Rating Report

# TransLink

**Scott Cherry**
+1 416 597 7343
scherry@dbrs.com

**Travis Shaw**
+1 416 597 7582
tshaw@dbrs.com

DBRS

*Insight beyond the rating.*

## 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 or the Authority) at AA and its Commercial Paper rating at R-1 (middle). All trends are Stable. The ratings are supported by TransLink's taxing authority in the Metro Vancouver Regional District (Metro Vancouver), sound financial management, and strong regional economic growth dynamics that are driving increased ridership. TransLink's operating performance remains positive and its robust long-term planning provides with DBRS confidence that the credit profile will remain sound amid a major expansion of transit service and infrastructure.

TransLink reported a DBRS-adjusted surplus of $97.3 million in 2017, down from a DBRS-adjusted surplus of $246.2 million the prior year. For 2018 TransLink projects that it will record a final surplus of $176.5 million compared to $253.1 million budgeted, with most of the projected variance attributable to lower senior government transfers and modestly weaker taxation revenues. Expenses are expected to be slightly below budget. Healthy ridership trends continue, with passenger boardings up 5.9% year to date (YTD) through June 2018, above budget expectations.

Following the removal of bridge tolls by the Province of British Columbia (the Province; rated AA (high) with a Stable trend by DBRS) on September 1, 2017, DBRS re-classified the Golden Ears Bridge contractor liability from self-supporting debt to part of TransLink's DBRS-adjusted net debt burden. This resulted in a significant one-time increase in debt to $3.8 billion in 2017, or $1,463 per capita and 0.46% of Metro Vancouver taxable assessment. DBRS notes that TransLink is receiving offsetting grants for the lost tolling revenue.

TransLink's 10-Year Investment Plan (2018–27) was approved in June 2018 and provides funding for Phase Two of the 10-Year Vision for Metro Vancouver Transit and Transportation (10-Year Vision). The plan includes major capital projects such as the first phase of the Surrey Light Rail Transit (LRT) project and the Millennium Line Broadway Extension and will be funded through a new regional development cost charge, modest fare and taxation increases and significant capital contributions from senior governments. The inclusion of new major projects has caused the outlook for debt to rise above what was contemplated at the last review. Debt is now expected to peak at $5.2 billion in 2023, resulting in projected debt-per-capita of $1,895 and 0.50% of Metro Vancouver's total taxable assessment. The Financial Risk Assessment (FRA) metrics at the projected peak debt burden in 2023 are expected to be manageable for the current ratings.

The outlook for all ratings is Stable. While not anticipated, the ratings could experience downward pressure should operating performance deteriorate significantly on a sustained basis or if the debt burden evolves materially above current projections. Upward rating pressure is not likely because of the rising debt burden and the mobilization risks associated with an ambitious investment plan.

## Financial Information

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2014** | **2013** |
| DBRS-adjusted surplus (deficit) ($ millions) | 97.3 | 246.2 | 160.0 | 20.4 | 36.9 |
| DBRS-adjusted net debt per capita ($) | 1,463 | 1,053 | 1,017 | 1,017 | 1,033 |
| Interest costs as % of total revenue | 7.9% | 8.1% | 8.9% | 10.0% | 10.0% |
| Post capex surplus (deficit) as % of revenue (5 year rolling avg) 1 | 0.3% | -1.4% | -1.4% | -2.2% | -7.7% |
| Transit system ridership growth | 5.9% | 4.5% | 1.8% | 0.3% | -2.1% |

1 Net post-capex surplus (deficit): operating surplus (deficit) (net of amortization expense) - capital expenditure / total revenues

## 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 as well as Metro Vancouver Electoral Area A and Tsawwassen First Nation, with a combined population of 2.6 million in 2017. TransLink has the largest service area of any Canadian transit authority.

# Rating Considerations

## Strengths

### 1. Taxing authority in an affluent region

TransLink has the legislated authority to increase standard 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 an additional standard property tax increase over the legislated cap in 2019 totaling $10 million, which will grow at the statutory cap going forward, in addition to other increases in the Phase One investment plan to reflect annual growth and development 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 motor vehicle fuel tax. In addition, TransLink has an ongoing stream of government funding through the federal-gas-tax-sharing program and various operating and capital transfers. 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). 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. The investment plan includes a detailed outlook for the balance sheet and income statement, directly comparable to budget documents, providing a high degree of transparency.

### 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 2017, transit ridership (passenger journeys) increased by 5.9% over the prior year. For the six months ended June 30, 2018, passenger boardings were up 5.9% to record levels. DBRS anticipates that ridership growth will modestly exceed population growth in Metro Vancouver over the medium term as a significant expansion of rail and bus service continues with the Phase Two investment plan.

## Challenges

### 1. Execution risks of an ambitious investment plan

The 10-Year 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 Broadway Extension of the Millennium Line and a new LRT rapid transit network in Surrey, along with major upgrades to the existing SkyTrain network and the bus fleet. These concurrent major 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.

### 2. Policy and political risks

TransLink's long-term financial outlook is influenced by political and policy decisions of the Province and the Mayors' Council on Regional Transportation. As evidenced by the decision to remove tolls in the Province, revenue sources available to TransLink are largely determined by provincial legislation and policy. However, relations with senior governments have improved from the time of the last review with the election of a new provincial government in May 2017. DBRS believes there is now greater policy alignment between the Province and TransLink. 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.

### 3. Rising debt burden

Capital investment plans for the second phase of the 10-Year 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, is now being treated as part of the DBRS-adjusted net debt burden after bridge tolls were removed in September 2017. As a result, DBRS-adjusted net debt per capita increased to $1,463 in 2017 (from $1,053 in 2016). DBRS-adjusted net debt is expected to peak at $5.2 billion, or $1,895 per capita and 0.50% of taxable assessment (Metro Vancouver) in 2023, based on conservative assumptions for population and assessment growth. This debt burden is considered manageable for the ratings but will reduce flexibility within the credit profile.

