Rating Report

South Coast British Columbia Transportation Authority

Insight beyond the rating.

Ratings

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

Rating Update

DBRS Limited (DBRS) has confirmed the Issuer Rating and Senior Unsecured Debt rating of the South Coast British Columbia Transportation Authority (TransLink or the Authority) at AA and the Commercial Paper (CP) rating at R-1 (middle), all with Stable trends. The ratings and Stable trends are supported by TransLink's taxing authority in the Greater Vancouver Regional District (the Region or Metro Vancouver), a broad and relatively affluent tax base, as well as by a sound fiscal planning framework, diverse revenue streams and solid operating performance in recent years. The Metro Vancouver Mayors' Council Vision for Regional Transportation (Mayors' Vision) is a ten-year regional plan guiding capital investment and service enhancement in Metro Vancouver that will require significant capital investment. As TransLink and regional municipalities plan to proceed with Phase 1 of the Mayors' Vision, debt is expected to be moderately higher over the medium term, thereby constraining improvement in the ratings.

TransLink's ridership growth was 1.8% in 2015, a notable improvement over tepid growth in 2014. This trend supported a solid DBRS-adjusted operating surplus of $160.0 million, or nearly 10.0% of revenues, up from $20.4 million the prior year. Revenues rose by 12.3%, reflecting growth in transit fare and taxation revenue and the significantly higher capital funding recognized during the year. Excluding capital funding, revenues rose by a more moderate 2.9% year over year (YOY). Expense growth was fairly well contained at 2.7%, with the largest increases in the rail division and general corporate areas amid the full roll-out of the integrated fare card and gate system (Compass). At mid-year 2016, operating results were tracking well ahead of budget, based on positive transit and taxation revenue variances and a lower expense track. DBRS anticipates that positive ridership trends and disciplined expense management should result in TransLink exceeding its consolidated budget surplus of $172.1 million.

The ratings outlook is stable. Greater clarity on long-term capital funding sources and stability in TransLink's governance framework have reduced uncertainty in the operating outlook since the time of the last review. While not anticipated, the ratings could experience downward pressure should operating performance deteriorate significantly on a sustained basis or if debt evolves materially above current projections. With an anticipated peak in DBRS-adjusted net debt of approximately $2.97 billion, or roughly $1,120 per capita, in 2019 based on the investment plan associated with Phase 1 of the Mayors' Vision and projected population growth, DBRS notes that the path for debt appears consistent with the current rating category over the forecast horizon. Upward pressure on the ratings is not foreseen but could materialize if the debt burden were to be reduced significantly.

Financial Information

	For the year ended December 31				
	2015	**2014**	**2013**	**2012**	**2011**
Operating surplus (deficit; $ millions)	160.0	20.4	38.9	(51.0)	(49.4)
Net debt per capita ($)	1,019	1,022	1,037	1,061	1,064
Interest costs as a percentage of total revenue	8.9%	10.0%	10.0%	10.9%	11.3%
Reported surplus (deficit) as a share of revenue (five-year avg.)	1.9%	-1.0%	-2.2%	-0.7%	9.2%
Transit system passengers (millions)	239	235	234	239	233

Issuer Description

TransLink provides transit services and coordinates funding for the regional road network within Metro Vancouver. TransLink's service area covers 21 municipalities as well as Electoral Area A and Tsawwassen First Nation, with a combined population of 2.5 million in 2015.

Rating Considerations

Strengths

1. Taxing authority in an affluent region
TransLink has the ability to increase property tax revenues by up to 3% annually to meet its general operating requirements. In addition, in times of financial distress, TransLink can raise its property tax levy in any amount deemed necessary to meet debt obligations. DBRS views this power as analogous to a guarantee provided jointly by the municipalities in the Region, as it permits access to the tax bases of the municipalities. This indirect guarantee is buttressed by the combined financial strength of these 21 municipalities as a group.

2. Well-diversified revenue base
Under the *South Coast British Columbia Transportation Authority Act* (the Act) governing operations, TransLink benefits from a well-diversified revenue base composed of property taxes, transit fares and a fuel tax. This provides very strong support to TransLink, as over half of its revenue comes from non-transit sources, allowing it to better deal with a service disruption or loss of ridership. In addition, TransLink has an ongoing stream of government funding through the federal-gas-tax-sharing program.

3. Comprehensive financial planning framework
Management places strong emphasis on financial planning, which fosters sustainability and improved transparency with respect to the evolution of TransLink's fiscal position. Recently, this Act was revised to reinforce these practices by requiring the planning framework to involve a 30-year strategy and a fully funded ten-year investment plan (updated every three years), which replaces the three-year base plan and seven-year outlook used previously.

4. Significant user base in a region with above-average population growth
Population growth in Metro Vancouver, which TransLink services, has continued to outperform the national average. This trend is expected to continue, as The Conference Board of Canada projects that the annual population growth in the Region will average 1.4% annually over the next five years, whereas Canada's annual growth rate is forecast to be 1.1% or lower over the same period. Transit ridership increased by 1.8% over the prior year, a reversal of the weakness experienced over the past two years, and further growth of 2.0% is projected for 2016 following the closure of fare gates and the implementation of Compass. DBRS anticipates that ridership growth will roughly match the rate of population growth in Metro Vancouver over the medium term.

