Rating Report

South Coast British Columbia Transportation Authority (TransLink)

Insight beyond the rating.

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Ratings

Debt	Rating Action	Rating	Trend
Issuer Rating	Confirmed	AA	Stable
Senior Unsecured Debt	Confirmed	AA	Stable
Commercial Paper	Confirmed	R-1 (middle)	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 (CP) rating at R-1 (middle). All trends are Stable. The ratings remain well supported by TransLink's strong legislative framework, its effective financial management framework and practices, and the strong economic outlook for its service region.

TransLink continues to post positive operating results, reporting a surplus of $185.5 million in 2018, which was ahead of the prior-year result ($96.2 million), but somewhat weaker than budget expectations ($253.1 million). The weaker-than-expected results mainly reflect lower-than-expected fuel tax revenue and timing differences for government transfers.

The Authority's 2019 Budget is similar to those of prior years, projecting a surplus of $189.2 million with considerable growth in demand and service offerings. Capex is also projected to rise strongly, as TransLink continues to implement the Mayors' 10-Year Vision. Translink is undertaking a significant program to increase its service offerings and upgrade existing infrastructure. The current 10-Year Investment Plan (2018) contains $10.5 billion in capex and a commensurate increase in operational spending. It includes a fully integrated financial plan that incorporates planned revenue increases to meet rising operating and capital costs. The plan projects significant new debt needs with DBRS's measure of net tax-supported debt projected to rise to $5.3 billion in 2023 from $3.9 billion in 2018 (+34.8%). At the peak in 2023, the key financial ratios appear likely to remain commensurate with the current AA ratings, though some of the flexibility within the rating category will be diminished.

DBRS expects the ratings to remain stable through the medium term, as the ratings are well anchored by the critical rating factor assessment. DBRS could downgrade the Authority's ratings if operating results deteriorate significantly on a sustained basis or if the debt burden rises significantly above current projections. DBRS does not believe that an upgrade is likely over the medium term because of anticipated debt growth.

Financial Information

	As of December 31				
	2018	**2017**	**2016**	**2015**	**2014**
DBRS-adjusted surplus (deficit) (CAD millions)	185	96	246	162	27
Net tax-supported debt per capita	1,477	1,453	1,045	1,017	1,008
Net tax-supported debt as a share of taxable assessment	0.4%	0.5%	0.4%	0.5%	0.5%
Net interest costs as share of revenue	8.2%	8.8%	8.4%	9.1%	10.4%
Post-capex surplus (deficit) as % of revenue (5-year rolling avg.) 1	0.9%	0.3%	-1.3%	-1.3%	-2.0%

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

Issuer Description

TransLink provides public transit and transportation services and coordinates funding for the regional road network within Metro Vancouver. TransLink's service area covers 21 municipalities, Metro Vancouver Electoral Area A and Tsawwassen First Nation, which have a combined population of 2.7 million in 2019. The Authority has the largest service area of any Canadian transit authority (1,800 square kilometres).

Rating Considerations

Strengths

1. Taxing authority in an affluent region

TransLink has the legislated authority to increase property tax revenues by up to 3.0% annually to meet its general operating requirements. Additional approvals are necessary to increase property tax revenue beyond the 3.0% (i.e., to capture development growth). Notwithstanding this requirement, TransLink's Board of Directors (the Board) has unfettered authority to raise property taxes in any amount it deems necessary to meet debt obligations.

2. Diverse revenue base

TransLink has a diverse revenue base made up of transit fares, property and fuel taxes, and federal and provincial operating and capital transfers. TransLink generates almost 60% of its revenue from non-transit sources, which limits the impact of service disruptions or loss of ridership on financial results.

3. Comprehensive financial planning framework

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

4. Increasing ridership

Population growth in Metro Vancouver has averaged 1.5% annually over the past five years and is projected to continue to grow, on average, by 1.4% through 2027. In 2018, transit ridership (passenger journeys) increased by 5.9% over the prior year. For the six months ended June 30, 2019, passenger journeys were up 4.2% over the prior year. DBRS anticipates that relatively strong ridership growth will continue through the near to medium term with ongoing service enhancements and population growth.

Challenges

1. Execution of planned service expansion

TransLink is undertaking a significant program to expand its service offerings and upgrade its infrastructure. The current 10-Year Investment Plan (2018) includes $10.5 billion in capex and a significant expansion of operations. By comparison, the net book value of TransLink's existing capital assets is $5.1 billion. TransLink is undertaking many major projects concurrently, which require staffing increases; major procurement; and project management, design and planning work that will need to be managed in addition to the routine operational risks of a complex transit system.

2. Policy and political risks

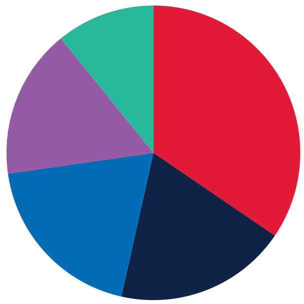
TransLink's operations and financial results are heavily influenced by local and provincial politics and policy decisions (e.g., elimination of bridge tolls, Surrey Light Rail Transit (LRT)).