## Fiscal Management

DBRS assesses TransLink's Fiscal Management (Critical Rating Factor) at AA (low). Fiscal sustainability is a core priority of the Authority, as evidenced by its ten-year fully funded investment plan and long-term strategic plans that emphasize financial sustainability. TransLink has an internal requirement to run a cumulatively balanced budget over its planning horizon, and operating results have been in surplus in recent years. After net capital expenditure, DBRS-adjusted post-capital expenditure (capex) results have been essentially balanced on average for the past five years. TransLink's budget assumptions are generally prudent, and management has demonstrated an ability to manage in-year variations to protect operating balance. TransLink's revenue sources are diversified and include sources that grow with the economy, but there are statutory constraints around the ability of TransLink to increase existing revenue sources (e.g., property tax). New revenue sources must be approved by the Mayors' Council and the Province, but the requirement to hold a public referendum has been removed. TransLink's fiscal framework is well developed, and the Authority produces detailed operating budgets and a fully funded ten-year investment plan. Transparency is high, and budgets are directly comparable to reported results on a consolidated basis.

### FRA Factor:

- DBRS assesses the net post-capex surplus (deficit) as a share of total revenues (five-year average) at AA (low) or 0.3%, up from A (high) the prior year.
- DBRS assesses interest costs as a share of total revenues at AA (low) or 7.9%, unchanged from the prior year.

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| ($ millions) | 2017 | 2016 | 2015 | 2014 | 2013 |
| Operating revenues | 1,690 | 1,730 | 1,625 | 1,447 | 1,444 |
| Operating expenses | 1,592 | 1,484 | 1,465 | 1,427 | 1,407 |
| **Operating surplus (deficit)** | **97** | **246** | **160** | **20** | **37** |
| Non-recurring items | (1) | 422 | 2 | 6 | (0) |
| Surplus (deficit) as reported | 96 | 668 | 162 | 27 | 37 |

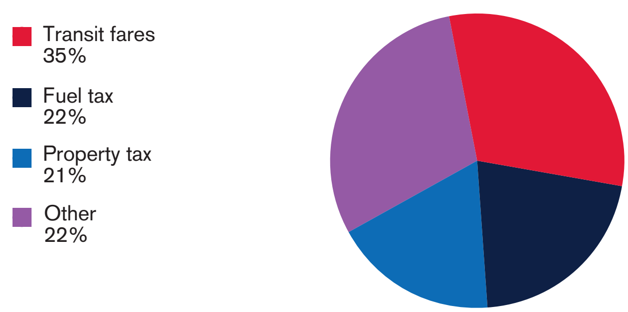
TransLink recorded a surplus of $96.2 million, or an adjusted surplus of $97.3 million (excluding a loss on disposal of tangible capital assets) or 5.8% of revenue. The surplus was narrower than the prior year, where TransLink recorded an adjusted surplus of $246.2 million.

DBRS considers the net post-capex deficit as a FRA Factor, adjusting to account for net capex as incurred (gross capex less capital revenue), and removing amortization expense. The net post-capex operating result better reflects overall fiscal sustainability and potential pressure on debt. In 2017 TransLink recorded a DBRS-adjusted post-capex surplus of $62.6 million or 3.7% of revenue. On a five-year rolling average, TransLink's net post-capex surplus was broadly balanced at 0.3%.

Revenues from continuing operations fell by 2.4% from the prior year (excluding non-recurring items) and were 0.3% below the 2017 budget plan. The revenue decline was mostly linked to weaker fuel tax revenue, the timing of senior government transfers and lower tolling revenue on the Golden Ears Bridge after the cancellation of bridge tolls by the provincial government.

Taxation revenues were down 0.5% from the prior year (1.8% unfavourable to plan), mostly attributable to lower revenue from the regional fuel tax, which is volatile and difficult to project. Fuel tax revenue was down 3.6% from budget despite a relatively strong economy, in part from lower vehicle kilometres travelled

**Exhibit 1: TransLink Revenues by Source (2017)**




across the region amid elevated fuel prices. Property taxation, replacement taxes and parking rights taxes came in largely on plan. Tolling revenues on the Golden Ears Bridge were down significantly from the prior year (42.9% or $22.4 million) because of the cancellation of bridge tolls by the Province, effective September 1, 2017. Senior government transfers declined from the prior year (-30.6%), mostly attributable to timing differences of capital spending, partially offset by a new dedicated operating transfer to replace lost tolling revenues on the Golden Ears Bridge ($18.6 million).

A significant increase in transit revenues of 9.1% (+4.4% versus plan) helped provide an offset to revenue weakness, propelled by record growth in passenger journeys (+5.9%) amid a strong

## Fiscal Management (CONTINUED)

economy, growing population, expanded transit network (Evergreen extension) and the fully implemented Compass Card system.

Total expenditures were up 7.3% compared to the prior year and were 3.1% favourable to budget plan. Bus division spending rose by 4.9% from the prior year, slightly ahead of budget, mostly due to benefit cost savings, vacant positions and lower net fuel costs. Rail division spending increased by a more notable 11.8%, but also slightly ahead of budget from benefits savings, vacancies, and service adjustments, offset by higher snow/ice removal, maintenance, insurance and other costs. Spending on roads and bridges was up significantly from the prior year, but strongly favourable to budget because of the timing of capital contributions to municipalities reimbursing their spending on the major road network. Bridge maintenance costs were also lower because of the completion of interim rehabilitation work on the Pattullo Bridge in 2016.

Corporate spending, including one-time items, fell by 8.5% year over year (YOY) from the timing of feasibility studies, unused operating contingencies, contractual and property tax savings. The write down of Golden Ears Bridge tolling equipment was a partial offset. One-time spending on public consultations also rose as the Mobility Pricing Commission undertook some spending earlier than anticipated. Amortization expense was up by 5.8% while interest charges rose by 5.3%, but both were favourable to plan.

### 2018 Budget & Performance

TransLink's 2018 budget includes notable revenue growth of 16.3% over 2017 actual levels, driven by a significant increase in senior government transfers and expense growth of 7.4% (over 2017 actuals), driven by higher spending across most categories including roads and bridges, bus, rail and corporate one-time expenses. The projected consolidated budget surplus is $253.1 million, up from $96.2 million the prior year.

