MOODY'S
INVESTORS SERVICE

CREDIT OPINION
30 July 2020

Update

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RATINGS

South Coast British Columbia Transport. Auth

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

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)

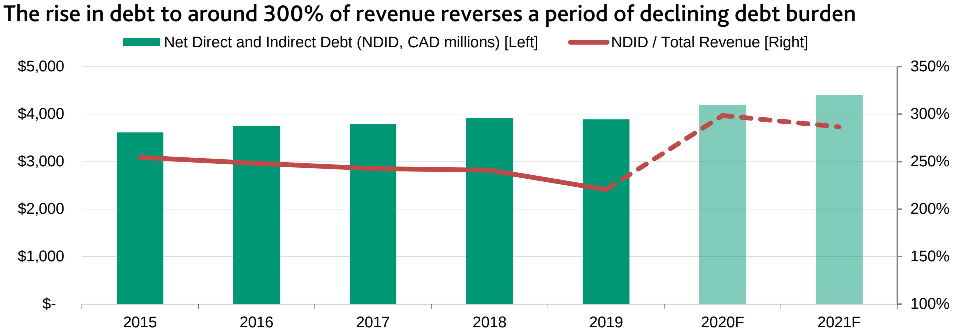
Update following outlook change to negative

Summary

The credit profile of the South Coast British Columbia Transportation Authority ("TransLink") (Aa2 negative) reflects its strategic importance as the main provider of transportation services in the Greater Vancouver region, a strong institutional framework, and its unique status as a taxing authority which allows it to sustain a higher debt burden. However, coronavirus-related pressures will lead to weaker fiscal results across multiple years. In addition, a post-coronavirus recovery could be hindered by a second coronavirus wave and permanent changes in passengers' willingness to travel by transit. TransLink's debt burden, which was already one of the highest among Moody's rated global peers prior to the onset of the pandemic, will reach and remain near 300% of revenue over the next two years.

Exhibit 1

The rise in debt to around 300% of revenue reverses a period of declining debt burden



Source: Moody's Investors Service, TransLink

Credit strengths

- Strategic importance as the main regional transportation provider
- Taxing power allows access to diversified revenue sources
- Strong governance and institutional characteristics

Credit challenges

- Lower operating revenue from reduced transit demand
- Rise in debt burden significantly exceeds our pre-pandemic estimate
- Capital projects are subject to execution and financing risks

Rating outlook

The negative outlook on TransLink's ratings reflects significant coronavirus-related pressures which will lead to weaker fiscal results and higher debt burden across multiple years. It also reflects our view that the post-coronavirus recovery that could be hindered by a subsequent reversal in travel demand and additional containment measures as a result of further waves of virus transmission.

Factors that could lead to an upgrade

The outlook could be stabilized if increased ridership levels lead to a faster fiscal recovery than we currently forecast, and if TransLink could maintain a debt burden below 300% of revenue.

Factors that could lead to a downgrade

Downward pressure on the ratings could result from a slower than anticipated fiscal recovery and rising debt burden, evidenced by TransLink's inability to adapt to a changed environment. A subsequent reversal in travel demand and additional containment measures as a result of further waves of virus transmission could also hinder recovery, along with potential permanent changes in passengers' willingness to travel by transit. In addition, evidence that anticipated or already announced federal or provincial support measures will only partially offset multi-year revenue shortfalls, leading to eroded operating margins and a higher debt burden, would also lead to downward rating pressure.

Key indicators

Exhibit 2

South Coast British Columbia Transportation Authority

(Calendar Year ending Dec 31)	2015	2016	2017	2018	2019	2020F
Annual Ridership (millions) [1]	238.8	234.2	247.8	263.0	271.4	95.0
Net Debt (CAD millions)	3613.2	3747.9	3792.1	3915.6	3888.0	4195.0
Net Debt as a % of Revenues [2]	254.4	248.2	242.6	241.0	220.5	298.5
Interest Payment as % of Revenues [2]	12.4	11.9	11.7	11.4	10.7	13.2
Farebox Recovery Ratio (%) [3]	45.3	47.9	48.6	50.1	51.1	27.5
Days Cash on Hand	101.0	107.7	145.4	165.6	153.4	65.6

[1] Number of unconnected passenger trips (passenger journeys)
[2] Revenues are net of capital contributions
[3] Transit revenue as a percentage of operating expenses
Source: Moody's Investors Service, TransLink audited financial statements and budget

Detailed rating considerations

The credit profile of TransLink, as expressed by its Aa2 negative 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

Strategic importance as the main regional transportation provider

TransLink's services are essential to the functioning of the Greater Vancouver economy. It is the main provider of transportation services in the Greater Vancouver region and serves a large population of 2.6 million. TransLink is responsible for around 90% of the region's transit, and therefore does not have viable competitors. TransLink's growth has been strongly correlated to long-term demand for public transit from a growing regional population as evidenced by historically robust ridership.

TransLink operates an extensive bus and rail network, including the SkyTrain rapid light-rail transit system, passenger ferries, an express commuter rail, and the transit for mobility-impaired passengers. Prior to the coronavirus pandemic, its network provided around 271 million rides annually, with a utilization ratio of 101% (annual ridership relative to the service area population) and a strong farebox recovery ratio of 51% (farebox revenues relative to operating expenses) in 2019.