3. Rising debt burden

The significant service expansion will require considerable borrowings over the next five years, with DBRS's measure of net tax-supported debt projected to rise by $1.4 billion to $5.3 billion (+34.8%). TransLink's key financial ratios will weaken modestly over the period, but the overall financial profile appears to likely to remain commensurate with the current AA rating.

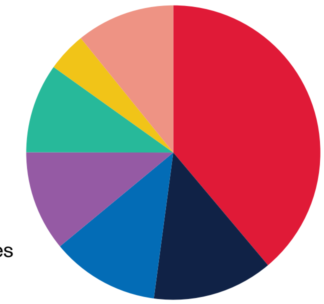
Fiscal Management

Exhibit 1: Revenue by Source (2018)



Source: TransLink.

Exhibit 2: Expense by Category (2018)



Source: TransLink.

2018 Results

TransLink reported a surplus of $185.5 million (10.0% of revenue), which fell short of budget expectations ($253.1 million) but was nevertheless well ahead of the prior year result ($96.2 million). The weaker-than-expected results mainly reflect lower-than-expected fuel tax revenue and timing differences for government transfers.

The 2018 result equates to a DBRS-adjusted post-capex surplus of $3 million. DBRS makes several adjustments to reported results. For TransLink, the most significant adjustments include recognizing capital investment on a pay-as-you-go basis and removing significant one-time or non-recurring items.

Total revenue growth was reasonably strong in 2018, rising by $160.8 million to $1.85 billion (+9.5%), which largely reflects steady growth in ridership and the property tax assessment base, and an increase in government transfers on account of the removal of bridge tolling and growing federal and provincial infrastructure support programs.

- **Transit fares:** Transit fare revenue rose to $638.0 million (+8.0%). Steady population and economic growth paired with increased service offerings and increased public confidence in TransLink have driven ridership higher in recent years. In 2018, the number of journeys increased by 6.0% and the number of boardings increased by 7.1% (five-year CAGR of 5.2%). TransLink also increased fares by 2.0%.
- **Fuel tax:** Fuel tax revenue fell to $351.3 million (-6.0%). Fuel tax revenue can be volatile, reflecting general economic conditions, timing differences in fuel tax remittances and reimbursements, as well as local fuel market conditions. In 2018, a refinery shutdown led to high fuel prices early in the year, which reduced local demand and adversely affected fuel tax receipts. Over time, fuel tax revenue has also been pressured by government policy initiatives to reduce greenhouse gas (GHG) emissions in the Province of British Columbia (the Province; rated AA (high) with a Stable trend by DBRS). The fuel tax rate was unchanged in 2018.
- **Property tax:** Property tax revenue rose to $355.8 million (+4.9%). TransLink has legislated authority to increase total property tax revenue by 3.0% annually, though the Mayors' Council has authority to increase the revenue requirement further. The Mayors' Council has adopted a policy of increasing the revenue requirement by 3.0% per legislation plus an additional amount to reflect development growth in the region (i.e., the increase in the real property base). TransLink's longer-term plans generally assume annual development growth lifting the property tax revenue requirement by 2.0 percentage points annually.
- **Government transfers:** Government transfers rose to $303.5 million (+81.8%). Government transfers are received primarily to fund major capital projects. Revenue recognition requirements under Public Sector Accounting Standards require TransLink to recognize the revenue at the time costs are incurred. This requirement results in considerable revenue volatility and can lead to a disconnect between financial results and underlying operations. Government transfers also include some ongoing operating grants.
- **Other revenue:** The remaining revenue sources fell to $200.5 million (-7.9%). The decline primarily reflects the full-year loss of bridge tolling revenue following the provincial government policy change in September 2017. The loss of tolling revenue was partially offset by higher miscellaneous revenue (e.g., parking sales tax, replacement tax, hydro levy, etc.).

Total expense growth followed revenue growth in 2018, rising by $71.6 million (+4.5%). Expense growth was broad-based, mainly reflecting increased services offerings (conventional bus and SkyTrain) and higher compensation costs stemming from negotiated wage settlements. Notwithstanding the increase, total expense was $46.2 million (2.7%), lower than budgeted expense because of vacancies, contractual savings, lower professional fees, timing differences on infrastructure payments to municipalities and lower amortization expense.

Fiscal Management (CONTINUED)

- **Bus operations:** Bus operations expenses rose to $724.9 million (+5.2%). The increase reflects the increased costs associated with service expansion in 2018 and general inflationary pressures. During the year, TransLink increased service hours for conventional buses by 2.5%, while access transit services increased by 5.2%.
- **Rail operations:** Rail operations expenses rose to $309.2 million (+4.0%). The increase reflects general inflationary pressures and higher maintenance costs associated with a growing and maturing fleet. TransLink is also experiencing higher project-related costs associated with various expansion, safety and maintenance initiatives.
- **Amortization:** Amortization expense rose to $197.9 million (+3.0%), consistent with recent bus and rail purchases, station upgrades and other infrastructure and system upgrades.
- **Interest:** Interest expense rose to $183.5 million (+0.9%), reflecting growth in outstanding debt, higher interest costs and a lower amount of interest capitalized.
- **Other:** The remaining expense categories, comprising corporate operations, roads and bridges, and transit police, collectively rose to $248.3 million (+7.1%). The increases reflect increased capital contributions to municipalities, increase maintenance costs for the major road network, increased costs associated with transit policing, and the write-off of $8.3 million of previously capitalized costs for the Pattullo bridge replacement.