TransLink budgeted for another healthy year of performance on transit fare revenue (+2.7%) from continued growth in transit ridership, service expansion and a fare increase planned for July 2018. The budget includes robust growth in passenger journeys of 4.6% over the 2017 budget, and 1.5% over 2017 actual journeys. Revenue from taxation is expected to rise by 4.1%, supported by statutory property tax increases (+3%) and a rebound in fuel taxation. Government transfers are budgeted to rise because of the full-year impact of the dedicated operating transfers for the tolling revenue on the Golden Ears Bridge, budgeted at $57.9 million. The provincial government is providing offsetting operating grants for budgeted toll revenues to protect TransLink's operating budget. Expense growth is being driven by transit operations (bus, rail divisions), roads and bridge spending (mostly transfers to municipalities) and corporate one-time costs. Corporate one-time cost growth of 167.6% is mostly attributable to operating contingencies that are routinely included in TransLink's budget to address in-year pressures or unexpected events.

As at June 30, 2018, YTD results are somewhat weaker than budgeted. The YTD surplus as of June is $22.4 million, versus a budgeted surplus of $45.4 million (-50.7%). Revenue performance has been weaker than budget (-6.0%), largely because of unfavourable variances on fuel taxation. This is being partially offset by an overall favourable expense variance of 3.5%, largely stemming from lower employee benefit costs. However, ridership trends have been very positive as passenger boardings are up 5.9% YOY through June to record levels.

On a full-year basis, TransLink projects a final surplus of $176.5 million, compared to $253.1 million budgeted. TransLink expects revenues to be unfavourable to budget (-4.7%) mostly from senior government transfers that are projected to be $90 million below budget. Taxation revenues are expected to come in modestly weaker than budget, while transit revenues are forecast to be positive by 4.6% as ridership growth continues at record levels. Expenses are projected to be modestly lower than budgeted. DBRS anticipates that positive ridership trends combined with disciplined expense management should result in TransLink meeting or exceeding its forecast.

### Medium-Term Outlook

The medium-term outlook for TransLink's operating performance is broadly positive. The Authority's 10-Year Investment Plan was approved on June 28, 2018, representing Phase Two of the 10-Year Vision, and will guide the operating outlook for the organization.

Phase One of the 10-Year Vision included an initial investment of $1.0 billion for expanded operations and $1.2 billion in incremental capital investment, mostly for a major enhancement of bus and SkyTrain services that began in 2017. The investment plan for Phase One relied on existing revenues, as well as the sale of surplus lands, modest transit fare and property tax increases and a regional development cost charge to be implemented by 2020. Capital investment in the first phase was funded with federal Public Transit Infrastructure Fund (PTIF Phase One) contributions, matching provincial capital contributions, regional gas tax funds and TransLink borrowing.

Phase Two builds on these investments and includes significant expansion of the network through major transit projects such as the Surrey LRT and the Millennium Line Broadway Extension. The total includes capital expenditures of $10.5 billion (See Capital Plan section), with a heavy focus on rail and bus infrastructure, along with $15.1 billion in operating investments and $2.5 billion in financing costs. Of the total plan, the Phase Two

## Fiscal Management (CONTINUED)

updated added $1.2 billion in incremental operating costs and $6.4 billion in incremental capital investment. The plan relies on a mix of new and existing revenue sources, including:

- Fare increases in 2020 and 2021 (10 to 15 cents on single fare, or $1 on monthly pass), in addition to Phase One increases.
- Base increase in the Standard Property Tax of $10 million in 2019 (roughly $5.50 per average household), which would then grow by the statutory limit of +3% (of revenues) per year, in addition to the Phase One increases tied to Annual Development Growth.
- Increased parking rights tax from 21% to 24% beginning in 2019 (to be enabled by provincial legislation).
- Anticipated new regional funding capacity ($30 million per year), in the form of an increased cap on the regional motor fuel tax to 18.5 cents (to be enabled by provincial legislation).
- Regional development cost charge to be collected beginning in 2020 (originally part of the Phase One funding plan) and enabled by provincial legislation in spring 2018.
- Golden Ears Bridge replacement toll revenue grant, totaling $689 million over ten years, which will protect the TransLink budget from the effect of the provincial decision to remove bridge tolls.

The $1.2 billion in incremental operating expenditure for Phase Two is composed of bus services (30% or $360 million), rail service (41% or $494 million) and financing costs (30% or $361 million). The incremental revenue is expected to be derived from fares from increased transit service (44%), new provincial revenue capacity in the form of higher gas taxes (22%), fare increases (9%), property tax (9%), parking rights tax (7%) and commercial and other sources (8%). The new regional development cost charge is expected to generate an incremental $7.5 million per year above the $21.5 million included in the Phase One funding plan for a cumulative $252 million through 2027. If the Province does not provide the enabling legislation for the increase in the parking rights tax and the new regional revenue capacity (gas tax) by spring 2019, then forecasted service enhancements will need to be deferred.

TransLink is planning for a cumulatively balanced operating budget over the ten-year planning horizon. Results have been tracking ahead of budget in recent years, and DBRS expects that TransLink will continue to manage closely to its fiscal plan. The outlook includes compound annual revenue growth of 4.2% and compound annual expense growth of 4.3%, with a cumulative operating surplus of $1.4 billion forecast over through 2027.

Public confidence in the organization appears to have improved considerably in recent years with the successful implementation of the Compass Card and the first phase of service expansion. The automated fare card system and the recent roll-out of contactless payment for credit cards and mobile wallets is providing TransLink with rich data that will aid service optimization and should continue to support growth in fare revenue. TransLink projects that transit ridership will increase at a compound annual growth rate of 2.5% through 2027, while transit fares will grow at compound annual rate of 5.2%. DBRS believes that these ridership assumptions are reasonable given the recent record growth in passenger journeys, projected economic and population growth and the planned service improvements.

The 10-Year Vision and the current investment plan represents an intense mobilization of human and financial resources for TransLink. The organization will need to manage operational, financial and project risks carefully as it undertakes numerous concurrent major capital projects while expanding its operating footprint. TransLink's robust long-term planning and financial management frameworks should mitigate risks and ensure that TransLink's operating performance remains positive.

