MORNINGSTAR | DBRS

Rating Report
South Coast British Columbia Transportation Authority (TransLink)

DBRS Morningstar
November 1, 2021

Contents

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Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	AA	Confirmed	Stable
Senior Unsecured Debt	AA	Confirmed	Stable
Commercial Paper	R-1 (middle)	Confirmed	Stable

Rating Update

On October 15, 2021, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debt rating of South Coast British Columbia Transportation Authority (TransLink or the Authority) at AA and its Commercial Paper (CP) rating at R-1 (middle). All trends are Stable. The ratings remain well supported by TransLink's strong legislative framework, its effective financial management framework and practices, and the strength of the underlying economy.

In response to the ongoing Coronavirus Disease (COVID-19) pandemic and significant decline in ridership, TransLink has had to reevaluate key priorities, including steps to slow the previously planned expansion of certain bus and rail services. Lower ridership, along with reduced fuel tax and parking rights tax, has been mitigated by efforts to control spending and senior government relief funding. However, DBRS Morningstar notes that the timing and recognition of government funding add volatility to results in the near term.

For 2021, TransLink budgeted for a surplus of $8.1 million, which equates to a DBRS Morningstar-adjusted post-capital expenditure (capex) deficit of $114.0 million after incorporating anticipated growth in planned capex and recognizing senior government funding in the year in which it was intended. After having fallen to 17% of previous levels, the budget assumed that ridership would return to 51% of pre-pandemic levels in 2021. However, because of rising coronavirus cases and the reintroduction of certain public health measures in the first half of 2021, the economic recovery and expected improvements in ridership have been somewhat slower than planned. As of September 2021, ridership has recovered to 55% of pre-pandemic levels. Furthermore, in accordance with accounting standards, senior government relief funding budgeted for 2021 was recognized in 2020, creating an additional budgetary variance. On a full-year basis, a deficit of $304.4 million (unadjusted) is now projected.

The medium-term outlook remains subject to considerable uncertainty. The recovery in ridership will depend on the ongoing transmission and severity of coronavirus variants, the strength of the economic recovery, the extent to which companies continue to work remotely, and general concerns about using public transit during a pandemic. TransLink expects ridership and economic activity will remain subdued through the remainder of 2021 and into 2022. DBRS Morningstar notes that the coronavirus pandemic may have permanently altered the outlook for transit ridership, which could require TransLink to seek alternative sources of revenue, including additional government support, or consider service reductions, to return to a sustainable operating position over the medium term.

TransLink is currently updating its 10-Year Investment Plan, expected to be released in spring 2022. Consequently, the Authority does not have a revised long-term debt forecast, but given a stronger cash position and reduced near-term debt needs, debt growth is likely to evolve more slowly than previously planned. DBRS Morningstar's measure of net tax-supported debt is forecast to decline to $3.9 billion (-5.1%) in 2021 before rising to $4.3 billion in 2022. Under the previous plan, net tax-supported debt was expected to reach $5.1 billion by 2022 and peak at $5.3 billion in 2023.

DBRS Morningstar expects the ratings to remain stable through the medium term. DBRS Morningstar could downgrade the Authority’s ratings if operating results deteriorate significantly on a sustained basis and the debt burden rises significantly above previous projections ($5.3 billion in 2023). DBRS Morningstar does not believe that an upgrade is likely over the medium term because of anticipated debt growth.

Financial Information

	Fiscal year ended December 31				
	2020	**2019**	**2018**	**2017**	**2016**
DBRS Morningstar-adjusted surplus (deficit) (CAD millions)	105	333	185	96	246
Net tax-supported debt per capita ($)	1,507	1,445	1,476	1,451	1,045
Net tax-supported debt as a share of taxable assessment (%)	0.4	0.3	0.3	0.4	0.4
Net interest costs as share of revenue (%)	8.7	7.9	8.2	8.8	8.4
Post-capex surplus (deficit) as % of revenue (5-year rolling avg)	0.0	1.8	0.9	0.3	-1.3

Issuer Description

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

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. This limits the impact of service disruptions or loss of ridership on financial results, such as that experienced during the coronavirus pandemic. In 2020, extraordinary government support made up for the decline in transit revenues, which comprised just 18% of total revenues.

3. Comprehensive financial planning framework

TransLink's governing legislation requires TransLink to develop a 30-year strategy and fully funded, 10-year investment plans (updated at least triennially, although the coronavirus pandemic has delayed the presentation of the latest plan). 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 with budget documents and audited financial statements.

Challenges

1. Restoring transit ridership

Prior to the pandemic, transit revenues accounted for 30% to 35% of total revenues, but have since fallen below 20%. In spring 2020, ridership had fallen to 17% of previous levels, and it remains unclear how quickly it will recover. The budget assumed that ridership would return to 51% of pre-pandemic levels in 2021 and that it could take anywhere from two to eight years to return to pre-coronavirus ridership levels. As of September 2021, ridership has recovered to 55% of pre-pandemic levels.