2019 Budget and Preliminary Results

TransLink prepares annual budgets that are approved by its Board of Directors. The 2019 Budget is similar to those of prior years. The budget outlook continues to be guided by the significant service expansion and capital program currently underway. TransLink projected a $189.2 million surplus for the year, which equates to a DBRS-adjusted post-capex deficit of $490.9 million after incorporating the significant growth in planned capex.

Total revenue growth was projected to be relatively strong, rising to $2.0 billon (+8.9%), which reflects broad-based growth in TransLink's major revenue sources.

- **Transit fares:** Transit fare revenue was projected to rise to $669.3 million (+4.9%). Revenue growth is attributable to increased ridership (+1.9%) resulting from service expansion and continued population and economic growth. TransLink also increased fares modestly on July 1, 2019 (+3.0%).
- **Fuel tax:** Fuel tax revenue was projected to rise to $368.9 million (+5.0%). The fuel tax rate was raised by 1.5 cents per litre on July 1, 2019. The increased revenue from the tax rate increase is expected to be offset by lower volumes.
- **Property tax:** Property tax revenue was projected to rise to $385.0 million (+8.2%). TransLink increased its annual revenue requirement by the legislated 3.0% and a further 2.3% to capture development and construction growth.
- **Government transfers:** Government transfers were projected to rise to $388.0 million (+27.9%), which largely reflects the timing of major capital investment activities.

Other revenues were projected to be broadly stable or higher because of various policy measures, but collectively, they account for a smaller share of TransLink's total revenue.

Total expense was projected to rise by $1.8 billion (+9.7%) driven by contractual labour increases, service expansion, inflationary pressures and the expanding state of good repair maintenance initiatives. Given the pace of the service expansion and the evolution of past budgets, total expense is likely to be lower than planned.

At mid-year, financial results are exceeding expectations with revenue higher and expense lower. TransLink now forecasts a full-year surplus of $214.2 million. Total revenue is forecast to be $19.5 million higher than budgeted (+1.9%) because of stronger-than-expected ridership and fuel sales. In contrast, total expense is projected to be $48.9 million (-5.5%) lower than budgeted. Lower spending reflects changes to the timing of B-Line expansion and various feasibility studies, lower amortization costs, lower labour costs due to higher-than-planned vacancies, and lower fuel costs.

Medium-Term Outlook

The medium-term operating outlook remains broadly positive. Demand for transit and transportation service is expected to steadily rise over the coming years as a result of ongoing population growth, steady economic growth, and supportive federal and provincial policies.

The medium-term outlook for operating performance and financial results will be largely driven by the Mayors' Council 10-Year Vision, which envisioned a significant expansion and upgrade of transit services and the major road network. The ten-year vision is being rolled out and funded through a series of ten-year investment plans.

- Phase One (2017) included an initial investment of $1.0 billion for expanded operations and $1.2 billion in incremental capital investment, mostly for enhancement of bus and SkyTrain services that began in 2017. The investment plan for Phase One relied on existing revenues, 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.

Fiscal Management (CONTINUED)

Exhibit 3: Mayors' Council 10-Year Vision (2017)

BUS SERVICE	• 25% increase • 12 B-Lines • 10 new service areas
TRANSIT EXCHANGES	• 13 new or expanded transit exchanges
SEABUS SERVICE	• 1 new SeaBus • 10-minute peak frequency; • 15-minute all day
WALKING & CYCLING	• Regional Cycling: $97M • TransLink-owned Cycling: $34M • Walking Access to Transit: $35M
SKYTRAIN & WEST COAST EXPRESS (WCE)	• 164 Expo/Millennium Line cars • 24 Canada Line cars • 10 WCE cars + locomotives • Upgrades of power and control systems, stations
HANDYDART SERVICE	• 30% increase
MOBILITY INNOVATION	• Integrated travel planning and payment • New technologies and services
MAJOR PROJECTS	• Millennium Line Broadway Extension • South of Fraser Rapid Transit (SOFRT) • Pattullo Bridge Replacement
MAJOR ROADS NETWORK (MRN)	• MRN upgrades: $200M • MRN seismic $130M • MRN expansion: 1% annual increase + one-time 10% increase

Source: TransLink.

- Phase Two (2018) builds on these investments and includes a significant expansion of the network through major transit projects such as the Surrey LRT (now SkyTrain) and the Millennium Line Broadway Extension. The plan includes capex of $10.5 billion, with a 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 update added $1.2 billion in incremental operating costs and $6.4 billion in incremental capital investment. Capital investment in the second phase is to be funded with federal Public Transit Infrastructure Fund (PTIF Phase Two) contributions, matching provincial capital contributions, regional gas tax funds, sale of surplus properties, the introduction of a new regional development charge, and TransLink borrowing.
- Phase Three (2020) is now under development and will include the remaining investments not included in the earlier phases, including additional bus service, upgrades to the Expo/Millennium and Canada Line stations and systems, construction of the second phase of the Surrey-Langley line, and additional investment in the major road network. The new plan is expected to be completed and approved in June 2020.