Challenges

1. Large capital needs will moderately increase debt
Over the last ten years, TransLink's DBRS-adjusted net debt has risen by 58.0% but stabilized in the last five-year period. Capital needs during the first phase of the Mayors' Vision will cause debt to rise moderately over the medium term and slightly higher than at the time of the last review. DBRS-adjusted net debt is expected to peak at $2.97 billion, or roughly $1,120.00 per capita, in 2019 after accounting for population growth in Metro Vancouver of roughly 1.4% per year.

2. General risks to transit system operations
The management of a transit system carries considerable risks that can make financial planning difficult. These risks pertain to the capital intensity of transit services, fluctuations in ridership, fuel price volatility, strong labour unions and a constrained ability to grow revenue as a result of the public outcry that can follow increases to transit fares and taxes.

3. Short-term fares subject to oversight
TransLink only has the ability to raise short-term fares by 2% per year without special authorization from the Mayors' Council by way of an approved ten-year investment plan. Nevertheless, TransLink is able to set long-term fares without the Mayors' Council's approval and, in addition, can raise short-term fares as needed if such an action is required to provide funding for debt obligations.

Operating Performance

	For the year ended December 31				
	2015	**2014**	**2013**	**2012**	**2011**
Operating revenues	1,625	1,447	1,444	1,380	1,316
Operating expenses	1,465	1,427	1,405	1,431	1,365
Operating surplus (deficit)	160	20	39	(51)	(49)
Non-operating items	2	6	(2)	42	(3)
Net surplus (deficit) as reported	162	27	37	(9)	(52)

TransLink recorded a solid DBRS-adjusted operating surplus of $160.0 million in 2015, excluding non-recurring items, up from $20.4 million the prior year. The net consolidated surplus, as reported in the financial statements, was $162.4 million. This result represented a $160.4 million favourable variance to the original budget plan; however, much of the difference was attributable to a change in revenue recognition criteria for government transfers as well as lower spending in the bus division and for roads and bridges.

Operating revenues rose by 12.3%, or $178.0 million, reflecting growth in transit fare and taxation revenue and the significantly higher government transfers recognized during the year. However, the majority of the increase ($127.0 million) was tied to the new accounting treatment of federal gas tax funds that requires TransLink to recognize the funds as they are spent rather than amortize the funds into revenue over a ten-year period. Total funded revenue, which excludes recognition of government transfers, interest income and amortization of the deferred Canada Line concessionaire credit, was up by 3.7%, or $48.6 million, representing a 0.8% favourable variance to the original budget. Taxation revenues rose by 3.8%, supported by fuel tax gains from increased gasoline consumption, legislated increases in property tax revenue (3.0% per year) and moderately higher parking-rights tax revenue. Transit revenue rose by 3.2% mostly because of increased ridership and purchasing patterns for fare products. Golden Ears Bridge toll revenue was up by 16.4% on account of higher vehicle-crossing volume, the bylaw inflationary rate increase and a change in vehicle mix. Interest income declined slightly by 1.0% from lower cash balances and the low interest rate environment.

Total expense growth was fairly well contained at 2.7%, with the largest increases in the rail division and general corporate areas amid the roll-out of the Compass system and fare gate closure. Adjusting for the closure of the AirCare emissions-testing program, capital funding to municipalities for road work, amortization and debt servicing costs, expenses rose by 5.5% YOY. Corporate operations saw the largest increase at 20.5% largely because the contractual services related to the roll-out of Compass and contractually negotiated salary and benefit increases. Expenses were also up in the bus and rail divisions (1.6% and 5.0%, respectively), offset by a decline in spending on roads and bridges largely reflecting timing differences in payments to municipalities for the major road network. Transit police costs were also down, reflecting one-time retroactive wage increases recorded the prior year.

By spending category, the largest increase was in salaries and benefits, which rose by 3.2% (or 2.9% once adjusted for one-time spending), the result of negotiated increases and new positions in the rail division and for the Compass system. Administrative costs rose by $13.7 million or 44.3% (or 17.8% once adjusted for one-time spending) mostly because of fare media and marketing costs associated with the Compass roll-out and higher credit card fees from online card-loading that had previously been netted against revenues. Professional and legal fees were up (34.1% ongoing), along with maintenance materials and utilities (7.5% ongoing). Spending declined from the prior year for capital infrastructure contributions to municipalities, for contracted services and because of lower fuel and power prices. Interest costs declined by 1.9% as TransLink refinanced a large portion of debt at lower rates.