### Capital Plan

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

Major projects include:

- **Surrey-Newton-Guildford LRT line:** The $1.65 billion Surrey-Newtown-Guildford Line is the first phase of the South of Fraser Rapid Transit project, connecting Guildford Exchange with Surrey Central Station (via 104 Avenue), and then on to Newton Exchange (via King George Boulevard). The 10.5 kilometre LRT line will have 11 stops, four transit exchanges and dedicated train-only lanes at grade. Construction is expected to be completed in 2024.
- **Millennium Line Broadway Extension.** The $2.83 billion Broadway Extension will extend the Millennium Line SkyTrain line from VCC-Clark Station to Arbutus Street along the Broadway corridor. The line will have six new underground stations and will be mostly be bored as a tunnel. The SkyTrain extension will provide a capacity increase of 250% over the existing 99-B line bus service. Construction is expected to be completed in 2025, with the Province likely delivering the project.
- **Expo/Millennium Line Upgrade Program:** A $1.3 billion program that includes the acquisition of 158 new, longer SkyTrain cars (+101 cars funded in Phase One), station circulation and accessibility upgrades, and new or upgraded vehicle storage, operations and maintenance facilities and power/control systems. The upgrade program is in addition to $579 million in upgrades funded in Phase One.

## Fiscal Management (CONTINUED)

The capital plan also includes an additional 8% increase in bus service, beyond the 10% increase funded in Phase One (based on 2016 service levels), including two additional rapid B-Line bus corridors and the acquisition of 151 new buses (+171 busses funded in Phase One). HandyDart service will also be expanded by 7%. Preliminary planning on a Surrey-Langley LRT line is also funded. The plan does not include the replacement of the Pattullo Bridge, a $1.4 billion project that has been assumed by the Province. The Province will deliver, own and operate the bridge, with an estimated opening date of 2023. Province will also be responsible for the dismantling and disposal of the old bridge.

The capital works in the investment plan are to be funded through a variety of sources:

- TransLink will borrow $2.98 billion or 29% of the total capital funding (see Debt and Liquidity Management section).
- The Province has pledged $2.78 billion in capital funding (27%), including $2.5 billion for Phase Two covering 40% of eligible project costs.
- Federal government will provide $2.19 billion through PTIF (21%) over the course of the plan. The federal commitment includes $2.0 billion from PTIF Phase 2 for the Surrey LRT and Broadway Extension. The federal government contributed $370 million through PTIF Phase 1.
- Gas tax revenues from the Greater Vancouver Regional Fund will cover $1.7 billion (17%).
- Sale of surplus properties and the new regional development cost charge will fund 3% and 2%, respectively.

## Debt and Liquidity Management

DBRS assesses TransLink's Debt and Liquidity Management (Critical Rating Factor) at AA. Capital investment needs within the 10-Year Investment Plan are sizeable and expected to lead to material increases in debt going forward, but the current debt burden is relatively low and manageable on a per capita basis and as a share of Metro Vancouver's taxable assessment. The Investment Plan includes new funding sources that are expected to help contain debt growth over the medium term. TransLink's debt and liquidity management practices are conservative and sophisticated, and the Authority has good access to capital markets and well-recognized borrowing platform as a near-annual issuer. The debt structure is prudent, and the Authority makes contributions to internal and external sinking funds to retire maturing bullet debt. TransLink's internal liquidity in the form of unrestricted cash and investments is significant relative to short-term debt and other current liabilities outstanding but is relatively limited in relation to total DBRS-adjusted net debt. Pension exposure is minimal as employees are part of the BC Public Service Pension Plan (current service contributions expensed), and employee future benefit liabilities are modest.

### FRA Factors

- DBRS assesses net debt per capita at AA or $1,463, up from $1,053 the prior year.
- DBRS assesses net debt as a share of taxable assessment at AAA or 0.46% of Metro Vancouver taxable assessment.

DBRS-adjusted net 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 and those administered by Municipal Finance Authority of BC (MFABC)).

DBRS-adjusted net debt rose to $3.8 billion, an increase of 40.5% from the prior year. With the elimination of bridge tolls effective September 1, 2017, DBRS re-classified the Golden Ears Bridge contractor liability (design, build, finance, operate, maintain and rehabilitate) from self-supporting debt to TransLink's net debt burden. 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). Following the reclassification of the Golden Ears Bridge liability, DBRS-adjusted net debt is equivalent to TransLink's definition of "Net Direct Debt and Indirect P3 Debt". Excluding the reclassification of the Golden Ears Bridge liability, TransLink's net debt burden rose by just 1.8% YOY.

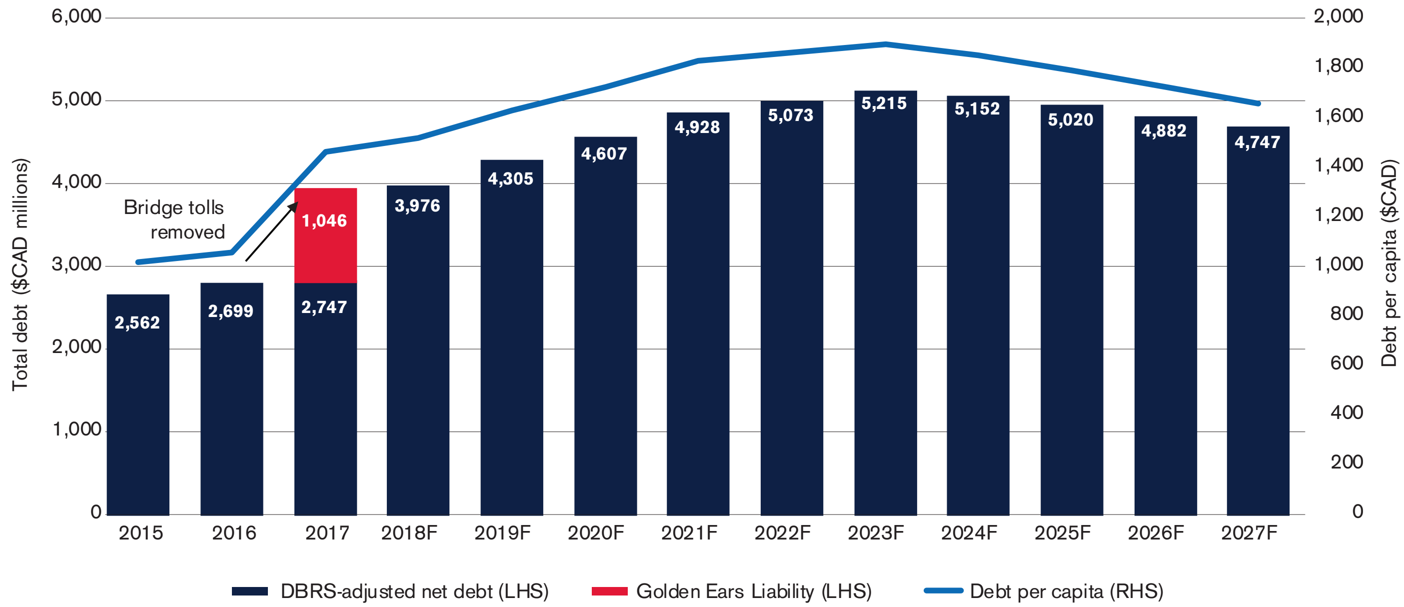
TransLink's short-term borrowing outstanding through its commercial paper (CP) program was stable at year-end ($239.6 million). TransLink issued $200 million in long-term senior unsecured debt (Series TL-6) in November 2017, which was offset with debt repayments, sinking fund contributions and the amortization of the SkyTrain Canada Line deferred concessionaire credit. The net debt burden stood at 224% of revenue, up from 156% in 2016, mostly from the reclassification of the Golden Ears Bridge liability. Net interest charges (interest charges and capitalized interest less sinking fund earnings) as a share of total revenues declined slightly to 7.9% from 8.1% 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, 2017, TransLink was within both limits at 256% and 12.2%, respectively.

