MOODY'S INVESTORS SERVICE

CREDIT OPINION
9 October 2018

Update

Rate this Research

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. Authority ("TransLink") (Canada)

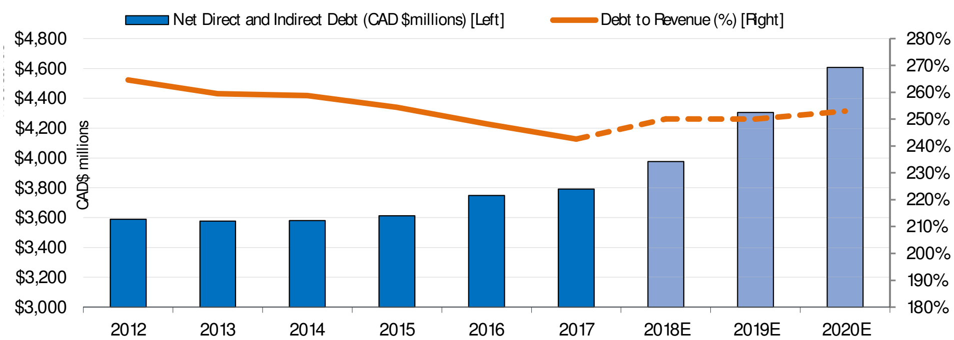
Update to credit analysis

Summary

The credit profile of the South Coast British Columbia Transportation Authority ("TransLink") (Aa2 stable) reflects its strong market position as the main provider of transportation services in the Greater Vancouver region, robust ridership supported by a growing population and continued positive operating results. TransLink's unique status as a taxing authority also allows it to sustain a higher debt burden than other public mass transit enterprises at the same rating level. Nevertheless, the credit profile remains constrained by an elevated interest burden and a debt burden that remains one of the highest among Moody's rated global peers at around 250-260% of revenues over the next three years before a gradual deleveraging.

Exhibit 1

The debt burden remains elevated within a band of 250-260% of operating revenues in the medium term



Source: Moody's Investors Service, TransLink

Credit strengths

» Access to diversified revenue sources supported by taxing powers

» Strong governance and management practices

» Strong operating results that strengthen fiscal profile

Credit challenges

» Very high debt burden to support capital costs

» Ongoing and diverse funding support needed for large-scale capital projects

Rating outlook

The outlook is stable, reflecting our view that TransLink will continue to record positive operating results and stable or improving debt metrics.

Factors that could lead to an upgrade

New significant and sustainable revenue sources for capital projects, or a material decrease in TransLink's debt-to-revenue ratio below 200% would result in upward pressure on the rating.

Factors that could lead to a downgrade

The rating could be downgraded if TransLink could no longer capitalize on its status as a taxing authority, or the debt-to-revenue ratio increased above 300%. A significant deterioration in TransLink's liquidity profile would also result in downward pressure on the rating.

Key indicators

Exhibit 2

South Coast British Columbia Transportation Authority

(Calendar Year)	2013	2014	2015	2016	2017	2018F
Net Debt (C$millions)	3,577.2	3,580.1	3,613.2	3,747.9	3,792.1	3,976.0
Net Debt per Journeys (formerly Revenue Passengers) (C$) [1]	15.3	15.3	15.1	16.0	15.3	15.2
Growth in Journeys (formerly Revenue Passengers] (%) [1]	(2.1)	0.3	1.8	(1.9)	5.8	5.5
Net Debt as a % of Revenues [2]	259.5	258.8	254.4	248.2	242.6	250.1
Interest Payment as % of Revenues [2]	12.0	12.4	12.4	11.9	11.7	11.4
Farebox Recovery Ratio (%) [3]	51.0	49.0	48.8	50.6	52.2	50.2

[1] TransLink changed its ridership calculation in 2016 to 'Journeys' from 'Revenue Passengers'
[2] Revenues are net of capital contributions
[3] Farebox receipts as a percentage of operating expenses net of interest, amortization and capital contributions
Source: Moody's Investors Service, TransLink audited financial statements

Detailed rating considerations

The credit profile of TransLink, as expressed in its Aa2 stable rating, combines a baseline credit assessment (BCA) of a1 for TransLink and a high likelihood of extraordinary support coming from the Province of British Columbia (Aaa stable) in the event that the authority faced acute liquidity stress.

Baseline credit assessment

Access to diversified revenue sources supported by taxing powers

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.

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. Transit fares, various taxes including fuel taxes, property tax receipts and parking rights taxes, and a hydro levy account for about 80-90% of its operating revenues, while operating grants from governments contribute just under 3%.

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

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 which reviews and approves TransLink's transportation plans and provides certain oversight responsibilities for fares, compensation and external complaints. 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.