Exhibit 1: 2016 TransLink Revenues by Source

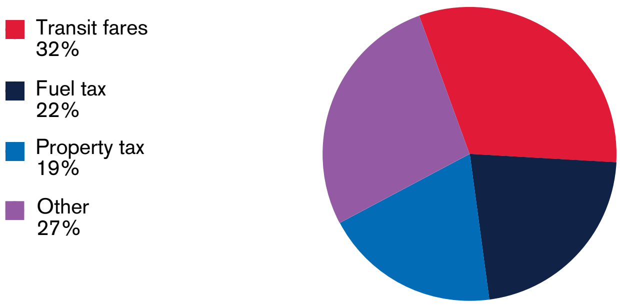
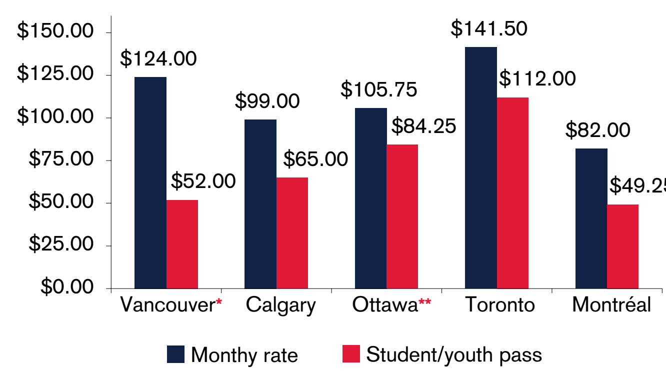


Exhibit 2: 2016 Monthly Transit Fares



* Two-zone fare. ** Regular fare.

Operating Outlook

2016 Budget and Forecast (as at the End of Q2 2016)

The 2016 budget projects a consolidated surplus of $172.1 million, an increase of 6.0% or $9.7 million over 2015 results. The budgeted improvement stems primarily from the recognition of transfers from other governments as well as solid growth in taxation revenue, offset by conservative estimates for transit revenue and expense growth across most divisions, with the exception of rail.

Revenues were budgeted to rise by 3.7% or $61.0 million from 2015 actual levels, supported by a 1.5% increase in taxation and significant growth of 23.3% because of the recognition of government transfers. Within taxation, the legislated 3.0% increase in property tax revenues collected by TransLink and higher gas tax revenues will be the key growth drivers. Transit revenues were budgeted for a modest decline of 0.6% or $3.2 million based on conservative ridership estimates. Golden Ears Bridge toll revenues are budgeted to rise by 4.5%, while interest income is expected to rise by 5.2%.

Expenses were budgeted to grow at a lower rate than revenue, rising by 3.5% or $51.3 million from 2015 actual levels. Spending within the bus division is set to rise by 2.1% as the new Hamilton Transit Centre becomes operational and salaries and benefit costs rise with negotiated increases. Corporate operations costs are budgeted to rise by 8.4%, partly from the effect of full-year operational costs for the Compass system. Rail division spending is budgeted to contract by 1.9% as TransLink bought out some railcar leases on the West Coast Express. The timing of capital contributions to municipalities for repairs and upgrades to the major road network led to budgeted growth of 16.2% for roads and bridges. Amortization and interest costs are also set to rise by 4.0% as the Evergreen Extension project reaches completion and as systems such as Compass and power-propulsion improvements on the Expo Line are operational for the year.

Through the first half of the year, TransLink recorded a surplus of $96.1 million, significantly stronger than the budget forecast of $73.9 million. The variance is mostly attributable to lower bus and rail division, corporate operations, road and bridge and miscellaneous expenses and improved revenues from taxation and transit, offset by lower recognition of government transfers. Transit revenues, which were budgeted to decline, have benefited from notable improvements in ridership and lower fare evasion with the roll-out of Compass. Transit revenues are up by 6.5% versus budget and roughly 8.0% since Compass fare gates were closed beginning in April, and as such revenues are on track to translate into a $25 million to $30 million increase versus 2015 results. Ridership has risen by an estimated 2.0% in 2016. Taxation revenues are also 3.1% higher than budgeted, mostly because of fuel tax gains and a weaker Canadian dollar.

DBRS anticipates that positive ridership trends and transit revenue gains, combined with disciplined expense management, should result in TransLink exceeding its forecast budget surplus of $172.1 million.

Medium-Term Outlook

DBRS notes that despite uncertainty generated by the failure of the 2015 Metro Vancouver Transportation and Transit Plebiscite, which would have introduced a new regional 0.5% sales tax to fund capital investment in the Mayors' Vision, the outlook for TransLink has stabilized considerably in 2016. The appointment of a new Chief Executive Officer, stability in the governance framework, improved ridership trends and greater clarity and political consensus on long-term funding sources for capital investment have reduced uncertainty considerably since the time of the last review.

The successful final roll-out of the Compass system, with fare gate closures beginning in April through July 2016, has reduced a significant operational risk to the Authority and has been well received by the public. There are currently over 1 million active Compass Cards in the system, and 94% of journeys are now completed with a Compass Card or Ticket. The project was completed just under the total project capital budget of $194 million, although implementation was delayed. TransLink expects that the implementation of Compass will provide detailed data on usage patterns that will aid in further optimization of service across the network, which should be supportive of revenue from passenger growth. Disappointing ridership growth in recent years had been an area of concern for DBRS; however, this trend appears to have improved. TransLink continues to benefit from a diverse range of revenue sources that significantly reduce reliance on the fare box compared with other large Canadian metro transit systems, but ridership growth remains crucial to financial sustainability and keeping the system in a state of good repair.

The launch of Phase 1 of the Mayors' Vision, announced in September 2016, and associated funding strategy is an encouraging development for the Authority. The plan leverages provincial contributions and federal stimulus funding along with a variety of regional funding sources and will provide for a first wave of service enhancements and capital investment in advance of a more ambitious and transformational Phase 2, which is expected to align with the second phase of federal transit investment. The plan is scheduled to go for Mayors' Council and TransLink Board approval in November 2016 and is currently in the public consultation phase. DBRS notes that final figures and projections may vary from those currently included in the Draft for Consultation.