2. 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 $5.6 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.

3. Policy and political risks

TransLink's operations and financial results are heavily influenced by local and provincial politics and policy decisions (for example, the elimination of bridge tolls, Surrey Light Rail Transit (LRT)). In addition, senior government relief funding has been instrumental in insulating TransLink from the impact of reduced ridership.

4. Rising debt burden

The significant service expansion will require increased debt over the medium term, although planned borrowing has slowed relative to DBRS Morningstar's expectations at the time of its last review. DBRS Morningstar's measure of net tax-supported debt was projected to rise to $5.3 billion by 2023, although DBRS Morningstar no longer expects this increase to be realized as quickly. TransLink's key financial ratios will weaken modestly over the period, but the overall financial profile appears likely to remain commensurate with the current AA rating.

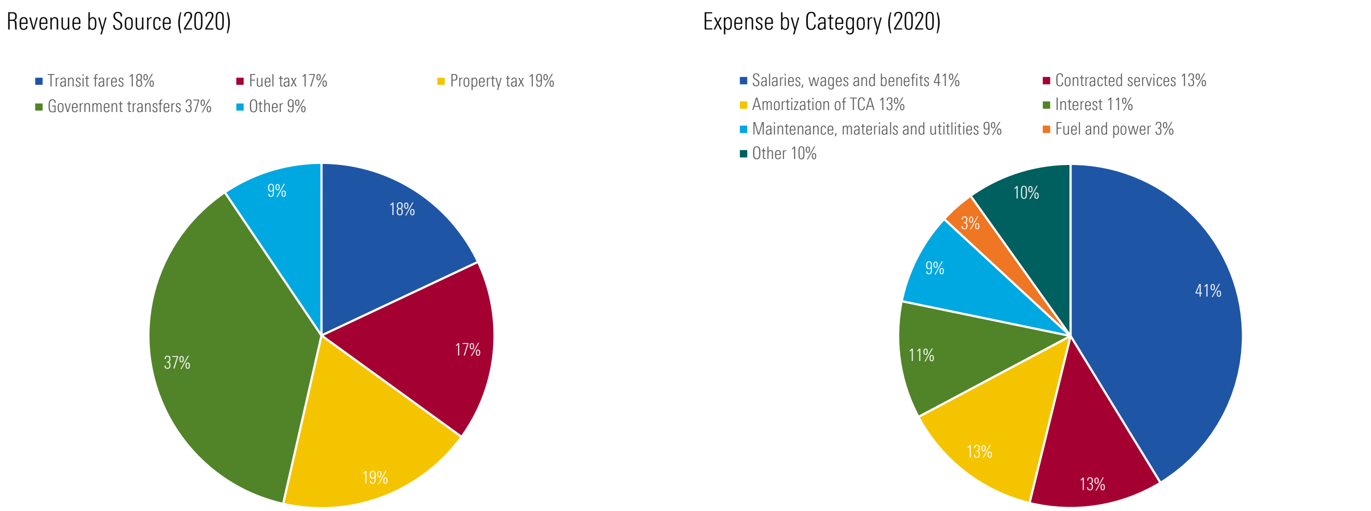
Financial Performance

2020 Results

For the year ended December 31, 2020, TransLink reported a surplus of $429.6 million, or 20.0% of revenue. This was entirely because of the recognition of the entire amount of senior government relief funding of $644.0 million in 2020, as required by accounting standards; however, this funding was meant to offset net operating losses in both 2020 and 2021 arising from the coronavirus pandemic.

On a DBRS Morningstar-adjusted basis, after recognizing capital investment on a pay-as-you-go basis and senior government funding in the year in which it was intended, the reported result equated to a deficit of $88.2 million, compared with an adjusted surplus of $30.9 million in 2019. Although senior government funding increased in response to the pandemic, incorporating DBRS Morningstar's adjustments, it did not fully offset the decline in other revenues. Meanwhile, capital spending was down year over year (YOY), which helped to mitigate the impact on post-capex results.

Exhibit 1 Revenue and Expense Profiles (2020)



Source: TransLink (unadjusted).

The coronavirus pandemic had a material impact on TransLink's revenues in 2020, although the recognition of significant senior government funding supported growth in total revenues, which rose by

$55.5 million YOY, or 2.7%. Because of public health measures and a dramatic reduction in travel, transit fare revenue declined by $299.4 million (-43.7%) as ridership fell by more than 50.0%. Similarly, fuel tax and parking rights tax revenue were affected, with taxation revenues falling by $57.0 million (-6.3%). Government transfers rose by $395.2 million (+99.2%), which reflected $644.0 million in extraordinary pandemic support funding intended to support the ongoing delivery of essential services in both 2020 and 2021 and offset lower fare increases in 2021 through 2024. Revenue recognition requirements under *Public Sector Accounting Standards* require TransLink to recognize the full amount of relief funding in the year in which it became available, although $325.0 million will be carried forward to cover future shortfalls.