TransLink's liquidity profile improved moderately from the prior year. Sinking fund balances, both self-administered and held at MFABC, were essentially stable at $858.2 million, as new contributions and interest earned offset funds used to retire bonds. DBRS-adjusted cash and marketable securities (excludes sinking funds,

## Debt and Liquidity Management (CONTINUED)

**Exhibit 2: DBRS-Adjusted Net Debt (Investment Plan 2018-2027)**




Source: TransLink projections based on 10 Year Investment Plan; DBRS-adjusted. F=Forecast

land reserve, and insurance subsidiary investments) stood at $893.9 million, and TransLink reported $484.9 million in unrestricted cash and investments as at YE2017, an increase of 45.5% YOY – mostly from financing transactions net of outflows from operations. As a share of current liabilities, unrestricted cash and investments stood at 87% at year end. As a share of DBRS adjusted net debt, unrestricted cash and investments covered a modest 12.8%. As a further source of liquidity, TransLink maintains a $500 million CP program, which was 48% utilized at year end ($239.6 million). The CP program is supported by a three-year $450 million bank credit agreement as a liquidity backstop expiring March 2021. In addition, the credit agreement provides for a $50 million swingline.

### Debt & Liquidity Outlook:

TransLink's 10-Year Investment Plan includes significant growth in net debt to an estimated peak of $5.2 billion in 2023, up from $3.8 billion in 2017. Debt issuance will support capital investment, including contributions to major projects such as the Millennium Line Broadway Extension and the Surrey LRT, as well as bus and rolling stock acquisition, state of good repair work and other system enhancements and expansions. Debt servicing and repayment will be funded over time by the mix of revenue sources outlined in the Investment Plan (see Medium Term Outlook).

At the peak in 2023, DBRS-adjusted net debt is expected to stand at $1,895 per capita and 0.50% of Metro Vancouver's taxable assessment value, based on conservative assumptions of annual population and taxable assessment growth of 1.0% and 3.0%, respectively.

DBRS views the projected increase in debt as manageable for the current ratings. At the projected peak in the net debt burden, DBRS's FRA metrics for DBRS-adjusted net debt per capita and DBRS-adjusted net debt as a share of taxable assessment are expected to remain at AA and AAA, respectively. Net interest charges as a share of total revenue is expected to rise moderately but is not expected to pressure the credit profile.

TransLink forecasts that liquidity levels, in the form of unrestricted cash and investments, will deteriorate moderately from an estimated 21.4% of total funding requirements in 2018 to 13.2% of total funding requirements by 2027. Total funding requirements are defined by TransLink as total expenses, excluding depreciation and capital funding to municipalities, plus debt servicing costs. The forecasted liquidity levels are expected to remain compliant with TransLink's internal financial policies. TransLink plans to maintain its $500 million CP program as an additional source of liquidity.

An increase in TransLink's gross borrowing limit was approved by the Board, in consultation with Metro Vancouver, in conjunction with the Investment Plan update. The gross direct borrowing limit now stands at $5.5 billion (up from $4.0 billion) and is defined as gross long-term and short-term debts outstanding. The borrowing limit does not include PPP debt or offsetting sinking fund balances held internally and externally. The Authority projects compliance with the gross direct borrowing limit through 2027. TransLink also projects continued compliance with its internal debt policy limits (Net Debt/Operating Revenues <300%, Gross Interest/Operating Revenues <20%). Net debt as a share of operating revenues is expected to decline from an estimated 262% in 2018 to 216% in 2027, while gross interest charges to operating revenues is expected to deteriorate moderately from 12% in 2018 to 14% in 2027.

## Relations with Senior Governments

DBRS assesses TransLink's Relations with Senior Governments (Critical Rating Factor) at AA, improved by one notch from the time of the last review. The legislative framework is generally supportive of financial sustainability and adequate provincial monitoring is provided, but revenue sources are limited by provincial legislation. Senior government funding is meaningful and relatively reliable for both operating and capital purposes, and there is a reasonable level of cooperation with senior governments. The BC general election held on May 9, 2017, resulted in a coalition government led by the New Democratic Party (NDP) with the support of the Green Party. DBRS believes that the election of the NDP-led government has improved relations and overall policy alignment with TransLink on regional public transit and transportation matters.

The Province announced in February 2018 that it would assume responsibility for delivery of a Pattullo Bridge replacement, a $1.37 billion project to be completed in 2023. The project was previously to be delivered, owned and operated by TransLink. The Province will now be responsible for the design, construction, operation and financing of the new bridge, as well as for the disposal of the existing bridge. The provincial assumption of Pattullo Bridge replacement and ownership of the asset will alleviate pressure on TransLink's capital program and ongoing operations.

