expected see growth in real GDP slow moderately to 2.4% in 2017 based on projections by the Conference Board of Canada and is expected to trail Toronto as the leading growth centre nationally. The consensus forecast tracked by DBRS points to real growth of 3.2% for the Province amid projected national growth of 2.7%. Vancouver's real GDP growth is expected to remain fairly stable at roughly 2.5% through 2018. As at August 2017, the seasonally adjusted unemployment rate stood at 4.7%.

An important factor in the lower regional growth outlook is cooling residential construction activity, with industries with direct and indirect linkages to housing such as construction, finance, real estate and insurance set to see growth moderate. Although prices have again accelerated following the transitory effect of provincial policy intervention, with the MLS Home Price Index up by 9.4% YOY in August 2017, construction activity has pulled back and housing starts are expected to be lower for the year, although still broadly in line with historical levels. Year-to-date housing starts for January to August 2017 were down by 13% in Vancouver relative to the same period in 2016. In August 2017, the seasonally adjusted annual level of housing starts for Vancouver stood at 20,931, down from 27,914 actual starts in 2016. The Canada Mortgage and Housing Corporation (CMHC) has projected that total starts would fall in the range of 21,500 to 23,500.

Housing affordability and price acceleration in the Vancouver housing market continue to be downside risks. In its Q3 2017 *Housing Market Assessment*, CMHC continued to cite Vancouver as displaying "strong evidence of problematic conditions," citing strong evidence of overvaluation, moderate evidence of price acceleration and moderate evidence of overheating (revised up from weak evidence in Q2 2017), with demand running ahead of supply from resale listings and new construction. A housing correction would likely have spillover effects across the regional economy and could produce slower growth, which, in turn, could have negative effects on transit ridership. DBRS noted in a recent report, *Employment Risks in Canada's Imbalanced Housing Markets*, that employment has grown faster in housing-related sectors in the Province than in the rest of the economy over the last decade. However, the extent of labour misallocation does not appear acute, particularly when compared with some U.S. states during the U.S. housing boom. In the context of solid economic growth and steady population gains, the labour market in the Province is likely able to absorb a potential home-price correction without major disruption.

Exhibit 3: Metro Vancouver — Real GDP Growth



* Forecast.
Source: The Conference Board of Canada.

Local Economy (CONTINUED)

Other sectors are expected to offset the cooling of the residential construction sector, including still-healthy consumer spending supporting broad-based growth in non-housing service industries. The transportation and warehousing industries remain key drivers of growth, as deepening trade and tourism linkages to Asia make Vancouver less reliant on the U.S. market than other regions in Canada. The Canadian dollar also continues to attract tourism to British Columbia. Manufacturing growth remains steady, bolstered by the $8 billion Seaspan federal shipbuilding contract for 17 non-combat ships through 2020. Non-residential construction will also help to offset some of the expected weakness on the residential side, with a number of high-profile office and public infrastructure projects underway. However, the cancellation of procurement for the George Massey Tunnel Replacement Project has dampened the outlook for non-residential construction in the near to medium term.

Growth in the United States is evolving lower than previously anticipated, in part to significant policy uncertainty, but is still reasonably sound and supportive of export growth. Nonetheless, the ongoing softwood lumber dispute and renegotiation of the North American Free Trade Agreement present downside risks to the trade relationship in the near term. An additional risk to the regional economy is a sharper-than-expected economic slowdown in China that would weaken overall demand for British Columbia's exports. A downturn in the regional economy could affect TransLink's revenues through lower transit ridership and reduced fuel sales taxes.

Economic Statistics	2016	2015	2014	2013	2012
Transit system passenger growth 1	4.5%	1.8%	0.3%	(2.1%)	2.4%
Population (thousands, Metro Vancouver)	2,558	2,517	2,481	2,444	2,410
– Year over year	1.6%	1.4%	1.5%	1.4%	1.6%
Unemployment rate (Metro Vancouver)	5.4%	5.9%	5.9%	6.6%	6.8%
Employment (thousands, Metro Vancouver)	1,359	1,298	1,276	1,248	1,247
Housing starts (# of units, Metro Vancouver)	27,914	20,863	19,212	18,696	19,027

Sources: BC Statistics, Conference Board of Canada, TransLink and Statistics Canada.
1 TransLink ridership methodology changed in 2016. Comparable year-over-year ridership growth (+4.5%) estimated based on boarded passengers.

