

CREDIT OPINION

17 October 2017

Update

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RATINGS

South Coast British Columbia Transport. Auth

Domicile	British Columbia, Canada
Long Term Rating	Aa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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South Coast British Columbia Transport. Auth

Update Following Rating Affirmation

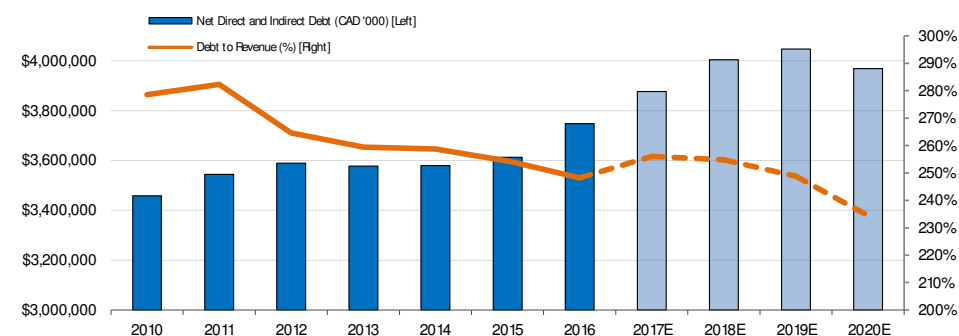
Summary Rating Rationale

The Aa2 rating assigned to the South Coast British Columbia Transportation Authority ("TransLink") reflects (1) its strong market position as the main provider of transportation services in the Greater Vancouver region, (2) robust ridership supported by a growing population base, (3) positive operating results, and (4) improved governance and management practices.

These positives are balanced by (1) continued high debt burden that remains one of the highest among Moody's rated peers, (2) high interest burden and (3) recent modest funding uncertainties. We anticipate that TransLink's debt will remain elevated at around 260% of revenues over the next two years before a gradual deleveraging in 2019 as the pace of revenue growth is expected to exceed debt growth. Furthermore, TransLink's wider responsibilities and unique status as a taxing authority allow it to sustain a higher debt burden than other public mass transit enterprises at the same rating level.

Exhibit 1

TransLink's debt-to-revenue ratio remains high but will gradually decline following its 2018 peak



Source: Moody's Investors Service, TransLink

Credit Strengths

- » Access to diversified revenue sources supported by TransLink's taxing authority
- » Strong governance and management practices
- » Track record of strong operating results

Credit Challenges

- » Debt burden will remain elevated in the medium term to support large-scale capital projects
- » Provincial changes introduce some funding uncertainty

Rating Outlook

The rating outlook is stable, reflecting our view that TransLink will continue to record positive operating results and its debt metrics will not deteriorate over the medium-term.

Factors that Could Lead to an Upgrade

- » Finding new sustainable revenue sources for capital projects
- » A material decrease in TransLink's debt burden

Factors that Could Lead to a Downgrade

- » Evidence that TransLink could no longer capitalize on its status as a taxing authority
- » An increase in the debt-to-revenue ratio above 300%
- » A significant deterioration in TransLink's liquidity profile

Key Indicators

Exhibit 2

South Coast British Columbia Transport. Auth

(Calendar Year)	2012	2013	2014	2015	2016
Net Debt (C\$000)	3,589,025	3,577,233	3,580,066	3,613,243	3,747,917
Net Debt per Revenue Passenger (C\$)	15.0	15.3	15.3	15.1	14.7
Growth in Revenue Passengers (%)	2.4	(2.1)	0.3	1.8	6.4
Net Debt as a % of Revenues [1]	264.6	259.5	258.8	254.4	248.2
Interest Payment as % of Revenues [1]	12.0	12.0	12.4	12.4	11.9
Farebox Recovery Ratio (%) [2]	47.4	51.0	49.0	48.8	50.6

[1] Revenues are net of capital contributions

[2] Farebox receipts as a percentage of operating expenses net of interest, amortization and capital contributions

Source: Moody's Investors Service, TransLink audited financial statements

Baseline Credit Assessment

The Aa2 rating assigned to TransLink reflects the application of Moody's Joint Default Analysis (JDA) rating methodology for government related issuers (GRIs). In accordance with this methodology, Moody's first establishes the baseline credit assessment (BCA) of a1 for TransLink and then considers the likelihood of support coming from the Province of British Columbia (Aaa stable) in the event that the entity faced acute liquidity stress.