The government's elimination of bridge tolling in the Province as of September 1, 2017, resulted in lost tolling revenues for TransLink on the Golden Ears Bridge. TransLink and the Province have formalized an agreement for the Province to provide offsetting operating grants to TransLink for the forecasted budgeted revenues to protect the operating budget, totaling $689 million through 2027. The Province has also committed to substantial matching capital contributions to federal funding (PTIF) and regional contributions as part of the investment plan. The Province will cover 27% of the forecasted capital investment.

There have been changes to TransLink's governing legislation since the time of the last review. The South Coast British Columbia Transportation Authority Act (the Act) was updated in May 2018, repealing the requirement that any new funding sources not already available to TransLink under the Act be approved by the majority of electors in the transportation service region (referendum requirement). The Province has also introduced legislation to permit a new development cost charge on developers as part of the funding plan for Phase Two. The change in legislation provides greater flexibility to the Mayors' Council and the Board to address long-term funding requirements.

The overall governance structure of TransLink has not changed. 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 Mayors' Council is comprised of the 21 mayors in Metro Vancouver, the Chief of the Tsawwassen First Nation, and the elected representative of Electoral Area 'A'.

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. The Act grants the Board the ability to annually raise standard 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 planned capital investment and any fare increases above those already permitted in legislation.

## Economic Structure

DBRS assesses the economic structure of the Metro Vancouver region (TransLink's service area) at AA (high), unchanged from the last review. Vancouver is the third largest city in Canada and home to more than 2.6 million residents. It is the commercial centre of British Columbia and has a diverse economic base of industries including manufacturing, technology, finance, and tourism that helps to insulate it from economic cyclicality. Vancouver's dynamic economy and growth trends have contributed to low levels of unemployment and above-average assessment and population gains, in part from its position as a leading destination for international migration. The region comprises 23 local governments, including the cities of Vancouver, Surrey, Burnaby, Richmond, Coquitlam, Langley and Delta.

Growth in regional real gross domestic product (GDP) has been robust, averaging 4.0% from 2014 to 2017, according to Conference Board of Canada (the Conference Board) estimates. In 2017, growth in real GDP began to moderate to 3.4%. The labour market has benefited from strong growth, retail sales and the housing market, with employment rising by 3.1% and the unemployment rate declining to an average of 4.6% in the Vancouver Census Metropolitan Area (CMA) in 2017, among the lowest nationally. Population growth in 2017 was 1.1%, mostly driven by growth in suburban municipalities of Burnaby, Surrey and Langley. Housing starts cooled to 26,200 (-6.1% YOY) but were above historical averages and projections from Canada Mortgage and Housing Corporation (CMHC) and the Conference Board.

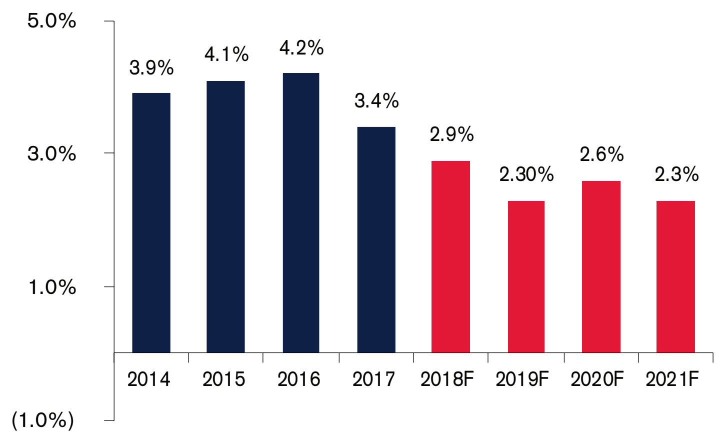
### Outlook

Vancouver's growth is expected to moderate in the coming years, as the local housing market that has supported strong growth in recent years cools amid tighter mortgage requirements, strained affordability, high household debt, and rising interest rates. Despite a moderation in the growth outlook, Vancouver is still expected to be a leader among Canadian metro regions. Real GDP growth is estimated to decelerate to 2.9% in 2018 and 2.3% in 2019 and remain steady through 2022. Employment gains are expected to slow through 2018 and 2019 in line with a lower growth outlook, but unemployment is expected to continue to fall slightly to 4.3% in 2018 and remain roughly stable over the medium term.

A softer housing market is expected to reduce output of the finance, real estate and insurance sectors, which have been significant contributors to regional growth. Other service sectors such as wholesale and retail trade are expected to continue to support growth, as employment gains and low unemployment provide support to household consumption despite a slowing of residential construction and resale housing activity.

Goods producing sectors will also contribute to growth, with manufacturing output expected to rise by a solid 3.8% in 2018,

**Exhibit 3: Metro Vancouver — Real GDP Growth**

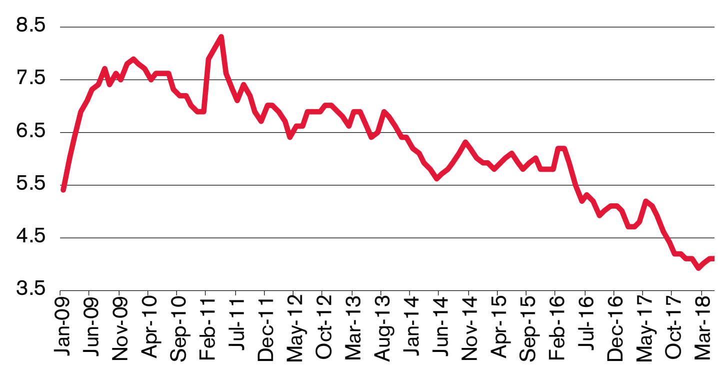



Source: Conference Board of Canada F = Forecast

according to the Conference Board. The pace of residential construction is set to cool with a forecast for lower housing starts in the Vancouver region, but starts are expected to remain above historical averages. Non-residential construction will buoy the overall construction sector, with several large private and public projects underway, including a large airport expansion and the Pattullo Bridge replacement.