In response to the pandemic and drop in ridership, TransLink took steps to manage expenditures, including the implementation of a hiring freeze, and focus on expenditures essential to service delivery, while reducing discretionary spending. As a result, total expense declined by 40.8 million YOY in 2020, or 2.3%. Bus operations costs increased by $6.7 million (+0.7%), while reductions were realized across most other areas, driven largely by lower spending on roads and bridges by $34.6 million (-18.0%) because of the cancellation of some operations and maintenance initiatives.

TransLink's capital spending includes maintenance, capital-related transfers to municipalities, and the construction or acquisition of new assets and infrastructure. Transfers to municipalities and maintenance costs are expensed, while new capital purchases/builds are reflected in the acquisition of tangible capital assets under *Public Sector Accounting Standards*. In 2020, acquisition of tangible capital assets declined to $422.2 (-18.1%) and comprised new buses, new SkyTrain vehicles, a new SeaBus, system upgrades, and other infrastructure.

2021 Budget and Outlook

TransLink prepares annual budgets on a Public Sector Accounting Board basis that its board of directors approves. For 2021, TransLink budgeted for a surplus of $8.1 million, which equates to a DBRS Morningstar-adjusted post-capex deficit of $114.0 million after incorporating anticipated growth in planned capex and recognizing senior government funding in the year in which it was intended.

In response to the ongoing coronavirus pandemic and significant decline in ridership, TransLink has had to reevaluate key priorities, including steps to slow the previously planned expansion of certain bus and rail services. The 2021 budget has identified four priorities:

- Rebuild customer ridership;
- Foster a safe, skilled, and resilient workforce;
- Deliver a reliable transportation system in a state of good repair; and
- Achieve financial sustainability.

Total revenues (unadjusted) are budgeted to decline by 8.3% YOY in 2021, which primarily reflects a decline in senior government relief funding. In addition to routine senior government funding, primarily related to capital and the Golden Ears Bridge tolling replacement funding, TransLink budgeted for $282.2 million in senior government relief funding.

After having fallen to 17% of previous levels, the budget assumed that ridership would return to 51% of pre-pandemic levels in 2021 and that it could take anywhere from two to eight years to return to pre-coronavirus ridership levels. As a result, transit revenues are projected to increase by 9.2% YOY, although this represents only about 62.0% of 2019 levels. Parking rights tax revenue is expected to be at 56% of pre-pandemic levels, while fuel tax revenue is projected to recover to pre-pandemic levels and property tax revenues to increase by 4.4%. The increase in property tax reflects a 3.0% increase in property tax revenue from existing properties along with increases related to construction and development. Notably, the budget conservatively assumed that there would be no vaccines forthcoming in 2021, which points to potential upside to projections given the widespread vaccine rollout already well advanced.

Despite the decline in ridership, service levels have been maintained to support the movement of essential workers and to meet public health measures, such as physical distancing. As a result, total expenditures are budgeted to increase by 14.2% YOY in 2021. This primarily reflects increases in labour costs related to inflationary costs and contractual increases incorporated in existing agreements, increased maintenance costs, and higher amortization arising from ongoing large capex investments. The budget continues to prioritize cost efficiencies and cost reductions, while still fulfilling service commitments to the region.

Medium-Term Outlook

During the first half of 2021, the Province responded to rising coronavirus cases with the reintroduction of certain public health measures, which somewhat slowed the economic recovery and the expected improvements in ridership. This has kept fare revenue, fuel tax, and parking tax revenue suppressed. Furthermore, public sector accounting standards required the Authority to recognize all senior government relief funding in 2020, even though a portion was budgeted and intended to be used in 2021. Total spending was $78.9 million below budget through the first half of 2021, primarily resulting from lower labour costs through temporary vacancies and reduced maintenance work because of lower vehicle usage and various other favourable variances. As a result, TransLink recorded a deficit of $106.3 million through June 30, 2021. On a full-year basis, a deficit of $304.4 million is now projected. Excluding the impact of senior government relief funding, the negative budget variance would have been only $22.2 million.

The medium-term outlook remains subject to considerable uncertainty. The recovery in ridership will depend on the ongoing transmission and severity of coronavirus variants, the strength of the economic recovery, the extent to which companies continue to work remotely, and general concerns about using public transit during a pandemic. TransLink expects ridership and economic activity will remain subdued through the remainder of 2021 and into 2022. DBRS Morningstar notes that the coronavirus pandemic may have permanently altered the outlook for transit ridership, which could require TransLink to seek alternative sources of revenue, including additional government support, or consider service reductions, to return to a sustainable operating position over the medium term.