TransLink has a fully integrated financial planning framework. Over the ten-year planning horizon, TransLink has planned for revenue and operating expense increases associated with service expansion and has a cumulatively balanced budget over the forecast horizon. In recent years, results have generally exceeded plan targets.

Near-term risks facing TransLink largely relate to managing the significant capital investment program and service expansion. These challenges and risks include the following:

- Execution and project management risks associated with the large investment.
- Cost escalation and contractor availability given strong economic conditions and external factors (e.g., impact of steel tariffs on material and vehicle purchases).
- Hiring transit operators and other staff to meet new service levels.

A further uncertainty in the near term is the introduction of ride hailing services in the Province. British Columbia's Passenger Transportation Board recently announced regulations governing the industry and will begin issuing licences later this fall. Both Uber and Lyft have indicated they will operate in Vancouver.

TransLink's various collective agreements have or will expire during 2019, and TransLink has now begun bargaining with labour groups. TransLink does not fall under the Province's broader framework for public-sector labour relations and bargaining (Public Sector Employers' Council) but is nevertheless influenced by provincial policy direction. As such, DBRS expects outcomes to be broadly similar to what are being negotiated at the provincial level (i.e., targeting three-year agreements with annual wage/salary annual increases of 2.0%). DBRS understands TransLink's budget contains adequate contingencies to accommodate the new collective agreements.

Fiscal Management (CONTINUED)

In the coming years, TransLink will partner with Metro Vancouver and the provincial government to prepare its next 30-year Regional Transportation Strategy. The multi-year, long-term planning exercise will seek to outline a vision for transportation in the region that integrates with economic, population and other trends. Initial themes are likely to include issues around housing affordability, traffic congestion, climate change, electrification and rapid technological change (e.g., automation, ratification intelligence, connectivity, etc.).

TransLink has had a long-standing focus on environmental sustainability and incorporates climate change and other environment-related considerations into its planning processes. DBRS believes the climate change-related risks can be grouped into three categories for TransLink:

- **Ability to reduce GHG emissions:** Consistent with broader provincial and municipal direction, TransLink has adopted two significant sustainability targets: reducing its GHG emissions by 80% and using 100% renewable energy by 2050. TransLink has already made progress in reducing emissions (per boarded passenger) and electricity consumption (facilities) and will seek to electrify a greater share of the transit system over the coming decades through the adoption of electric vehicles.
- **Extreme weather:** TransLink has recognized the threat of more intense storms and has sought to improve the resiliency of its existing infrastructure.
- **Rising sea levels:** Over the longer term, rising sea levels pose a risk to some areas of metro Vancouver as well as some of TransLink's infrastructure (i.e., depots and Canada Line) given their location on floodplains.

A further long-standing risk is that of earthquakes given Vancouver's proximity to fault lines. TransLink continues to make seismic upgrades to mitigate risks.

Capital Plan

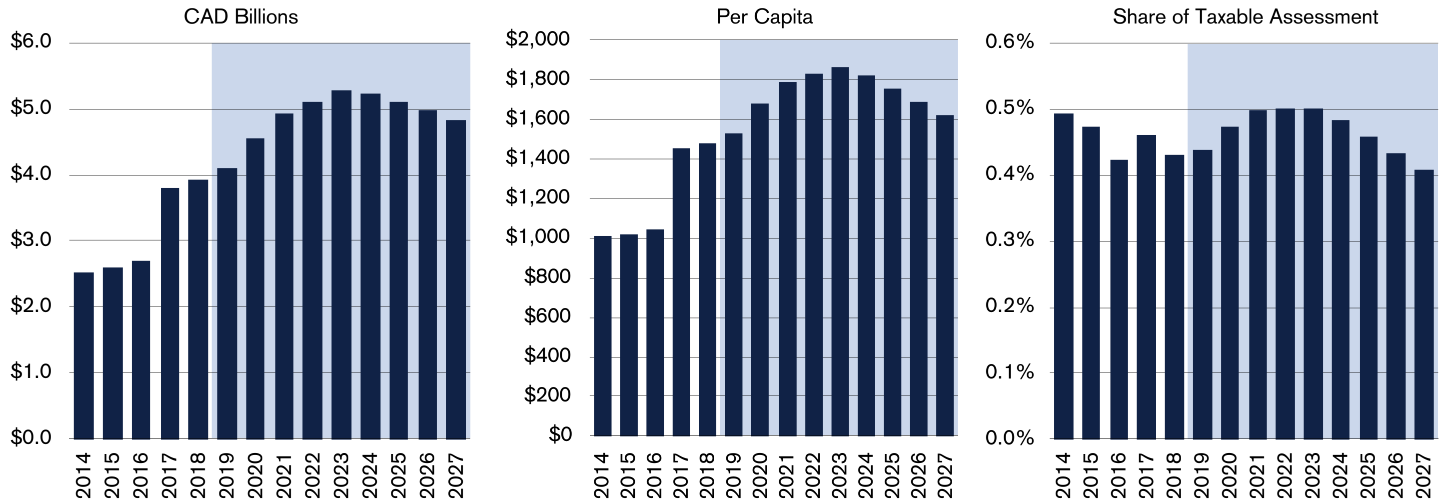
TransLink's 2018–27 Investment Plan includes total capex of $10.5 billion. The Phase Two update added $6.4 billion in incremental capex, mostly related to the inclusion of the Surrey LRT and the Millennium Line Broadway Extension. Most of the investment in the plan is for rail infrastructure (67%), followed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