The Vancouver housing market continues to represent a downside risk to the economic outlook. In the Q3 2018 Vancouver CMA Housing Market Assessment, CMHC continued to cite a "high degree of vulnerability" in Vancouver's housing market. CMHC cites high evidence of overvaluation relative to fundamental factors such as population, income and financing costs. CMHC cites moderate evidence of overheating, with large differences between municipalities and at different price points. At lower price points, market conditions are very tight, while there is much greater availability of homes at higher price points. There is moderate evidence of price acceleration, although these measures have been cooler in recent quarters. Outlying municipalities such as Surrey, Langley and Port Moody are driving price increases, while high inventories in Vancouver and West

**Exhibit 4: Vancouver CMA Unemployment Rate (%)**



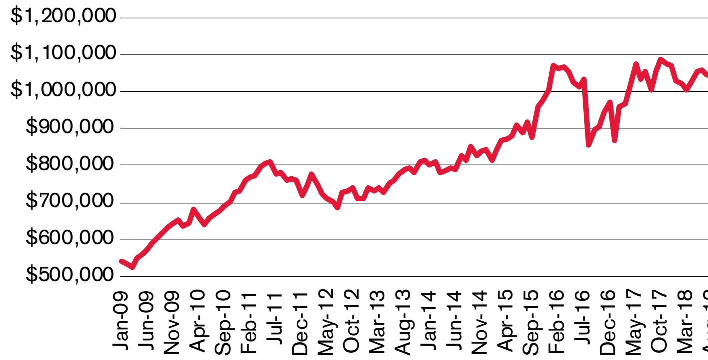
## Economic Structure (CONTINUED)

Vancouver are seeing price deceleration. There is low evidence of overbuilding in the Vancouver CMA, as new home inventories remain low despite record construction levels.

Following a series of provincial policy actions in August 2016 (including a foreign buyer's tax), housing activity and average prices in the Vancouver CMA declined from record highs. In the 2018 budget, the provincial government introduced further measures (including a new speculation tax). Tighter mortgage rules and higher interest rates have also contributed to slower housing market activity, but tight supply in certain market segments (particularly at more affordable price points) have caused average prices to remain elevated. The MLS Home Price Index (composite) for the Greater Vancouver region is up 4.1% YOY, with the single-family home index down 2.9% YOY and condo apartment index up by a strong 10.3% YOY. The average house price in August 2018 was $1.04 million, down from a peak average price of $1.09 million.

TransLink has a diversity of revenue sources that provides downside protection against economic variability. Standard property taxes, hydro taxes and senior government transfers are stable revenue sources that are largely insulated from economic or house price cyclicality. TransLink's fuel tax revenue is linked to vehicle kilometres travelled within the Metro Vancouver region and exhibits variability depending on economic conditions and other factors. Fare revenues are also sensitive to changes in economic conditions, including labour market dynamics, but are also influenced by population growth and service levels. While an economic downturn or housing market correction could impact some of TransLink's revenue sources, the diversity of TransLink's revenues provides comfort that operating performance will not be materially affected.

**Exhibit 5: Greater Vancouver Average House Prices**




Source: Canadian Real Estate Association / Haver

| Economic Statistics | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Transit system journeys (millions) 1 | 248 | 234 | 239 | 235 | 234 | 239 |
| Transit system ridership growth 1 | 5.9% | 4.5% | 1.8% | 0.3% | (2.1%) | 2.4% |
| Population (thousands, Metro Vancouver) | 2,592 | 2,563 | 2,519 | 2,487 | 2,451 | 2,417 |
| - Year-over-year | 1.1% | 1.7% | 1.3% | 1.5% | 1.4% | 1.8% |
| Unemployment rate (Metro Vancouver) | 4.6% | 5.4% | 5.9% | 5.9% | 6.6% | 6.8% |
| Employment (thousands, Metro Vancouver) | 1,401 | 1,359 | 1,298 | 1,276 | 1,248 | 1,247 |
| Housing starts (# of units) (Metro Vancouver) | 26,204 | 27,914 | 20,863 | 19,212 | 18,696 | 19,027 |

Sources: BC Statistics, Conference Board of Canada, TransLink, 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 (CONTINUED)

## Consolidated Statement of Operations

| ($ thousands) | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Operating revenues | 1,689,503 | 1,730,163 | 1,625,310 | 1,447,315 | 1,443,732 |
| Operating expenses | 1,592,156 | 1,483,949 | 1,465,288 | 1,426,878 | 1,406,800 |
| **DBRS-adjusted surplus (deficit)** | **97,347** | **246,214** | **160,022** | **20,437** | **36,932** |
| Non-recurring items | (1,104) | 422,183 | 2,340 | 6,437 | (167) |
| Net surplus (deficit) as reported | 96,243 | 668,397 | 162,362 | 26,874 | 36,765 |
| **Operating Revenues** | | | | | |
| Transit | 590,964 | 541,589 | 511,445 | 495,609 | 495,575 |
| Taxation | 821,333 | 825,670 | 772,722 | 744,157 | 741,307 |
| Golden Ears tolling revenue | 29,743 | 52,116 | 48,444 | 41,623 | 39,421 |
| Amortization of deferred concessionaire credit | 23,274 | 23,337 | 23,273 | 23,273 | 23,273 |
| Interest income | 50,278 | 40,567 | 34,381 | 34,739 | 34,208 |
| Miscellaneous revenues | 7,009 | 6,351 | 6,102 | 5,576 | 5,771 |
| AirCare 1 | - | - | - | 12,047 | 19,619 |
| Capital funding 2 | 147,908 | 240,533 | 228,943 | 90,291 | 84,558 |
| Golden Ears tolling replacement transfers | 18,994 | - | - | - | - |
| **Total operating revenues (before non-recurring items)** | **1,689,503** | **1,730,163** | **1,625,310** | **1,447,315** | **1,443,732** |
| **Operating Expenses** | | | | | |
| Bus services | 826,089 | 789,843 | 770,108 | 764,137 | 751,931 |
| Corporate | 136,460 | 144,870 | 122,559 | 85,213 | 80,445 |
| Rail services | 407,761 | 363,537 | 361,129 | 345,290 | 336,368 |
| Roads and bridges | 184,351 | 151,711 | 178,308 | 182,074 | 191,269 |
| Transit police | 37,495 | 33,988 | 33,184 | 34,358 | 30,624 |
| AirCare 1 | - | - | - | 15,806 | 16,163 |
| **Total operating expenses (before non-recurring items)** | **1,592,156** | **1,483,949** | **1,465,288** | **1,426,878** | **1,406,800** |
| **Capital Expenditures (Gross)** | **226,907** | **421,886** | **267,619** | **228,413** | **248,296** |
| **Cash Flow** (DBRS adjusted; $ thousands) | | | | | |
| Recurring surplus (deficit) | 97,347 | 246,214 | 160,022 | 20,437 | 36,932 |
| Items not involving cash 3 | 44,847 | (61,332) | (56,579) | 75,770 | 94,157 |
| Change in non-cash working capital | 55,675 | (12,985) | 28,054 | (3,887) | 29,677 |
| Operating cash flow from operations | 197,869 | 171,897 | 131,497 | 92,320 | 160,766 |
| Net capex 4 | -226,038 | 11,038 | -264,977 | -220,706 | -248,463 |
| Free cash flow | (28,169) | 182,935 | (133,480) | (128,386) | (87,697) |