South Coast British Columbia Transportation Authority Act

There have been no changes to TransLink's governing legislation since the time of the last review. The Mayors' Council has the authority to approve new short-term fares or fare increases beyond the annual 2% permitted by legislation, to govern the oversight and disposition of major assets and to determine executive compensation levels.

TransLink is governed by a board comprising seven members appointed by the Mayors' Council (as selected from a list compiled by an independent screening panel), plus the Chair and Vice Chair of the Mayors' Council and up to two members appointed by the Province.

The Act grants the Board the ability to annually raise property tax revenues by 3.0%, long-term fares as desired and short-term transit fares by 2.0% under normal conditions, while also protecting TransLink's ability to raise taxes and fares without limit in times of financial stress. The Act fosters prudent financial planning by requiring management to prepare and adhere to a long-term strategy while also following a fully funded investment plan to guide expenditures over a shorter horizon. The long-term strategy must be outlined in a 30-year plan, updated every five years, while the investment plan covers a ten-year period and must be updated every three years. Both planning documents are approved by the Mayors' Council. This is intended to ensure that the Mayors' Council will be supportive of required fare increases above those already permitted in legislation and the associated capital investment, as they are now both part of the fully funded ten-year investment plan.

Legislation requires that the Mayors' Council must demonstrate, to the Minister's satisfaction, that any new funding source not already available to TransLink under the Act or any increase of the limits on or rates of increase for the revenue sources provided for in the Act be supported by a majority of electors in the transportation service region. The newly elected provincial government has indicated that this requirement is likely to be changed to provide greater flexibility to the Mayors' Council.

South Coast British Columbia Transportation Authority Act (CONTINUED)

Consolidated Statement of Operations	For the year ended December 31				
($ thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Operating revenues	1,730,163	1,625,310	1,447,315	1,443,732	1,379,870
Operating expenses	1,483,949	1,465,288	1,426,878	1,406,800	1,430,825
DBRS-Adjusted Surplus (Deficit)	**246,214**	**160,022**	**20,437**	**36,932**	**(50,955)**
Non-recurring items	422,183	2,340	6,437	(167)	41,600
Net surplus (deficit) as reported	668,397	162,362	26,874	36,765	(9,355)
Operating Revenues					
Transit	541,589	511,445	495,609	495,575	460,600
Taxation	825,670	772,722	744,157	741,307	714,414
Golden Ears tolling & Canada Line contributions & AirCare	71,406	67,682	72,884	78,261	78,400
Amortization of deferred concessionaire credit	23,337	23,273	23,273	23,273	23,337
Interest income	40,567	34,381	34,739	34,208	31,662
Miscellaneous revenues	6,351	6,102	5,576	5,771	5,581
Capital funding 1	221,243	209,705	71,077	65,337	65,876
Total revenues	1,730,163	1,625,310	1,447,315	1,443,732	1,379,870
Operating Expenses					
Bus services	789,843	770,108	764,137	751,931	765,892
Corporate	144,870	122,559	85,213	80,445	73,657
Rail services	363,537	361,129	345,290	336,368	329,070
Roads and bridges	151,711	178,308	182,074	191,269	216,363
Transit police	33,988	33,184	34,358	30,624	28,463
AirCare 2	-	-	15,806	16,163	17,380
Other expenses	-	-	-	-	-
Total expenses	1,483,949	1,465,288	1,426,878	1,406,800	1,430,825
Capital Expenditures (Gross)	**421,886**	**267,619**	**228,413**	**248,296**	**177,391**
Cash Flow (DBRS adjusted; $ thousands)					
Recurring surplus (deficit)	246,214	160,022	20,437	36,932	(50,955)
Items not involving cash 3	(61,332)	(56,579)	75,770	94,157	90,593
Change in non-cash working capital	(12,985)	28,054	(3,887)	29,677	20,343
Operating cash flow from operations	171,897	131,497	92,320	160,766	59,981
Net capex 4	11,038	-264,977	-220,706	-248,463	(85,890)
Free cash flow	182,935	(133,480)	(128,386)	(87,697)	(25,909)

1 Consists of federal gas tax funding received by TransLink through the Union of BC Municipalities and other senior government capital contributions. 2 AirCare program was discontinued in 2015. 3 Amortization of capital and other assets, changes in non-controlling interest of TPCC and other non-cash adjustments. 4 Net proceeds from the sale of capital assets, less capital expenditures. Starting in 2012, no longer includes capital funding since capital funding has been included in operating revenue given PSAB requirements. In 2015, PSAB accounting requirements started requiring that TransLink recognize government transfers as they are spent, rather than amortized into revenue over a ten-year period.