The proposed regional contribution of $530 million in capital costs and $810 million in operating costs in the first ten years of the plan is to be funded through the sale of surplus TransLink property ($10 million per year), inflationary transit fare increases averaging 2% to 3% per year for three years, modest property tax increases in addition to current legislated increases and a region-wide development charge to be implemented by 2020. The plan projects that transit ridership will increase at a compound rate of 1.6% over the next ten years, supporting annual growth in transit revenues of roughly 3.9% per year through 2026. The proposed additional property tax increase would generate an estimated $361 million in incremental revenue over the same period, while the proposed regional development fee to be implemented by

Operating Outlook (CONTINUED)

2020 is projected to generate approximately $127 million, which is to be applied to debt servicing costs.

The balance of the Phase 1 plan will be funded by a $370 million federal contribution from the Public Transit Infrastructure Fund (PTIF) representing up to 50% of eligible capital project costs, and by a matching provincial contribution of $244 million for 33% of eligible capital project costs. TransLink's established borrowing limit of $3.5 billion will also be raised to $4.0 billion as part of the broader financing strategy, although TransLink does not intend to reach this maximum gross debt threshold (see the Debt and Liquidity section). These developments and the relatively stable operating outlook provide ongoing support to the ratings.

Capital Plan

Capital expenditures in 2015 totalled $267.6 million, which is above the five-year average and up 17% from 2014, as a number of large projects were undertaken, including ongoing station upgrades, the roll-out of Compass, the purchase of new Mark III SkyTrain railcars, power-propulsion updates on the Expo Line, the building of the new $135 million Hamilton Transit Centre in Richmond and work on the Evergreen Project, the six-station 11-kilometer extension of the Millennium Line in Burnaby, Port Moody and Coquitlam. The Evergreen extension is currently in the system-testing-and-commissioning phase and is set to officially open in early 2017. TransLink's capital contribution to the project was $400.0 million on a $1.4 billion project budget.

In September 2016, the Mayors' Council on Regional Transportation announced that the first phase of the Mayors' Council Vision would be launched, which includes significant service enhancements such as a 10% increase in bus service, new SkyTrain and West Coast Express cars, a new SeaBus and higher SkyTrain service levels beginning in 2017, as well as state-of-good-repair work, improvements to the major road network, walking and bicycle infrastructure and enhanced accessibility at transit stations and stops. Capital expenditure will include the purchase of 50 new cars for the Expo, Millennium and Canada Lines, five new West Coast Express cars and a new locomotive, 171 new buses and a new SeaBus. The plan will also fund planning and design work on larger, more transformational projects such as the proposed Millennium Line tunneled extension under Broadway, from VCC to Arbutus, and two Surrey light rail transit (LRT) lines with 19 new stops that will be part of Phase 2 of the Mayors' Vision. The Broadway subway and Surrey LRT projects are expected to be funded under PTIF Phase 2. The Phase 1 plan is currently in the public consultation phase, and DBRS notes that final figures and projections may vary from those currently included in the Draft for Consultation.

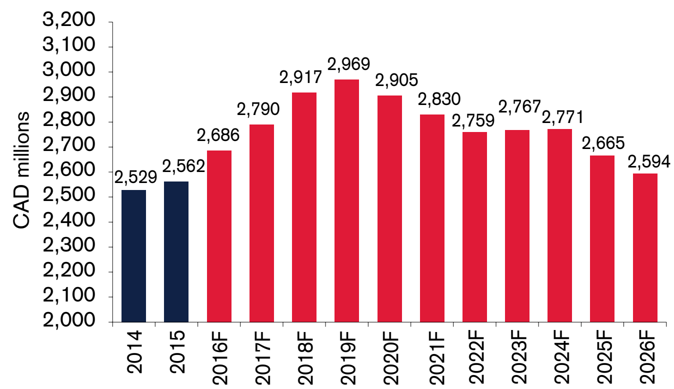
The 2016 rehabilitation of the aging Pattullo Bridge, which connects New Westminster to Surrey, has extended the service life of the bridge through 2022. TransLink continues to seek confirmation from funding partners on contributions for the proposed bridge replacement. The project has been submitted to PPP Canada for funding, and Province of British Columbia (British Columbia or the Province; rated AA (high) with a Stable trend by DBRS) has committed to funding one-third of the capital cost for the bridge replacement. The project is currently in procurement readiness and must be in an approved investment plan to proceed. TransLink has proposed to fund its contribution and ongoing operating costs for the bridge through tolling, in line with other major projects in British Columbia, including the Port Mann Bridge replacement between Coquitlam and Surrey and the George Massey Tunnel Replacement between Richmond and Delta.

Total capital expenditure in the next ten years will total roughly $3.0 billion for transit and a further $0.5 billion for capital contributions for municipalities for the regional road network based on Phase 1 of the Mayors' Vision and the investment plan. In 2017, capital expenditures are expected to total $735 million, ramping up to $832 million in 2018 before receding to an average of $240 million per year through 2026.