- **SkyTrain Vehicle Purchases:** The first phase (56 vehicles) began in 2016 and is now largely complete with the last of the vehicles to be delivered by March 2020 and in service by June 2020. The second phase is now underway and will see TransLink acquire 205 new cars for the Broadway subway extension and to replace aging cars. The new vehicles will be brought into service between January 2024 and October 2027. The request for proposal was recently released with the contract to be award in March 2020.
- **Surrey Langley SkyTrain:** Originally planned to be an LRT project, TransLink is developing a two-stage plan to extend the existing Expo line to Langley Centre along the Fraser Highway. The preliminary cost estimate is $3.1 billion. Existing federal and provincial funding ($1.6 billion) is sufficient for the first half (stage one) of the project, and TransLink will seek additional funding in the coming years for the second half of the project.
- **Station Upgrades and PTIF Phase 1 Implementation:** TransLink continues to upgrade its SkyTrain stations, with Burrard Station ($60 million) and Brentwood Station ($24 million) planned for the coming years. In addition, there are a number of other state of good repair and upgrades to the fleet, infrastructure and system that are being funded by the federal government's PTIF. The PTIF program winds down at the end March 2020.
- **Broadway Subway Extension:** TransLink will extend the Millennium line 5.7 km west along Broadway to Arbutus Street with six stations. The project is mostly underground and technically complex. The $2.83 billion project will be a provincial public-private partnership (PPP) project but fully integrated into TransLink's transit system. The Province will assume cost-related risks.
- **Expo and Millennium Line Upgrade Program:** The program totals $1.86 billion and comprises projects to increase capacity on the SkyTrain network (including the aforementioned SkyTrain vehicle purchases). Projects include fleet additions, expansion of vehicle storage facilities, upgrades to existing maintenance facilities, upgrades to power and operational systems, and various station improvements.

In 2019, TransLink has budgeted for $906.6 million in capital investment (acquisition of tangible capital assets), which appears ambitious given past annual spending. In recent years, TransLink has budgeted for significant increases in capital investment, but actual investment has typically fallen short due to timing and other reasons. In 2018, TransLink planned for $789.6 million, while actual investment was $382.5 million.

Debt and Liquidity Management

Exhibit 4: Net Tax-Support Debt



DBRS reclassified the Golden Ears Contractor Liability ($1.0 billion) as tax-supported debt following the elimination of bridge tolls by the Province of British Columbia in September 2017.
Source: TransLink.

TransLink's debt burden is relatively low but steadily rising with service expansion and capital upgrades. In 2018, net tax-supported debt rose to $3.9 billion (+3.2%), which equates to $1,477 per capita, or 0.4% of taxable assessment.

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

TransLink has internally and externally imposed debt limits:

- TransLink is subject to a $5.5 billion debt limit under the *South Coast British Columbia Transportation Authority Act* (the Act) (unchanged from last year). Increases to the debt limit must be approved by the Mayors' Council (in consultation with Metro Vancouver) under the Act. The Act defines debt as the sum of current borrowings of TransLink secured by debentures, bonds, other forms of indentures, capital leases, short-term notes, lines of credit and bank overdrafts, excluding any sinking funds or unamortized prepaid financing costs. Also excluded from this definition are any indirect concessionaire (PPP)-type debt obligations.
- TransLink's Board-mandated internal debt-management policy limits total net direct and indirect debt to 300% of operating revenues and limits gross interest charges to 20% of operating revenues. As at December 31, 2018, TransLink was within both limits at 254% and 11.9%, respectively.

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

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

The Authority maintains $845.5 million in sinking funds as of December 31, 2018, of which $581.2 million was held by the MFABC and the remaining $264.2 million was self-administered. TransLink's policy for self-administered sinking funds requires the Authority to set aside funds to fully repay the face value of debt at the end of the determined amortization period, which could be longer than the term of the given debenture.

TransLink has a CP program with an authorized limit of $500 million. TransLink generally seeks to maintain $120 million in CP outstanding, but balances will rise higher to meet cash management needs during select periods of the year. In 2018, the maximum outstanding was $450 million. The CP program is backstopped by a $500 million credit facility ($450 + $50 swingline) that matures in March 2022. TransLink has policies in place governing the use of its CP program, including weekly maturity limits as well as restrictions on the use of the credit facility.

TransLink does not have unfunded pension liabilities. The Authority participates in British Columbia's Public Service Pension Plan, which is a multi-employer defined benefit plan. The most recent actuarial valuation (2017) resulted in a funding surplus of $1.9 billion (108%). The actuary does not attribute portions of the surplus to individual employers. The Authority, like many public-sector entities, has more significant employee future benefit obligations (i.e., extended health, dental, life insurance, etc.),

Debt and Liquidity Management (CONTINUED)

which were estimated to be $139.7 million at December 31, 2018, up from $130.9 million (+6.7%) from the prior year.