Recent Developments

On Oct 11, 2017, Moody's affirmed TransLink's Aa2 issuer and senior unsecured debt ratings and maintained its baseline credit assessment of a1, with a stable outlook.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Profile

The South Coast British Columbia Transportation Authority ("TransLink") was created by the Province of British Columbia and assumed responsibility for the Greater Vancouver regional transportation system in 1999. Despite the provincial government's role in creating it, TransLink operates fairly independently from the provincial government. TransLink is responsible for (1) planning, constructing, funding, operating and maintaining a regional transport system, (2) the construction and maintenance of a major road network that crosses the boundaries of several area municipalities, as well as (3) managing transportation demand-management strategies and programs.

Detailed Rating Considerations

ACCESS TO DIVERSIFIED REVENUE SOURCES SUPPORTED BY TRANSLINK'S TAXING AUTHORITY

TransLink's institutional characteristics correspond to both transit authorities (farebox revenues) and municipal governments (legislated balanced budget requirements, taxing authority) in Canada, making it unique among mass transit providers. TransLink does not rely on operating grants from local governments or the province. Fares, fuel taxes, property tax receipts, toll fees, parking rights taxes and a hydro levy account for about 80% of its revenues, while operating grants from governments contribute just 1%.

TransLink's services are essential to the functioning of the Metro Vancouver economy. While demand for its services is sensitive to changes in fares and service levels, overall ridership tends to be robust. TransLink has the ability to raise revenues and/or cut expenses as required to meet its legislated balanced budget requirement. Moreover, TransLink's founding legislation allows it to access, by law, any tax or revenue source not included in its strategic plan if its board considers it necessary to do so in order to meet debt obligations.

STRONG GOVERNANCE AND MANAGEMENT PRACTICES

Governance and management practices are strong, although TransLink had to overcome a series of setbacks relating to criticisms of executive pay levels, transit delays and breakdowns, and delays in the rollout of its new fare card that weakened its public image. Following a failed public referendum in 2015 on a proposed sales tax increase to support capital projects, TransLink adopted new multi-phase investment plans that allow for a more gradual pace of infrastructure investments. Under a new CEO since early 2016, it also successfully addressed service delays, completed the rollout of its new fare card, and launched an accountability centre that allows public monitoring of its performance metrics.

We expect that over the next few years TransLink will continue to benefit from strong governance and management practices. TransLink has a long-term focus, and has made progress in benchmarking its own performance against peers. TransLink's governance and management practices are subject to oversight by the Mayors' Council on Regional Transportation. TransLink is also required to present a balanced budget, and forecasting is done through 30-year long-term plans and 10-year fully funded investment plans. An internal debt ceiling of CAD4 billion for its gross debt (expected to reach CAD3.1 billion in 2017) limits debt accumulation. Any increase in TransLink's borrowing limit is subject to approval by the Mayors' Council. The Mayors' Council also approves annual fare increases beyond the 2% legislated limit and annual property tax revenue increases beyond a 3% legislated limit.

Governance is overseen by both the Mayors' Council and Board of Directors. The Mayors' Council, which includes the mayors from the 21 municipalities in Metro Vancouver, has substantial oversight responsibilities, and appoints 7 of TransLink's 11 directors. The Mayors' Council Chair and Vice Chair also sit on the board. The Province of British Columbia has the right to appoint another 2 board members.