The pandemic has delayed the development of an updated Investment Plan, but it is currently underway and expected to be presented for approval in spring 2022. The Investment Plan must include fully funded, multiyear budget forecasts and will be essential to eliminating the Authority's structural deficit over the longer term while waiting for ridership to recover.

While neither level of government has committed to provide additional funds beyond those already announced, government efforts to support the economic recovery and stimulate growth will likely necessitate transit operators to maintain and possibly increase service offerings. As such, DBRS Morningstar anticipates that modest additional support funding could be forthcoming if deemed necessary to maintain service levels.

With an increasing emphasis on environmental, social, and governance factors, TransLink's core activities (i.e., public transit) and its longer-term environmental goals (for example, 2018 Low-Carbon Fleet Strategy, 80% carbon reduction by 2035, and carbon neutral by 2050) are well aligned with government stakeholders and may be supportive of increased capital funding where a meaningful environmental benefit can be identified.

Capital Plan

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

Major projects currently underway include the following:

- **SkyTrain Vehicle Purchases:** This project involves procurement of 205 cars to replace aging cars and for the Broadway subway extension. The new vehicles will be brought into service between 2024 and October 2027.
- **Surrey Langley SkyTrain:** TransLink is developing a two-stage plan to extend the existing Expo line to Langley Centre along the Fraser Highway. The project also includes 55 new SkyTrain vehicles and a new operations and maintenance centre. The current cost estimate is $3.1 billion, of which $1.6 billion is required for the first half (stage one) of the project. TransLink is seeking additional government funding for the second half of the project.
- **Broadway Subway Extension:** TransLink will extend the Millennium line 5.7 km west along Broadway to Arbutus Street with six stations. The project is mostly underground and technically complex. The $2.8 billion project will be a provincial public-private partnership (PPP) project but fully integrated into TransLink’s transit system. The project will be largely funded by the federal and provincial governments, with the Province of British Columbia (the Province) assuming construction and cost-related risks.
- **Expo and Millennium Line Upgrade Program:** The program totals $1.8 billion and comprises projects to increase capacity on the SkyTrain network (including the aforementioned SkyTrain vehicle purchases). Projects include fleet additions, expansion of vehicle storage facilities, upgrades to existing maintenance facilities, upgrades to power and operational systems, and various station improvements.

TransLink budgeted for $654.3 million in capital investment (acquisition of tangible capital assets) in 2021, down from the 2020 budget but still ambitious, given past annual spending. In recent years, TransLink has budgeted for significant increases in capital investment, but actual investment has typically fallen short—a trend that has been further complicated by the pandemic. In 2020, TransLink planned for $799.3 million in capital investment but actual investment was $422.2 million.

TransLink continues to evaluate and further plan for additional major projects, such as the Millenium Line-UBC Extension and Burnaby Mountain Gondola; however, timing and ultimate approval are subject to the development of the new 10-Year Investment Plan and fully identified funding sources.

Debt and Liquidity Management

TransLink's debt burden is relatively low but has steadily risen in recent years with service expansion and capital upgrades. In 2020, TransLink's net tax-supported debt increased by 6.1% to $4.1 billion. This equates to $1,507 per capita, or 0.4% of taxable assessment.

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

TransLink has internally and externally imposed debt limits:

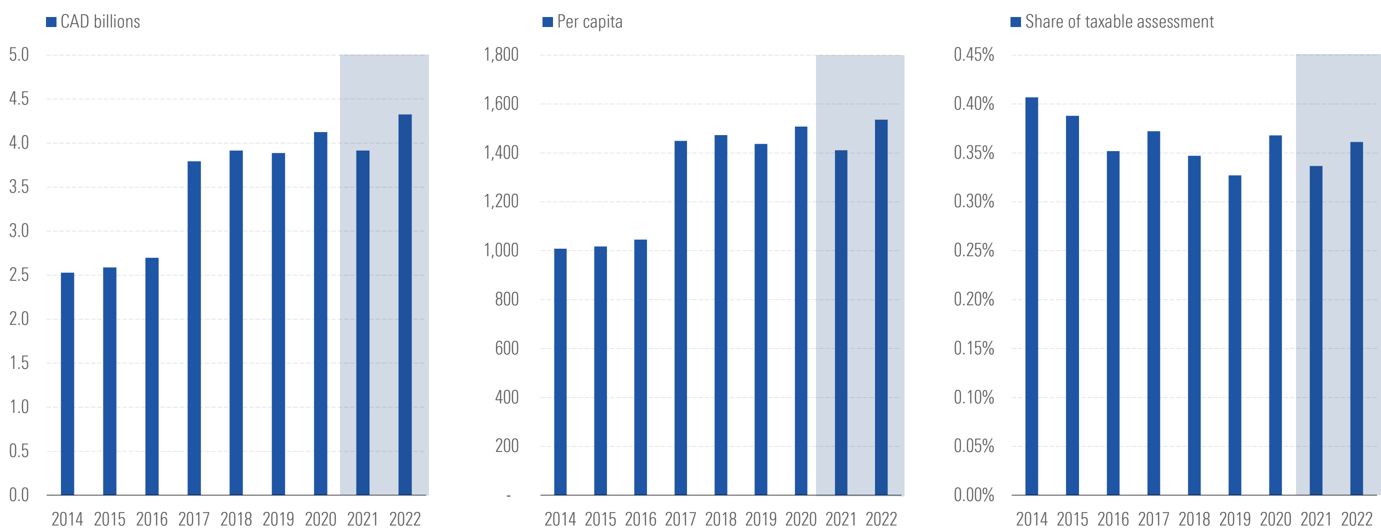
- TransLink is subject to a $5.5 billion debt limit under the South Coast British Columbia Transportation Authority Act (the Act) (unchanged from last year). Increases to the debt limit must be approved by the Mayors' Council (in consultation with Metro Vancouver) under the Act. The Act defines debt as the sum of current borrowings of TransLink secured by debentures, bonds, other forms of indentures, capital leases, short-term notes, lines of credit, and bank overdrafts, excluding any sinking funds or unamortized prepaid financing costs. Also excluded from this definition are any indirect concessionaire-type debt obligations (for example, PPPs).
- TransLink's Board-mandated internal debt-management policy limits total net direct and indirect debt to 300% of operating revenues and limits gross interest charges to 20% of operating revenues. As at December 31, 2020, TransLink was at 312.0% and 14.1%, respectively. Because of the decline in operating revenues (excluding one-time government funding), TransLink would have breached the debt to operating revenues policy limit.

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

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

The Authority maintains $1.0 billion in sinking funds as of December 31, 2020, of which $653.4 million was held by the MFABC, and the remaining $361.0 million were self-administered. TransLink's policy for self-administered sinking funds requires the Authority to set aside funds to fully repay the face value of debt at the end of the determined amortization period, which could be longer than the term of the given debenture.

Exhibit 2 Net tax-supported debt



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

TransLink has a CP program with an authorized limit of $500 million. TransLink generally seeks to maintain an active CP program with modest balances outstanding, but balances can fluctuate to meet cash management needs during select periods of the year. During the past year, the maximum outstanding at any given time was $60 million. The CP program is backstopped by a $500 million credit facility ($440 million revolver + $60 million swingline) that matures in March 2023. TransLink has policies in place governing the use of its CP program, including weekly maturity limits as well as restrictions on the use of the credit facility.

TransLink does not have unfunded pension liabilities. The Authority participates in British Columbia's Public Service Pension Plan, which is a multiemployer defined benefit plan. The most recent actuarial valuation (2020) resulted in a funding surplus of $2.7 billion. 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 (for example, extended health, dental, life insurance, etc.), which were estimated to be $132.3 million at December 31, 2020, down from $143.7 million (-7.9%) from the prior year.

TransLink has policies and practices that establish minimum liquidity levels to mitigate funding and other risks. Through a board-approved policy, TransLink maintains minimum accumulated funding resources (cash and investments) equal to 15% of total ongoing operating expenditures plus ongoing debt servicing costs for the first three years of the investment plan, and 12% in the remaining seven years.

At June 30, 2021, the Authority had $647.2 million in unrestricted cash and cash equivalents and a further $85.8 million in unrestricted investments. Beyond its unrestricted cash and investments (General Fund), the Authority also has a further $1.2 billion in its various restricted funds. Restrictions vary from internally imposed requirements to stronger externally imposed requirements. In a stress scenario, TransLink could readily access some of these funds. Investments comprise term deposits, debt issued by provincial and municipal governments, and other fixed-income debt rated AA (low) or better. TransLink’s unrestricted cash and investment holdings exceed its annual debt service costs (principal and interest).

Medium-term Outlook

TransLink is currently updating its 10-year Investment Plan, expected to be released in spring 2022. Consequently, the Authority does not have a revised long-term debt forecast, but given a stronger cash position and reduced near-term debt needs, debt growth is likely to evolve more slowly than previously planned. DBRS Morningstar's measure of net tax-supported debt is forecast to decline to $3.9 billion (-5.1%) in 2021 before rising to $4.3 billion in 2022. Under the previous plan, net tax-supported debt was expected to reach $5.1 billion by 2022 and peak at $5.3 billion in 2023. The previous projections equated to net tax-supported debt of $1,861 per capita and 0.4% of Metro Vancouver’s taxable assessment. At these levels, TransLink's credit profile would remain consistent with the AA rating.