TransLink manages its liquidity to reduce potential risks. While TransLink does not have a formal, Board-approved liquidity policy, the Authority has established practices to maintain minimum liquidity levels to mitigate funding and other risks. In practice, TransLink always maintains a minimum of $350 million in unrestricted cash and cash equivalents, which is sufficient to meet the Authority's cash needs for a 90- to 120-day period. In addition, TransLink has unrestricted investment holdings and maintains significant capacity in its CP program.

At June 30, 2019, the Authority had $431.2 million in unrestricted cash and cash equivalents and a further $444.2 million in unrestricted investments, comprising term deposits, debt issued by provincial and municipal debt, and other fixed-income debt rated AA (low) or better. TransLink's unrestricted cash and investment holdings exceed its annual debt service costs (principal and interest).

Outlook

TransLink's 10-Year Investment Plan will be funded, in part, by debt issuance. The forecast suggests DBRS's measure of net tax-supported debt will rise to $5.3 billion in 2023 from $3.9 billion in 2018. The outlook is unchanged from this time last year.

At the peak in 2023, DBRS's measure of net tax-supported debt is projected to reached $1,866 per capita and 0.50% of Metro Vancouver's taxable assessment. Interest costs as a share of total revenue will rise similarly. The current outlook suggests the key financial ratios will remain commensurate with the current AA rating.

TransLink expects to issue debt later in 2019 and issue debt twice in 2020. Following TransLink's successful green bond issuance last year, the Authority expects its upcoming 2019 issuance will also be a green bond.

Governance and Government Relations

TransLink is established under the Act and is responsible for planning, financing and managing the integrated regional transportation system of the Greater Vancouver region. The system includes both the transit system as well as the major roads, bridges and bike network in the region.

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

Transit network:

- **Bus:** 245 bus routes and a fleet of 1,954 vehicles.
- **SkyTrain:** Three rapid transit lines (79 km) with more than 300 train cars and 53 stations.
- **SeaBus:** Three passenger ferries linking downtown Vancouver with North Vancouver.
- **West Coast Express:** Regional train service linking Mission to Vancouver (69 km) with more than 40 train cars and eight stations.
- **HandyDart:** Custom transit service for people with disabilities with a fleet of 324 vehicles.

Transportation infrastructure:

- **Major road network:** TransLink co-funds and co-manages 2,660 lane-kilometres of the major road network with the municipalities.
- **Cycling:** TransLink shares in the cost of developing and maintaining the region's 12 kilometres of TransLink bike paths.
- **Bridges:** TransLink operates and maintains the Golden Ears Bridge, Pattullo Bridget, Knight Street Bridge, Canada Line bike and pedestrian bridge and the Westham Island Bridge.

Legislative Framework and Governance

The legislative framework is generally supportive of financial sustainability, and 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.

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

- **Mayors' Council:** The Mayors' Council comprises the 21 mayors of the Metro Vancouver region, the Chief of the Tsawwassen First Nation, and the elected representative of Electoral Area A. The Mayors' Council is responsible for appointing the Board, reviewing long-term plans and approving financial plans. Some financial decisions require approval of the Mayors' Council (e.g., fare and tax increases beyond legislative limits, debt limit increases, etc.).
- **Board of Directors:** The Board is responsible for the selection and appointment of the CEO and for general oversight of the entity (i.e., conduct of business, supervision of management, approval of major policies and plans, etc.).

Governance and Government Relations (CONTINUED)

The Act fosters prudent financial planning by requiring management to prepare and adhere to a long-term strategy with fully funded investment plans. 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.

Relations with Senior Governments

TransLink's relationship with the Mayors' Council has improved in recent years with increasing public confidence in the Authority. Following the failed plebiscite (2015), several management changes occurred, including the recruitment of a new CEO (2016), and the Authority's strategic focus narrowed. TransLink's three strategic goals are to fulfill the Mayors' Vision (2016), maintain TransLink's assets in a good state of repair and improve the customer experience.

Over the past three years, TransLink has implemented its new fare payment system (Compass) and introduced significant service expansions. The improving customer experience has helped to shift the political focus and greatly reduced the number of negative media reports about the Authority. DBRS understands the Mayors' Council has greater confidence in the Authority and is now focusing on the longer-term strategic direction of the organization.

The relationships with the provincial and federal governments have also improved in recent years following the election of the federal Liberal Party in 2015 and the provincial New Democratic Party in 2017. Both governments have prioritized urban issues, particularly public transit and housing. There is now strong alignment between TransLink's plans and provincial and federal policy priorities.

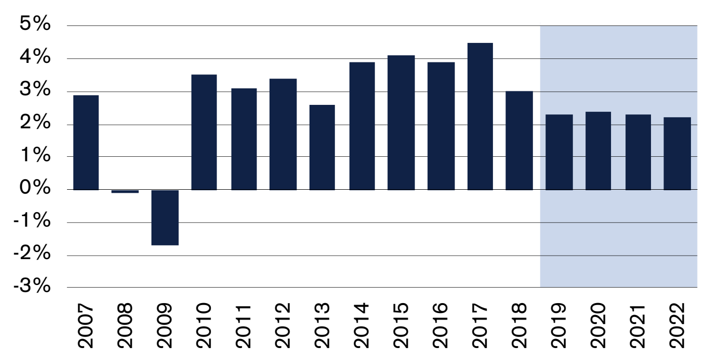
Economy

Vancouver is Canada's third-largest city, with a population of 2.65 million. It is the commercial centre of the Province of British Columbia and has an annual economic output of more than $150 billion.