TRACK RECORD OF POSITIVE OPERATING RESULTS

Funds for expansionary capital projects are limited and TransLink has a high fixed cost burden in terms of amortization and interest expense (each about 12% of revenue in 2016). However, TransLink typically records solid operating margins before interest and depreciation which have supported consistent positive consolidated surpluses over the last few years. In 2016, TransLink posted a significant increase in its consolidated surplus at CAD668 million (up from CAD162 million in 2015). The increase was largely due to a significant CAD420 million gain related to the sale of the Oakridge Transit Centre property. We anticipate that TransLink will continue to generate moderate surpluses in the medium term supported by favourable population growth, an expanding transit network and potential new revenue measures (TransLink is currently reviewing mobility pricing through an independent commission).

Earlier this year, TransLink has successfully completed the roll-out of its electronic payment system, the Compass card. While the project had been delayed by several years and was over budget the electronic payment system will result in reduced fare evasion, increased collection rates and higher efficiency by providing TransLink with valuable data to optimize service levels.

DEBT BURDEN WILL REMAIN ELEVATED IN THE MEDIUM TERM TO SUPPORT LARGE-SCALE CAPITAL PROJECTS

TransLink's debt levels are high for its rating category as it continues to issue debt to support its future capital projects. TransLink's capital projects over the next 10 years are incorporated into its 2017-2026 investment plan which includes total capital expenditures of CAD3.6 billion for increased rail, bus, disability, pedestrian and cycling infrastructure across the region. The plan will be funded by contributions from the federal and provincial governments, regional funding, own-source revenues and debt financing. Debt financing will fund around half of the capital expenditures.

TransLink's revenue diversity and status as a taxing authority allow it to sustain a higher debt burden than other public mass transit enterprises at the same rating level. We expect that TransLink's debt will remain elevated at around 260% of revenues over the next two years before gradually declining in 2019 as the pace of revenue growth is expected to exceed debt growth. Additional safeguards include the requirement that the Mayors' Council approve any gross debt increases beyond CAD4 billion, excluding public private partnership (P3) liabilities.

We expect that TransLink will move forward with a number of large-scale critical projects over the next few years, including the Millennium Line Broadway Extension project, upgrades to the SkyTrain network, replacing the aging Pattullo Bridge, and improving bus services to accommodate expected population growth.

PROVINCIAL CHANGES INTRODUCE SOME FUNDING UNCERTAINTY

TransLink does not rely on the province for operating grants, but has a mandated long-term funding arrangement with the province that provides predictability in capital funding. Effective September 1, 2017, the recently elected provincial government eliminated bridge tolls across the province, including on the TransLink-owned Golden Ears Bridge. The elimination of tolls removes an important revenue source for TransLink, which has been previously earmarked for capital projects including the replacement of the Pattullo Bridge, resulting in a modest revenue shortfall. Nevertheless, TransLink has secured a funding agreement with the province to cover lost toll revenues over the next 12 months. Moody's anticipates that a more permanent agreement between the province and TransLink will be negotiated over the course of the next year.

Extraordinary Support Considerations

Moody's assigns a high likelihood of extraordinary support from the Province of British Columbia (Aaa stable) to prevent a default by TransLink, reflecting the major public policy role played by TransLink in providing mass transit services as well as key roads and bridges to the largest metropolitan area in Western Canada. The high likelihood of support also reflects the province's strong regulatory oversight over TransLink. A default by TransLink would likely lead to a sharp increase in borrowing costs for public sector entities in British Columbia, thereby providing incentive to the province to act to prevent a default by TransLink.

Moody's also assigns a very high level of default dependence between the province and TransLink, reflecting the two entities' shared exposures to common economic and financial risks.

Output of the Baseline Credit Assessment Scorecard

The Global Mass Transit Rating Methodology, dated February 2015, indicates a score of a1, which is consistent with the assigned BCA of a1. Under the methodology, TransLink is a positive outlier in terms of size, operating environment, market share, service level characteristics and level of self-support. However, at the same time TransLink scores weakly in terms of budget flexibility, budget balance and its leverage is high for its rating category.

Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

Ratings

Exhibit 3

Category **Moody's Rating**

SOUTH COAST BRITISH COLUMBIA TRANSPORT.

AUTH

Outlook	Stable
Issuer Rating -Dom Curr	Aa2
Senior Unsecured -Dom Curr	Aa2

Source: Moody's Investors Service

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