Governance and Government Relations

TransLink is established under the South Coast British Columbia Transportation Authority Act and is responsible for planning, financing, and managing the integrated regional transportation system of the Greater Vancouver region. The system includes 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 1,700 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 340 vehicles.

Transportation infrastructure:

- **Major road network:** TransLink cofunds and comanages 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 Bridge, Knight Street Bridge, Canada Line bike and pedestrian bridge, and the Westham Island Bridge.

Legislative Framework and Governance

The legislative framework is generally supportive of financial sustainability and provides for adequate provincial and municipal monitoring, though revenue sources are limited by provincial legislation. Senior government funding is meaningful and reliable for both operating and capital purposes, and there is a reasonable level of cooperation with senior governments.

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

- **Mayors' Council:** The Mayors' Council comprises the 21 mayors of the Metro Vancouver region, the Chief of the Tsawwassen First Nation, and the elected representative of Electoral Area A. The Mayors' Council is responsible for appointing the Board, reviewing long-term plans, and approving financial plans. Some financial decisions require approval of the Mayors' Council (for example, 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 (for example, conduct of business, supervision of management, approval of major policies and plans, etc.).

The Act requires management to prepare and adhere to a long-term strategy with medium-term investment plans. The long-term strategy is outlined in a 30-year plan, updated every five years, while the investment plan covers a 10-year period and must be updated every three years. Both planning documents are approved by the Mayors' Council.

TransLink's legislation fosters prudent financial management. TransLink is required to have fully funded investment plans, which effectively limits the scope of service expansion and other spending initiatives to revenue growth. However, the legislation does provide the Authority with a degree of flexibility to respond to shocks. TransLink has a balanced budget requirement—operating expenditures may not exceed revenue plus past accumulated surpluses. The legislation allows TransLink to budget for operating losses, provided there are past accumulated surpluses that can be drawn down. This requirement limits the extent to which the balance sheet can deteriorate.

While the legislation does enable TransLink to budget for losses, other factors limit the extent to which losses can persist. TransLink's 10-year investment plans (refreshed at least once every three years) must be fully funded. Consequently, revenue constrains service expansion and other spending initiatives over the medium term. At the same time, management has a strong focus on operational and financial sustainability, while British Columbia's political culture places a significant emphasis on fiscal sustainability and prudence. These influences are evident from the Authority's earlier plans to significantly reduce service levels to stem financial losses. The plan required approval from both the board of directors and the Mayors' Council.

Relations with Senior Governments

TransLink’s relationship with the Mayors’ Council improved in recent years with increasing public confidence in the Authority. Following the failed plebiscite (2015), several management changes occurred, and the Authority’s strategic focus narrowed. TransLink’s strategic goals were narrowed to fulfill the Mayors’ Vision (2016), maintain TransLink’s assets in a good state of repair, and improve the customer experience. These goals have been recently recast in light of the pandemic, but the core attributes are largely unchanged.

The relationships with the provincial and federal governments remains strong with the reelection of the provincial New Democratic Party in 2020 and the federal Liberal Party in 2021. Both governments have prioritized urban issues, particularly public transit, housing, and the environment. Consequently, there has been strong alignment between TransLink’s plans and provincial and federal policy priorities. The pandemic has reinforced the linkages between TransLink and senior governments and provided TransLink with additional operating funds to offset the decline in revenues resulting from the pandemic.

Economy

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

The region experienced steady population growth in recent years, ranging between 1.2% and 1.8% annually over the past five years. The relatively strong population growth reflected the underlying strength of the local economy and the desirability of the region as a place to live. Prior to the coronavirus pandemic, population growth in the Province had also been supported by the increase to Canada’s immigration quotas made under the Liberal government and a favourable shift in interprovincial migration. In 2020, population growth was modest (+1.1%) in 2020 as widespread travel restrictions significantly dampened international immigration. Nevertheless, net migration continues to be led by international arrivals and some interprovincial migration while, intraprovincial migration remains negative.

According to the Conference Board of Canada, with the onset of the coronavirus pandemic, real GDP contracted by 4.0% in 2020 following an average annual growth rate of 3.4% between 2015 and 2019. Akin to other regions, the most affected industries were those reliant on tourism as well as transportation and warehousing, while some industries, such as construction, remained resilient, driven by strong housing activity.

In 2020, unemployment increased significantly (averaging 9.1% for the year, relative to 4.6% in 2019) on account of widespread closures and travel restrictions. According to the Statistics Canada's Labour Force Survey (August 2021), Vancouver Census Metropolitan Area's three-month moving average unemployment rate (seasonally adjusted) declined to 7.2% as part-time employment opportunities returned with easing of restrictions.

Despite a slowdown in housing starts, which fell by 20.5% in 2020, housing activity remained robust. Home sales increased by 22.1%, while the average home price grew by 12%, supported by low interest rates and increased demand for larger dwellings. As fiscal and monetary stimulus begins to unwind, a gradual moderation in home sales is expected.