The region has experienced steady population growth in recent years, averaging 1.5% during the most-recent five-year period. The relatively strong population growth reflects the underlying strength of the local economy and the desirability of the region as a place to live. Population growth in the Province has also been supported by the increase to Canada's immigration quotas under the Liberal government and a favourable shift in interprovincial migration following the downturn in the energy sector.

Exhibit 5: Real GDP Growth

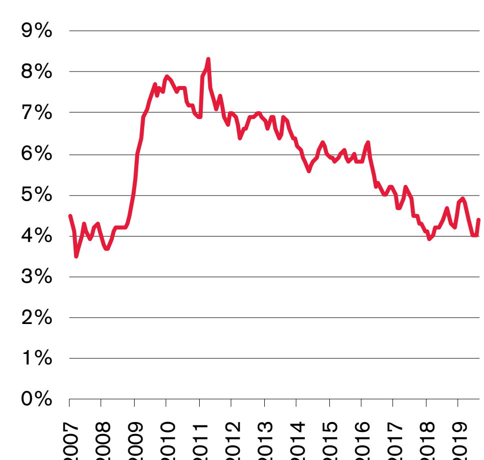
Metro Vancouver



Source: Conference Board of Canada.

Exhibit 6: Unemployment Rate (%)

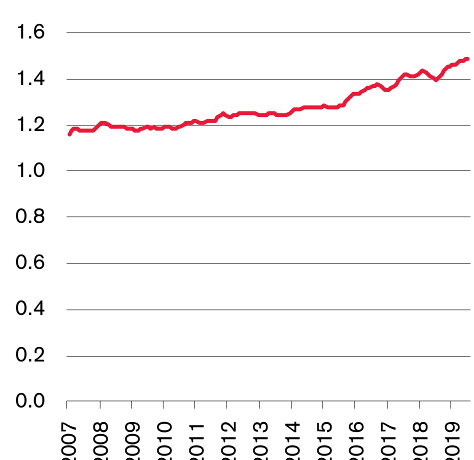
Vancouver CMA Monthly 3-month moving average. SA.



Source: Haver Analytics/Statistics Canada.

Exhibit 7: Employment (millions)

Vancouver CMA Monthly 3-month moving average. SA.



Source: Haver Analytics/Statistics Canada.

Exhibit 8: House Prices ($ millions)

Average sales price. SA.

Source: Haver Analytics/Canadian Real Estate Association.

Economy (CONTINUED)

Economic growth has been similarly strong. The Conference Board of Canada estimates that real GDP growth (basic prices) was 4.5% in 2017 and 3.0% in 2018. Growth has been relatively broad based in recent years with gains in consumption, residential and non-residential investment and trade supported by an improving global economy, a weak Canadian dollar, lower oil prices and accommodative monetary policy.

The favourable economic conditions and steady population growth have supported significant growth in the labour force and employment. Between 2013 and 2018, employment in the Vancouver CMA increased by 178,100 (+14.3%), and the unemployment rate fell to 4.4% from 6.6%. Tight labour market conditions have led to wage pressures in some industries and supported steady growth in household income.

Residential and non-residential investment have been significant contributors to economic growth in the region in recent years. Over the past two years, housing market conditions have moderated in the Vancouver area following the introduction of a series of policy measures by the federal and provincial governments. Price growth has moderated, and the number of housing starts has fallen. Nevertheless, housing starts remain well above historical levels, and housing affordability continues to be a challenge.

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

Outlook

Economic growth has begun to moderate as housing market activity weakens, high household debt levels weigh on consumption and external economic conditions become less supportive to growth (i.e., trade concerns, weakening global growth, commodity prices, etc.). The Conference Board estimates that real GDP growth (at basic prices) will slow to between 2.2% and 2.4% annually through the medium term. Nevertheless, population growth remains reasonably strong, and labour market conditions are expected to remain tight, which should remain supportive of ridership.

The major economic risks facing TransLink remain a significant downturn in housing market conditions or a broader, externally induced recession, which would affect ridership and growth in property tax revenue.

Economic Statistics	2018	2017	2016	2015	2014
Transit system journeys (millions) 1	263	248	234	239	235
Transit system ridership growth 1	5.9%	5.9%	4.5%	1.8%	0.3%
Population (thousands, Metro Vancouver)	2,650	2,611	2,582	2,545	2,508
Population growth (%)	1.5%	1.1%	1.5%	1.5%	2.0%
Unemployment rate (Metro Vancouver)	4.4%	4.7%	5.4%	5.9%	5.8%
Employment (thousands, Metro Vancouver)	1,426	1,401	1,359	1,299	1,276
Housing starts (# of units) (Metro Vancouver)	23,404	26,204	27,914	20,863	19,212