Debt and Liquidity

DBRS-adjusted net debt rose by a modest 1.3% in 2015 to $2.56 billion, as new issuances were offset by an increase in sinking funds and the continued amortization of the deferred concessionaire credits for Canada Line. Debt considered to be self-supporting was stable at $1.05 billion, representing the liability of TransLink to the contractor to design, finance, construct, operate, maintain and rehabilitate the Golden Ears Bridge through 2041, supported by tolling revenues generated from the bridge. This equates to a per capita debt burden of $1,019 for Metro Vancouver residents, essentially stable from the prior year and viewed by DBRS as manageable for the ratings. TransLink's unique taxing authority — akin to that of a municipality — allows DBRS to tolerate the relatively high debt level in relation to some other transit bodies. As a share of total revenue, TransLink's DBRS-adjusted net debt has fallen to 158% in 2015 from 189% in 2010.

Exhibit 3: DBRS-Adjusted Net Debt



Note: F = Forecast.
Source: TransLink projections; DBRS adjusted.

Net interest charges as a share of revenues remained elevated at 8.9%, down slightly from the prior year. A board-mandated debt-management policy limits TransLink's total net direct and indirect debts to 300% of operating revenues and gross interest charges to 20% of operating revenues. As at December 31, 2015, TransLink was well within both limits at 267% and 12.4%, respectively, as calculated by the Authority.

Sinking fund balances, both self-administered and held at the Municipal Finance Authority of British Columbia (MFA), rose by $108.4 million as new contributions and interest earned exceeded funds used to retire sinking fund bonds. In 2015, TransLink issued $150 million in senior unsecured debentures in support of the capital program by re-opening the Series TL-5 ($85 million) and TL-4 ($65 million) bonds.

At year end, cash and marketable securities totalled $632.5 million, up from $574.6 million in 2014. As a share of current liabilities, cash and securities were essentially stable at 149%. The debt service coverage ratio improved to 1.8 times from 1.2 times on account of stronger operating performance, driven in large part by accounting policy changes for the recognition of government transfers. Free cash flow remained negative at approximately $133.5 million, as net capital expenditures remained elevated above cash generated from operations, indicative of elevated capital investment to maintain TransLink's expansive and aging transit and transportation portfolio. As a further source of liquidity, TransLink maintains a $500 million CP program, which at the time of writing was approximately 18% utilized. The CP program is supported by a three-year $450 million bank credit agreement as a liquidity backstop expiring March 2019. In addition, the credit agreement provides for a $50 million swingline.

Medium-Term Outlook

In updating the ten-year investment plan with projects and the proposed funding strategy for Phase 1 of the Mayors' Vision, TransLink has revised debt projections for the period through 2026. DBRS notes that final figures and projections may vary from those currently included in the Draft for Consultation. Based on the draft plan, adjusted net debt is expected to peak at $2.97 billion in 2019, representing a per capita debt burden of approximately $1,120, assuming modest population growth of 1.4% to 1.5% in the intervening period. Although the peak per capita debt burden is unchanged from the last review, the timing of the peak should occur in 2019 rather than in 2016. The projected peak in adjusted net debt is considered to be manageable for the ratings. Over the forecast period, debt service coverage ratios are unlikely to improve meaningfully, as operating performance is expected to remain fairly tight given the high fixed-cost base and persistent inflationary pressures facing the Authority.

Gross direct and indirect P3 debt is anticipated to peak at $3.8 billion in 2024, and the Phase 1 plan includes a proposed increase in TransLink's borrowing authority to $4.0 billion from $3.5 billion to account for the increase over the previously approved 2014 base investment plan.

Local Economy

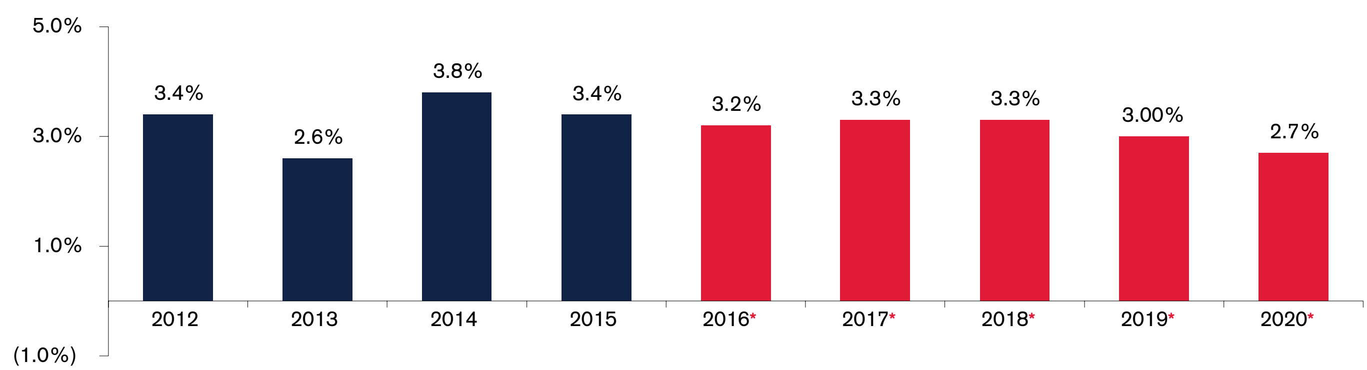
Metro Vancouver is Canada's third-largest metropolitan area after Toronto and Montréal with a population of nearly 2.5 million. The Region comprises 23 local governments, with the City of Vancouver at the centre. Population growth has ranged between 1.1% and 1.3% in recent years, with the outlying municipalities accounting for much of the growth. The Region continues to be a popular destination for international and domestic migration. The Region is the commercial centre of British Columbia, with a diversity of industries ranging from manufacturing and trade to film, technology and tourism.