The pandemic-driven weakening of economic activity, increased unemployment, and the public health and safety measures the government implemented resulted in a significant decline in ridership as well as tax revenues. Notwithstanding, the region's strength as a major trade and economic centre for the Province will underpin its economic recovery.

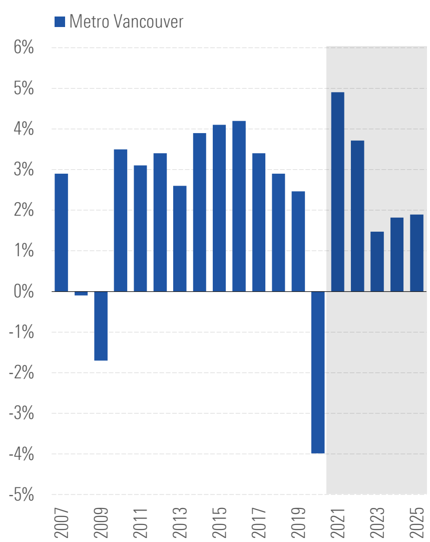
Economic Outlook

DBRS Morningstar expects Vancouver’s economy to rebound notably supported by rising vaccination levels, a reopening of the economy, easing travel restrictions, and strong growth in the U.S. Based on the Conference Board of Canada's most recent (May 31, 2021) forecast, Vancouver’s economy is projected to expand by 4.9% in 2021 and 3.7% in 2022, before settling around an average 1.7% growth over the subsequent three years. Although weaker than the Conference Board of Canada's prior estimates, this level of GDP growth is in line with DBRS Morningstar's expectations of a protracted recovery.

Following a decline last year, many sectors, such as finance, insurance, and real estate, which remain Vancouver’s largest industries, are expected to make a sound recovery in 2021. A stronger recovery in economic activity and solid employment gains will likely support labour market performance in future years. In British Columbia, employment has already recovered to pre-pandemic levels.

Despite the easing of public health measures and the resumption of in-person activities, passenger volumes are expected to pick up only gradually. Furthermore, the longer-term outlook remains subject to considerable uncertainty, given the ongoing transmission of and vaccine efficacy against new coronavirus variants and the general hesitancy around using public transit.

Exhibit 3 Real GDP Growth



Employment

Average House Price in Greater Vancouver

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

The Conference Board of Canada projects housing starts to decline by another 8.4% in 2021 in line with muted immigration and moderate further in outer years (i.e., between 2023 and 2025). Despite moderation in housing activity, the outlook for the construction sector remains optimistic, with robust activity expected over the next few years, driven by several infrastructure projects with further upside potential as pandemic-led challenges subside. These factors suggest some upside to growth in property-tax revenue for TransLink.

Economic and System Use Data

	2020	2019	2018	2017	2016
Transit system journeys (CAD millions) [1]	128	272	263	248	234
Transit system ridership growth (%) [1]	(53.0)	3.7	5.9	5.9	4.5
Population (thousands, Metro Vancouver)	2,738	2,707	2,659	2,617	2,582
Population growth rate (%)	1.1	1.8	1.6	1.3	1.5
Unemployment rate (Metro Vancouver) (%)	9.1	4.6	4.4	4.7	5.4
Employment (thousands, Metro Vancouver)	1,355	1,474	1,426	1,401	1,359
Housing starts (# of units) (Metro Vancouver)	22,371	28,141	23,404	26,204	27,914
Taxable assessment (CAD billions)	1,121	1,189	1,128	1,019	767

Sources: Haver Analytics/Statistics Canada, The Conference Board of Canada, TransLink, Province of British Columbia.

1 TransLink ridership methodology changed in 2016. Comparable YOY ridership growth (+4.5%) estimated based on boarded passengers.

Statement of Financial Position (CAD millions)

As of December 31

	2020	2019	2018	2017	2016
Financial Assets					
Cash and cash equivalents	398	502	517	424	252
Accounts receivable	894	247	251	121	134
Loan receivable	182	190	251	310	325
Restricted cash and cash equivalents and investments	1,033	1,101	980	780	504
Investments	96	61	61	61	81
Assets held for sale	-	-	-	-	-
Debt reserve deposits [1]	29	28	29	33	35
Total financial assets	**2,632**	**2,129**	**2,089**	**1,729**	**1,332**
Liabilities					
Accounts payable and accrued liabilities	374	368	340	269	235
Debt [2]	3,035	2,738	2,665	2,463	2,347
Deferred government transfers	1,196	1,188	1,249	1,150	941
Golder Ears Bridge contractor liability	1,024	1,033	1,040	1,046	1,049
Deferred concessionaire credit [3]	456	479	503	526	549
Employee future benefits	132	144	140	131	120
Deferred revenue and deposits	60	62	55	46	36
Deferred lease inducements	15	13	13	12	13
Total liabilities	**6,293**	**6,027**	**6,005**	**5,643**	**5,289**
Net Debt	**(3,661)**	**(3,898)**	**(3,916)**	**(3,914)**	**(3,957)**
Nonfinancial Assets					
Tangible capital assets	5,574	5,381	5,079	4,907	4,868
Supplies inventory	89	85	74	65	62
Prepaid expenses	27	31	28	21	12
Total nonfinancial assets	**5,690**	**5,497**	**5,182**	**4,994**	**4,941**
Accumulated Surplus	**2,029**	**1,599**	**1,266**	**1,080**	**984**