1 AirCare program was discontinued in 2015. 2 Consists of federal gas tax funding received by TransLink through the Union of BC Municipalities, other senior government capital contributions, and Canada Line contributions. 3 Amortization of capital and other assets, changes in non-controlling interest of TPCC, other non-cash adjustments. 4 Net proceeds on 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 require that TransLink recognize government transfers as they are spent, rather than amortized into revenue over a ten year period.

## Consolidated Balance Sheet ($ thousands)

| Assets | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| | As at December 31 | | | | |
| Cash and marketable securities | 893,924 | 525,817 | 593,870 | 574,620 | 638,938 |
| Accounts receivable | 120,852 | 133,736 | 102,421 | 102,644 | 97,103 |
| Inventories | 65,293 | 61,831 | 56,442 | 51,266 | 46,869 |
| Prepaid expenses | 21,403 | 11,657 | 11,719 | 12,516 | 9,315 |
| Current assets | 1,101,472 | 733,041 | 764,452 | 741,046 | 792,225 |
| Assets held for sale | - | - | - | 4,868 | 14,164 |
| Loans receivable | 310,197 | 325,313 | - | - | - |
| Other investments & land reserve | 162,015 | 149,437 | 61,239 | 23,980 | 22,248 |
| Debt reserve deposits 1 | 32,754 | 35,049 | 36,407 | 36,104 | 39,677 |
| Debt sinking funds 1 | 858,175 | 857,290 | 801,681 | 693,328 | 717,710 |
| Capital assets | 4,907,241 | 4,867,996 | 4,606,623 | 4,511,992 | 4,451,189 |
| **Total Assets** | **7,371,854** | **6,968,126** | **6,270,402** | **6,011,318** | **6,037,213** |
| | | | | | |
| **Liabilities** | | | | | |
| Accounts payable and accrued liabilities | 269,057 | 234,522 | 241,766 | 232,478 | 235,987 |
| Short-term debt | 239,636 | 239,603 | 119,590 | 89,587 | 89,540 |
| Current portion of capital lease obligations | 3,331 | 947 | 1,218 | 1,596 | 2,716 |
| Current portion of long-term debt | 46,478 | 55,671 | 61,727 | 63,433 | 101,833 |
| Total current liabilities | 558,502 | 530,743 | 424,301 | 387,094 | 430,076 |
| Long-term debt | 2,821,114 | 2,745,209 | 2,645,040 | 2,506,779 | 2,475,452 |
| Employee future benefits | 130,902 | 120,147 | 110,023 | 99,875 | 89,082 |
| Golden Ears contractor liability 2 | 1,045,557 | 1,049,021 | 1,050,913 | 1,051,375 | 1,045,059 |
| Deferred concessionaire credits 3 | 525,785 | 549,059 | 572,396 | 595,669 | 618,942 |
| Capital lease obligations | 1,085 | 732 | 447 | 1,059 | 1,078 |
| Deferred revenue and lease inducements | 58,898 | 48,097 | 27,541 | 14,989 | 12,984 |
| Deferred government capital contributions | 1,149,696 | 941,046 | 1,124,066 | 1,201,165 | 1,238,101 |
| **Total liabilities** | **6,291,539** | **5,984,054** | **5,954,727** | **5,858,005** | **5,910,774** |
| | | | | | |
| **Accumulated Surplus** | **1,080,315** | **984,072** | **315,675** | **153,313** | **126,439** |

## DBRS-Adjusted Net Debt ($ thousands)

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Gross debt | 4,152,785 | 3,040,483 | 2,826,357 | 2,659,799 | 2,666,825 |
| Deferred concessionaire credits 3 | 525,785 | 549,059 | 572,396 | 595,669 | 618,942 |
| Capital lease obligations | 4,416 | 1,679 | 1,665 | 2,655 | 3,794 |
| Less: sinking funds | (858,175) | (857,290) | (801,681) | (693,328) | (717,710) |
| Less: debt reserve deposit | (32,754) | (35,049) | (36,407) | (36,104) | (39,677) |
| **Total DBRS-Adjusted Net Debt** | **3,792,057** | **2,698,882** | **2,562,330** | **2,528,691** | **2,532,174** |
| | | | | | |
| Self-supported debt 2 | - | 1,049,021 | 1,050,913 | 1,051,375 | 1,045,059 |
| | | | | | |
| Capital commitments | 405,288 | 123,078 | 312,000 | 383,700 | 560,036 |

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 has resulted in a reclassification of self-supporting debt to DBRS-adjusted net debt. 3 Funding provided by the concessionaire towards the construction of the Canada Line, amortized post completion over the term of the concession.

## Rating History

| | Current | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| 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, September 28, 2017.

## Related Research

- *Rating Canadian Municipal Governments,* May 7, 2018.
- *DBRS Criteria: Commercial Paper Liquidity Support for Non-Bank Issuers,* April 5, 2018.

## Commercial Paper Limit

- $500 million.

## Previous Report

- South Coast British Columbia Transportation Authority: Rating Report, September 28, 2017.

**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.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings Limited (England and Wales) (CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings México, Institución Calificadora de Valores S.A. de C.V. (Mexico)(CRA, NRSRO affiliate, DRO affiliate). Please note that DBRS Ratings Limited was registered as an NRSRO affiliate on July 14, 2017. For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/225752/highlights.pdf.