The Metro Vancouver economy expanded by 3.4% in 2015 and is projected by The Conference Board of Canada to be the growth leader among all major Canadian metropolitan areas in 2016, with real gross domestic product (GDP) set to increase by an estimated 3.2%. Meanwhile, the Canadian economy is currently set to expand by a modest 1.2% based on the latest consensus forecast tracked by DBRS. The construction sector is expected to be the major engine of growth in the Region, with a high level of new multi-family housing starts and non-residential investment buoying the outlook. The low Canadian dollar, the $8 billion Seaspan federal ship-building contract and relatively healthy U.S. demand should also support the local manufacturing sector. The service sector is also expected to perform strongly led by gains in business services, wholesale and retail trade, personal services and finance, insurance and real estate services. The Province is also set to be the growth leader in 2016, with real GDP set to expand by an estimated 2.6% based on the consensus tracked by DBRS. In 2017, growth is expected to moderate somewhat to 2.2%.

The Metro Vancouver labour market has performed well in recent years. Employment has risen to more than 1.3 million and the unemployment rate currently stands at a low 4.9% (seasonally adjusted, three-month moving average), down 0.3% month over month and down from the average rate of 5.9% recorded in 2015. Employment is expected to continue to rise on the general strength of the local economy, and the unemployment rate is expected to remain stable. Incomes are anticipated to continue to rise, although median family total income in the region currently falls slightly below the provincial and national averages. Personal income per capita in the Region remains slightly above the provincial and national averages.

Despite the relatively solid growth outlook, housing affordability and rapid price appreciation in the Metro Vancouver housing market continues to be a downside risk. A significant housing correction would likely have spillover effects across the regional economy and ultimately produce slower growth, which could negatively affect transit ridership levels. The Canada Mortgage and Housing Corporation noted in its October 2016 Housing Market Assessment that there is strong evidence of problematic conditions in the Region based on overvaluation, overheating and price-acceleration trends. The August 2016 introduction of a 15.0% foreign home buyer tax by the Province, and potential local measures in the City of Vancouver aimed at vacant property and home sharing have compounded this uncertainty. In September 2016, the Greater Vancouver MLS Home Price Index registered a YOY gain of 28.2%, but month over month the index declined by 0.7% and transactions are down 32.6% versus the prior year. Other risks to the outlook include a potential slowdown in economic growth in China, which could negatively affect regional exports. However, relatively solid U.S. economic growth and the current weakness in the Canadian dollar should continue to support moderate growth in exports from the Region, although softwood lumber appears to be a growing point of tension in Canada–U.S. trade relations and presents a downside risk for the B.C. economy more broadly.

Exhibit 4: Metro Vancouver — Real GDP Growth



* Forecast.
Source: The Conference Board of Canada.

South Coast British Columbia Transportation Authority Act

In June 2014, the Province passed new legislation that provided a new governance structure for TransLink. As a result of this legislation, the Regional Transportation Commissioner position has been eliminated and most responsibilities of the Commissioner's office have been transferred to the Mayors' Council, including the authority to approve new short-term fares or fare increases beyond the annual 2% permitted in legislation, govern oversight and disposition of major assets and determine executive compensation levels. Beginning January 1, 2015, the board comprises seven members appointed by the Mayors' Council (as selected from a list compiled by an independent screening panel), plus the Chair and Vice Chair of the Mayors' Council and up to two members appointed by the Province. Previously, there was no provincial representation on the board.

The Act preserves the ability of the board to annually raise property tax revenues by 3%, long-term fares as desired and short-term transit fares by 2% under normal conditions while also protecting TransLink's ability to raise taxes and fares without limit in times of financial stress. The Act continues to foster prudent financial planning by requiring management to prepare and adhere to a long-term strategy while also following a fully funded investment plan to guide expenditures over a shorter horizon. The long-term strategy must be outlined in a 30-year plan, updated every five years, while the investment plan covers a ten-year period and must be updated every three years. Both planning documents are approved by the Mayors' Council. This is intended to ensure that the Mayors' Council will be supportive of required fare increases above those already permitted in legislation and the associated capital investment, as they are now both part of the fully funded ten-year investment plan.

Legislation was introduced that requires any new funding source not already available to TransLink under the Act or any increase of the limits on or rates of increase for the revenue sources provided for in the Act to be decided upon by way of a referendum, as was undertaken in 2015. As a result of the "No" vote on the plebiscite, the existing long-term strategy and base plan continue to apply. The Mayors' Council has launched public consultations on Phase 1 of the Mayors' Vision, including a proposed funding strategy that includes enhancements to TransLink's legislative authority to increase property taxes and that proposes new revenue streams, such as a regional development charge, by 2020. The plan would update the investment plan and set the capital investment and service enhancement plan for the next several years, with updated investment plans in 2018 and 2020 providing for the entirety of the Mayors' Vision.