Source: TransLink.

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

1 Debt reserve deposits are held by MFABC.

2 Net of sinking funds held by MFABC.

3 Funding provided by the concessionaire toward the construction of the Canada Line, amortized post-completion over the term of the concession.

Statement of Operations (CAD millions)

For the year ended December 31

	2020	2019	2018	2017	2016
Revenue					
Taxation	850	907	819	821	826
Transit	386	685	638	591	542
Golden Ears Bridge tolling	-	-	-	30	52
Government transfers	794	399	303	167	241
Amortization of deferred concessionaire credit	23	23	23	23	23
Investment income	54	58	53	50	41
Development cost charges	20	-	-	-	-
Miscellaneous revenue	18	17	12	7	6
Loss on disposal of tangible capital assets	(0)	1	(0)	(1)	422
Total revenue	**2,145**	**2,089**	**1,849**	**1,688**	**2,152**
Expense					
Bus operations	934	927	868	826	790
Corporate operations	140	148	146	136	145
Rail operations	442	446	422	408	364
Roads and bridges	158	193	189	184	152
Transit police	41	42	39	37	34
Total expense	**1,715**	**1,756**	**1,664**	**1,592**	**1,484**
Surplus (deficit)	**430**	**333**	**185**	**96**	**668**
DBRS Morningstar Adjustments					
Nonrecurring items [1]	(325)	-	-	-	(422)
DBRS Morningstar-Adjusted Surplus (deficit)	**105**	**333**	**185**	**96**	**246**
Capital Expenditures	422	515	382	235	422

Source: TransLink.

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

1 DBRS Morningstar has made adjustments to exclude extraordinary government funding recognized in 2020 that is intended for future years ($325M). In 2016, TransLink sold the Oakridge Transit Centre and recognized a $422 million gain.

Calculation of Net Tax-Supported Debt (CAD millions)

As at December 31

	2020	2019	2018	2017	2016
Commercial Paper	60	60	120	240	240
Unsecured bullet maturity bonds (TL)	2,515	2,154	1,955	1,558	1,360
Bonds and debentures held by MFABC	1,114	1,116	1,169	1,310	1,441
Capital leases	0	1	2	4	2
Golden Ears contractor liability [1]	1,024	1,033	1,040	1,046	-
Deferred concessionaire credits	456	479	503	526	549
Less:					
MFA-administered sinking funds	(653)	(593)	(581)	(649)	(695)
Self-administered sinking funds	(361)	(335)	(264)	(209)	(162)
Debt reserve deposit	(29)	(28)	(29)	(33)	(35)
Net tax-supported debt	**4,126**	**3,888**	**3,914**	**3,792**	**2,699**

Sources: TransLink and DBRS Morningstar calculations.

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

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

For the year ended December 31

	2020	2019	2018	2017	2016
DBRS Morningstar-adjusted surplus (deficit)	105	333	185	96	246
Amortization	229	213	198	192	182
Capex	(422)	(515)	(382)	(235)	(422)
Post-capex surplus (deficit)	**(88)**	**31**	**1**	**53**	**6**

Sources: TransLink and DBRS Morningstar calculations.

Calculation of Net Interest Costs (CAD millions)

For the year ended December 31

	2020	2019	2018	2017	2016
Interest expense	189	195	183	182	173
Interest capitalized during the year	4	4	3	2	8
Sinking fund earnings (MFABC and self-administered)	(35)	(35)	(35)	(36)	(36)
Net interest costs	**159**	**165**	**152**	**148**	**145**

Sources: TransLink and DBRS Morningstar calculations.

Rating History

	Current	2020	2019	2018	2017	2016
Issuer Rating	AA	AA	AA	AA	AA	AA
Long-Term Debt	AA	AA	AA	AA	AA	AA
Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Previous Report

- South Coast British Columbia Transportation Authority: Rating Report, August 27, 2020.

Related Research

- *Rating Canadian Municipal Governments*, May 3, 2021.
- *DBRS Morningstar Criteria: Commercial Paper Liquidity Support for Nonbank Issuers*, March 9, 2021.

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

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrsmorningstar.com. Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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