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 CAD5.5 billion (of gross debt) limits debt accumulation. Increases in TransLink's borrowing limit are 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.

In recent years 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 at the time negatively affected its public image. Following a failed plebiscite in 2015 on a proposed sales tax increase to support capital projects, TransLink adopted new multi-stage long-term investment plans that allow for a phased approach to future infrastructure investments, closely linking expenses to anticipated funding sources. Following the hiring of the current CEO in early 2016, TransLink successfully addressed previous service delays, completed the rollout of its new fare card, and launched an accountability centre that allows public monitoring of its performance metrics.

Strong operating results that strengthen fiscal profile

TransLink has a track record of posting solid operating margins before interest and depreciation which support consistent operating surpluses that averaged 11% of operating revenues over the last five years. Revenue generation is supported by strong transit fare revenue due to robust and rising ridership in the Metro Vancouver area including on the Evergreen Skytrain line. In addition, taxes and levies provide reliable sources of dedicated revenue streams for TransLink. Operating grants from governments constitute only a small component of revenues (less than 3%) which now includes compensation for foregone toll revenues from the Golden Ears bridge.

In 2017, TransLink posted a Moody's-adjusted operating surplus of CAD176 million, above the average over the last five years of CAD159 million supported by strong transit fee and tax revenues and government transfers, partly offset by higher expenses mainly as a result of service expansions. Despite the higher expenses, TransLink maintains very strong and improving farebox recovery ratios, rising to 52.2% in 2017 from 49.0% in 2014. On a consolidated basis, the authority recorded a surplus of CAD96 million in 2017, down from the CAD668 million consolidated surplus posted the prior year which was positively affected by a significant one-time capital gain of CAD420 million related to the sale of the Oakridge Transit Centre property.

For 2018, TransLink projects a surplus of CAD253 million on strong transit revenue and revenue from taxation and levies, tempered by rising expenses due to higher operating and interest costs. We anticipate that TransLink will be able to continue generating meaningful surpluses in the medium term supported by rising population, an expanding transit network with strong ridership growth, and potential new revenue sources (TransLink is currently reviewing mobility pricing).

Very high debt burden to support capital costs

TransLink's debt levels remain very high for its rating category as the authority continues to issue debt to fund a significant portion of its long-term capital projects. Debt financing will fund around one quarter of the capital expenditures of the 2018-2027 Phase 2 plan for new expansion projects. To accommodate higher debt requirements to support TransLink's rising capital costs, the debt ceiling has been increased twice within the last two years, to CAD5.5 billion from CAD3.5 billion. The increases highlight the authority's requirement for high levels of debt which however continue to constrain its credit profile.

We expect that TransLink's net direct and indirect debt will rise to about CAD4 billion by the end of 2018 and may approach CAD5 billion over the next four years. As a result, net debt will remain elevated within a band of 250-260% of operating revenues over the next four years before gradually declining starting in 2022 as the pace of revenue growth is expected to exceed debt growth. Nevertheless, 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. Additional safeguards include the requirement that the Mayors' Council approve any gross debt increases beyond the debt ceiling, excluding public private partnership (P3) liabilities.

Ongoing and diverse funding support needed for large-scale capital projects

TransLink's capital projects over the next 10 years are incorporated into its 2018-2027 Phase 2 expansion plan which requires combined capital expenditures of CAD6.4 billion for increased rail, bus, road, pedestrian and cycling infrastructure across the region. Funding for these projects requires ongoing and diverse revenues from operations, debt and government support. Support from the federal government (31%, up from 10% of the Phase 1 plan) and provincial government (40%, up from 7%) constitute the majority of funding over the ten years. However, the level of government support is sensitive to potential shifts in political priorities which create some uncertainty of funding for future capital expansion plans. TransLink could offset lower potential government funding from internal resources, which could pressure its liquidity, or partly scale back its capital plan, which could pressure its ability to provide adequate transit services to a growing ridership. Nevertheless, these risks are mitigated by TransLink's practice to only move ahead with capital projects where full funding is secured.

TransLink has a number of large-scale critical projects over the next few years which remains subject to execution and financing risk reflecting management's ability to complete projects on time and on budget. These projects include the Millennium Line Broadway Extension project, the Surrey-Newton-Guilford light rail transit project, upgrades to the SkyTrain network, and improving bus services to accommodate expected population growth. Easing some of the pressures relating to capital projects, TransLink's capital plans will no longer include costs associated with replacing the aging Pattullo Bridge, following an announcement by the provincial government earlier this year that it will assume the ownership and construction and operating costs of the replacement bridge.

Extraordinary support considerations

Moody's assigns a high likelihood of extraordinary support from the Province of British Columbia 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 the authority.

Rating methodology

For details about our rating approach, please refer to the Mass Transit Enterprises Methodology, 21 December 2017.

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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