2015 Governance Review

Following the outcome of the plebiscite, the provincial minister responsible for TransLink commenced a review of the Authority to address public concerns related to accountability and future funding. Metro Vancouver has also established a Transportation Planning and Governance Review Task Force, which recommended that all transportation planning be placed in the Mayors' Council as opposed to the appointed board of TransLink. This recommendation, which would have required legislative changes, was rejected by the Province and no governance changes were undertaken as a result of the review. DBRS notes that there have been no changes to the mechanisms that ensure TransLink's ability to service its debt obligations — namely, its ability to levy an unlimited property tax increase on Metro Vancouver properties with TransLink Board authorization in a financial stress scenario.

Economic Statistics	2015	2014	2013	2012	2011
Transit system passengers (millions) 1	239	235	234	239	233
– Year over year	1.8%	0.3%	(2.1%)	2.4%	6.6%
Population (thousands, Metro Vancouver)	2,514	2,474	2,443	2,410	2,373
– Year over year	1.6%	1.3%	1.4%	1.6%	0.9%
Unemployment rate (Metro Vancouver)	5.9%	5.8%	6.6%	6.8%	7.5%
Employment (thousands, Metro Vancouver)	1,299	1,276	1,248	1,247	1,224
Housing starts (no. of units, Metro Vancouver)	20,863	19,212	18,696	19,027	17,867

1 Revenue from passengers.
Sources: BC Stats, TransLink and Statistics Canada.

South Coast British Columbia Transportation Authority Act (CONTINUED)

Financial Ratios	2015	2014	2013	2012	2011
Operating surplus (deficit)/total revenues	9.8%	1.4%	2.7%	(3.7%)	(3.8%)
Net surplus (deficit) as reported/total revenues	10.0%	1.9%	2.5%	(0.7%)	(4.0%)
Financial assets/current liabilities	149.1%	148.4%	148.6%	125.0%	143.1%
Net interest costs/total revenues	8.9%	10.0%	10.0%	10.9%	11.3%
Debt service coverage (times) 1	1.9	1.2	1.3	0.9	0.9
$ per capita (in Metro Vancouver):					
– Adjusted net long-term debt	1,019	1,022	1,037	1,061	1,064
– Net long-term debt, self-supported debt and commitments 2	1,561	1,602	1,694	1,733	1,590

Interest Costs and Debt Service ($ thousands)					
Net interest costs 3	144,321	144,855	145,074	150,409	149,031
Net debt service costs 4	232,364	239,560	244,794	253,184	247,058

1 Recurring surplus plus depreciation and interest expenses divided by net debt service costs. 2 Includes the contractor liability related to the Golden Ears Bridge and other capital commitments. 3 Defined as interest expense plus capitalized interest, net of interest earned on sinking fund assets. 4 Net debt costs are defined as net interest costs plus increase in MFA sinking funds.

Consolidated Statement of Operations	For the year ended December 31				
($ thousands)	2015	2014	2013	2012	2011
Operating revenues	1,625,310	1,447,315	1,443,732	1,379,870	1,315,862
Operating expenses	1,465,288	1,426,878	1,404,858	1,430,825	1,365,286
Operating surplus (deficit)	160,022	20,437	38,874	(50,955)	(49,424)
Non-recurring items	2,340	6,437	(2,109)	41,600	(3,048)
Net Surplus (Deficit) as Reported	**162,362**	**26,874**	**36,765**	**(9,355)**	**(52,472)**
Operating Revenues					
Transit	511,445	495,609	495,575	460,600	444,743
Taxation	772,722	744,157	741,307	714,414	682,350
AirCare, Golden Ears tolling and Canada Line contributions	67,682	72,884	78,261	78,400	71,386
Amortization of deferred concessionaire credit	23,273	23,273	23,273	23,337	23,345
Interest income	34,381	34,739	34,208	31,662	26,058
Miscellaneous revenues	6,102	5,576	5,771	5,581	4,984
Capital funding 1	209,705	71,077	65,337	65,876	62,996
Total Revenues	**1,625,310**	**1,447,315**	**1,443,732**	**1,379,870**	**1,315,862**
Operating Expenses					
AirCare 2	-	15,806	16,163	17,380	19,100
Bus services	770,108	764,137	751,931	765,892	749,215
Corporate	122,559	85,213	80,445	73,657	67,970
Rail services	361,129	345,290	336,368	329,070	310,040
Roads and bridges	178,308	182,074	191,269	216,363	194,796
Transit police	33,184	34,358	30,624	28,463	27,384
Other expenses					
Total Expenses	**1,465,288**	**1,426,878**	**1,406,800**	**1,430,825**	**1,368,505**
Non-recurring items			(1,942)	-	(3,219)
Total Operating Expenses before Non-Recurring Items	**1,465,288**	**1,426,878**	**1,404,858**	**1,430,825**	**1,365,286**
Capital Expenditures	**267,619**	**228,413**	**248,296**	**177,391**	**106,096**
Cash Flow (DBRS adjusted; $ thousands)					
Recurring surplus (deficit)	160,022	20,437	38,874	(50,955)	(49,424)
Items not involving cash 3	(56,579)	75,770	94,157	90,593	99,370
Change in non-cash working capital	28,054	(3,887)	29,677	20,343	(19,299)
Operating Cash Flow from Operations	**131,497**	**92,320**	**162,708**	**59,981**	**30,647**
Net capex 4	(264,977)	(220,706)	(248,463)	(85,890)	(93,543)
Free Cash Flow	**(133,480)**	**(128,386)**	**(85,755)**	**(25,909)**	**(62,896)**