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

Statement of Financial Position

(CAD millions)	2018	2017	2016	2015	2014
	As of December 31				
Financial Assets					
Cash and cash equivalents	517	424	252	211	229
Accounts receivable	251	121	134	102	103
Loan receivable	251	310	325	-	-
Restricted cash and cash equivalents and investments	980	780	504	501	362
Investments	61	61	81	61	85
Assets held for sale	-	-	-	-	5
Debt reserve deposits 1	29	33	35	36	36
	2,089	**1,729**	**1,332**	**912**	**818**
Liabilities					
Accounts payable and accrued liabilities	340	269	235	242	232
Debt 2	2,665	2,463	2,347	2,144	2,045
Deferred government transfers	1,249	1,150	941	1,124	1,201
Golden Ears Bridge contractor liability	1,040	1,046	1,049	1,051	1,051
Deferred concessionaire credit 3	503	526	549	572	596
Employee future benefits	140	131	120	110	100
Deferred revenue and deposits	55	46	36	15	2
Deferred lease inducements	13	12	13	13	13
	6,005	**5,643**	**5,289**	**5,271**	**5,241**
Net Debt	**(3,916)**	**(3,914)**	**(3,957)**	**(4,359)**	**(4,422)**
Non-Financial Assets					
Tangible capital assets	5,079	4,907	4,868	4,607	4,512
Supplies inventory	74	65	62	56	51
Prepaid expenses	28	21	12	12	13
	5,182	**4,994**	**4,941**	**4,675**	**4,576**
Accumulated Surplus	**1,266**	**1,080**	**984**	**316**	**153**

Translink's financial statements are prepard in accordance with Canadian public sector accounting standards.
1 Debt reserve deposits are held by MFABC. 2 Net of sinking funds held by MFABC. 3 Funding provided by the concessionaire towards the construction of the Canada Line, amortized post completion over the term of the concession.

Statement of Operations

(CAD millions)	2018	2017	2016	2015	2014
	For the year ended December 31				
Revenue					
Taxation	819	821	826	773	744
Transit	638	591	542	511	496
Golden Ears Bridge tolling	-	30	52	48	42
Government transfers	303	167	241	229	90
Amortization of deferred concessionaire credit	23	23	23	23	23
Investment income	53	50	41	34	35
AirCare 1	-	-	-	-	12
Miscellaneous revenue	12	7	6	6	6
Loss on disposal of tangible capital assets	(0.0)	(1)	422	2	6
	1,849	**1,688**	**2,152**	**1,628**	**1,454**
Expense					
Bus operations	725	689	657	644	633
Corporate operations	119	111	121	113	72
Rail operations	309	297	266	268	256
Roads and bridges	91	84	53	71	84
Transit police	38	37	34	33	34
Air Care					16
Amortization	198	192	182	168	162
Interest	183	182	173	168	171
	1,664	**1,592**	**1,484**	**1,465**	**1,427**
Surplus (deficit)	**185**	**96**	**668**	**162**	**27**
DBRS Adjustments					
Non-recurring items 2	-	-	(422)	-	-
DBRS-adjusted surplus (deficit)	**185**	**96**	**246**	**162**	**27**
Capex	**382**	**235**	**422**	**268**	**228**

Translink's financial statements are prepard in accordance with Canadian public sector accounting standards.
1 AirCare program was discontinued in 2015. 2 In 2016, Translink sold the Oakridge Transit Centre and recognized a $422 million gain.

Calculation of Net Tax-Supported Debt

(CAD millions)	2018	2017	2016	2015	2014
	For the year ended December 31				
Commercial Paper	120	240	240	120	90
Unsecured bullet maturity bonds (TL series)	1,955	1,558	1,360	1,212	1,027
Bonds and debentures held by MFABC	1,169	1,310	1,441	1,521	1,544
Capital leases	2	4	2	2	3
Golden Ears contractor liability 1	1,040	1,046			
Deferred concessionaire credits	503	526	549	572	596
Less:					
MFA-administered sinking funds	(581)	(649)	(695)	(684)	(617)
Self-administered sinking funds	(264)	(209)	(162)	(118)	(76)
Debt reserve deposit	(29)	(33)	(35)	(36)	(36)
Net tax-supported debt	**3,914**	**3,792**	**2,699**	**2,589**	**2,529**

1 The Golden Ears Contractor Liability was reclassifed as tax-supported debt following the elimination of bridge tolls in September 2017.

Calculation of Post-Capex Surplus (deficit)

(CAD millions)	2018	2017	2016	2015	2014
	For the year ended December 31				
DBRS-adjusted surplus (deficit)	185	96	246	162	27
Amortization	198	192	182	168	161
Capex	(382)	(235)	(422)	(268)	(228)
Post-capex surplus (deficit)	**1**	**54**	**6**	**63**	**(40)**

Calculation of Net Interest Costs

(CAD millions)	2018	2017	2016	2015	2014
	For the year ended December 31				
Interest expense	183	182	173	168	171
Interest capitalized during the year	3	2	8	11	9
Sinking fund earnings (MFABC and self-administered)	(35)	(36)	(36)	(30)	(28)
Net interest costs	**152**	**148**	**145**	**148**	**151**

Rating History

	Current	2018	2017	2016	2015	2014
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)

Related Research

- *Rating Canadian Municipal Governments*, May 15, 2019.
- *DBRS Criteria: Commercial Paper Liquidity Support for Non-Bank Issuers*, March 15, 2019.

Previous Report

- South Coast British Columbia Transportation Authority: Rating Report, October 9, 2018.

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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