Consolidated Balance Sheet ($ thousands)

	As at December 31				
Assets	**2016**	**2015**	**2014**	**2013**	**2012**
Cash and marketable securities	525,817	593,870	574,620	638,938	545,130
Accounts receivable	133,736	102,421	102,644	97,103	107,037
Inventories	61,831	56,442	51,266	46,869	43,372
Prepaid expenses	11,657	11,719	12,516	9,315	8,431
Current assets	733,041	764,452	741,046	792,225	703,970
Assets held for sale	-	-	4,868	14,164	-
Loans receivable	325,313	-	-	-	-
Long-term investments & land reserve	149,437	61,239	23,980	22,248	29,420
Debt reserve deposits 1	35,049	36,407	36,104	39,677	41,263
Debt sinking funds 1	857,290	801,681	693,328	717,710	685,541
Capital assets	4,867,996	4,606,623	4,511,992	4,451,189	4,385,782
Total Assets	**6,968,126**	**6,270,402**	**6,011,318**	**6,037,213**	**5,845,976**
Liabilities					
Accounts payable and accrued liabilities	234,522	241,766	232,478	235,987	222,694
Short-term debt	239,603	119,590	89,587	89,540	89,241
Current portion of capital lease obligations	947	1,218	1,596	2,716	2,450
Current portion of long-term debt	55,671	61,727	63,433	101,833	121,762
Total current liabilities	530,743	424,301	387,094	430,076	436,147
Employee future benefits	120,147	110,023	99,875	89,082	78,251
Long-term debt	2,745,209	2,645,040	2,506,779	2,475,452	2,425,492
Contractor liability 2	1,049,021	1,050,913	1,051,375	1,045,059	1,032,744
Deferred concessionaire credits 3	549,059	572,396	595,669	618,942	642,215
Capital lease obligations	732	447	1,059	1,078	1,925
Deferred revenue and lease inducements	48,097	27,541	14,989	12,984	1,650
Deferred government capital contributions	941,046	1,124,066	1,201,165	1,238,101	1,137,878
Total Liabilities	**5,984,054**	**5,954,727**	**5,858,005**	**5,910,774**	**5,756,302**
Accumulated Surplus	**984,072**	**315,675**	**153,313**	**126,439**	**89,674**

DBRS-Adjusted Net Debt ($ thousands)

	2016	**2015**	**2014**	**2013**	**2012**
Gross debt	3,040,483	2,826,357	2,659,799	2,666,825	2,636,495
Deferred concessionaire credits 3	549,059	572,396	595,669	618,942	642,215
Capital lease obligations	1,679	1,665	2,655	3,794	4,375
Less: sinking funds	(857,290)	(801,681)	(693,328)	(717,710)	(685,541)
Less: debt reserve deposit	(35,049)	(36,407)	(36,104)	(39,677)	(41,263)
Total DBRS-Adjusted Net Debt	**2,698,882**	**2,562,330**	**2,528,691**	**2,532,174**	**2,556,281**
Self-supported debt 2	1,049,021	1,050,913	1,051,375	1,045,059	1,032,744
Capital commitments	123,078	312,000	383,700	560,036	588,113

1 Debt reserve deposits and sinking fund assets are administered by MFABC. 2 Represents the amount of funding received to date for the Golden Ears Bridge to be repaid in the future by Translink through capital payments. In 2017, the elimination of bridge tolling will result in a reclassification of self-supporting debt to DBRS-adjusted net debt. 3 Funding provided by the concessionaire toward the construction of Canada Line, amortized post-completion over the term of the concession.

Rating History

	Current	2016	2015	2014	2013	2012
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 Action

- Confirmed, October 28, 2016.

Related Research

- *Rating Canadian Municipal Governments*, May 2017.

Commercial Paper Limit

- $500 million.

Previous Report

- South Coast British Columbia Transportation Authority: Rating Report, October 28, 2016.

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

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

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

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