1 Consists of federal gas tax funding received by TransLink through the Union of BC Municipalities and other senior government capital contributions. Starting from fiscal 2010, the capital funding revenue category includes operating revenues to reflect the Public Sector Accounting Board (PSAB) requirement that transfers from government be deferred and recognized as revenue as related stipulations in the relevant agreements are met rather than recognized when received. 2 The AirCare program was discontinued in 2015. 3 Amortization of capital and other assets, changes in non-controlling interest of Transportation Property & Casualty Company Inc. and other non-cash adjustments. 4 Net proceeds from the sale of capital assets less capital expenditures. Starting in 2012, no longer includes capital funding since capital funding has been included in operating revenue in light of PSAB requirements. As at 2015, PSAB accounting requirements require that TransLink recognize government transfers as they are spent rather than amortized into revenue over a ten-year period.

Consolidated Balance Sheet ($ thousands)

	For the year ended December 31				
Assets	**2015**	**2014**	**2013**	**2012**	**2011**
Cash and marketable securities	632,479	574,620	638,938	545,130	498,269
Accounts receivable	102,421	102,644	97,103	107,037	79,059
Inventories	56,442	51,266	46,869	43,372	39,434
Prepaid expenses	11,719	12,516	9,315	8,431	7,452
Current Assets	**803,061**	**741,046**	**792,225**	**703,970**	**624,214**
Assets held for sale	-	4,868	14,164	-	-
Long-term investments	22,630	23,980	22,248	29,420	20,258
Debt reserve deposits 1	36,407	36,104	39,677	41,263	42,250
Debt sinking funds 1	801,681	693,328	717,710	685,541	558,889
Capital assets	4,606,623	4,511,992	4,451,189	4,385,782	4,426,404
Deferred charges			-	-	-
Total Assets	**6,270,402**	**6,011,318**	**6,037,213**	**5,845,976**	**5,672,015**
Liabilities					
Accounts payable and accrued liabilities	241,766	232,478	235,987	222,694	180,563
Short-term debt	119,590	89,587	89,540	89,241	88,615
Current portion of capital lease obligations	1,218	1,596	2,716	2,450	-
Current portion of long-term debt	61,727	63,433	101,833	121,762	78,926
Total current liabilities	424,301	387,094	430,076	436,147	348,104
Employee future benefits	110,023	99,875	89,082	78,251	67,144
Long-term debt	2,645,040	2,506,779	2,475,452	2,425,492	2,292,237
Contractor liability 2	1,050,913	1,051,375	1,045,059	1,032,744	1,020,150
Deferred concessionaire credits 3	572,396	595,669	618,942	642,215	665,552
Capital lease obligations	447	1,059	1,078	1,925	-
Deferred revenue and lease inducements	27,541	14,989	12,984	1,650	446
Deferred government capital contributions	1,124,066	1,201,165	1,238,101	1,137,878	1,179,353
Total Liabilities	**5,954,727**	**5,858,005**	**5,910,774**	**5,756,302**	**5,572,986**
Accumulated surplus	315,675	153,313	126,439	89,674	99,029
Total Liabilities and Equity	**6,270,402**	**6,011,318**	**6,037,213**	**5,845,976**	**5,672,015**

DBRS-Adjusted Net Debt ($ thousands)

	2015	**2014**	**2013**	**2012**	**2011***
Gross debt	2,826,357	2,659,799	2,666,825	2,636,495	2,459,778
Deferred concessionaire credits 3	572,396	595,669	618,942	642,215	665,552
Capital lease obligations	1,665	2,655	3,794	4,375	-
Less: sinking funds	(801,681)	(693,328)	(717,710)	(685,541)	(558,889)
Less: debt reserve deposit	(36,407)	(36,104)	(39,677)	(41,263)	(42,250)
Total DBRS-Adjusted Net Debt	**2,562,330**	**2,528,691**	**2,532,174**	**2,556,281**	**2,524,191**
Self-supported debt 2	1,050,913	1,051,375	1,045,059	1,032,744	1,020,150
Capital commitments	312,000	383,700	560,036	588,113	229,119

1 Debt reserve deposits and sinking fund assets are administered by the Municipal Finance Authority of BC. 2 Represents the amount of funding received to date for the Golden Ears Bridge to be repaid in the future by TransLink through capital payments. 3 Funding provided by the concessionaire toward the construction of Canada Line, amortized post-completion over the term of the concession.

Rating History

	Current	2015	2014	2013	2012	2011
Issuer Rating	AA	AA	AA	AA	--	--
Senior Unsecured Debt	AA	AA	AA	AA	AA	AA
Commercial Paper	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Previous Action

- Confirmed, October 16, 2015.

Related Research

- *Rating Canadian Municipal Governments,* May 25, 2016.

Commercial Paper Limited

- $500 million.

Previous Report

- South Coast British Columbia Transportation Authority: Rating Report, October 16, 2015.

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.