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) constructing and maintaining a major road network that crosses the boundaries of several area municipalities, as well as (3) managing transportation demand-management strategies and programs.

Taxing power allows access to diversified revenue sources

TransLink's legislation allows it to access, by law, any tax or legislated revenue source not included in its strategic plan if its Board of Directors considers it necessary to do so in order to meet its debt obligations. TransLink's taxation powers also allow it to have diverse revenue sources, including fuel and property taxes that partly cushion it from ridership revenue declines. Property taxes tend not to fluctuate with economic shocks, insulating it from pandemic-related economic weakness and ridership declines.

TransLink's institutional characteristics as a transit agency with taxing powers correspond to both transit authorities (farebox revenues) and municipal governments (legislated balanced budget requirements, taxing authority) in Canada, making it unique among the majority of mass transit providers. TransLink primarily does not rely on operating grants from local governments or the province.

Further, TransLink's status as a taxing authority enables it to raise taxes and revenue sources which could be used to compensate for lost passenger revenues. This status provides fiscal flexibility and in turn a capacity to maintain a higher debt burden than many other mass transit agencies in our rated portfolio. TransLink also has significant unutilized revenue sources such as vehicle levies and area benefit taxes that could be used to meet future financial requirements.

Prior to the pandemic, transit fares, various taxes including fuel taxes, property and replacement taxes, parking taxes, and a hydro levy accounted for about 80% of its operating revenues while operating grants from senior governments contributed just under 4%. Excluding any necessary operating support for 2020, we anticipate that government operating transfers will remain a relatively small share of total revenues.

Strong governance and institutional characteristics

TransLink's governance and management practices, which we consider to be strong, 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.

Starting in 2017, TransLink adopted multi-stage long-term investment plans that allow for a phased approach to future infrastructure investments, closely linking expenses to anticipated funding sources. Forecasting is done through its 30-year long-term regional transportation strategy (updated every 5 years) and 10-year fully funded investment plans (updated at least every 3 years). TransLink is working on its economic recovery plan and expects to roll out an updated 10-year investment plan for the 2021-2030 period in 2021 which we expect will address pandemic-related strategic capital priorities and funding.

Debt accumulation is constrained by an internal debt ceiling of CAD5.5 billion of gross debt as well as an internal policy limit of 20% of gross interest costs as a percentage of operating revenues. 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. However, given that raising taxes during the coronavirus pandemic could be politically unpopular, we do not anticipate significant fare or tax increases beyond legislated limits in 2020.

Lower operating revenue from reduced transit demand

TransLink has material exposure to the coronavirus pandemic and related fall in ridership. The significant drop in passenger revenue in 2020, with only partial anticipated recovery in 2021, will lead to weaker fiscal results across multiple years. Even as pandemic-related pressures begin to ease as the province moves through its phased restart plan, passenger volumes will, in our view, likely recover only gradually as the willingness to travel by transit may be impaired for some time.

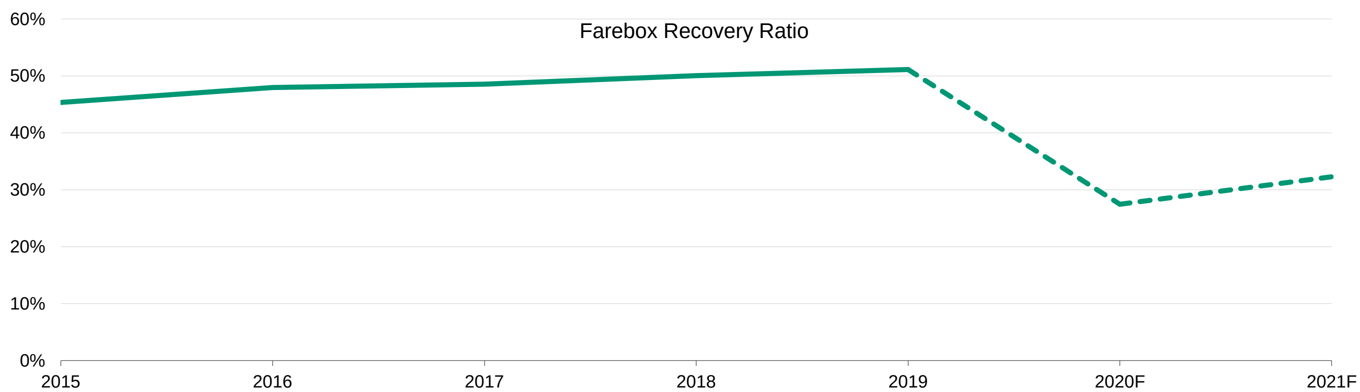
In our baseline scenario, ridership numbers will fall by 65% in 2020 relative to 2019 levels, and will only recover by approximately 50% in 2021 relative to 2020. As a result, the farebox recovery ratio (fare revenues as a percentage of operating expenditures) will fall from around 51% in 2019 to 28% in 2020. We expect that operating revenues will decline by 24% in 2020 (by approximately CAD440 million) and 17% in 2021 (by CAD310 million) relative to our pre-coronavirus forecasts for the same period, given significant coronavirus-related declines in ridership levels and transit fare revenues.

Although TransLink has flexibility to reduce operating costs to cushion some of these pressures, sustained changes in passengers' willingness to travel by public transit and a worsening of the coronavirus outbreak leading to further declines in ridership could lead to long-term impairment in passenger revenues and TransLink's fiscal profile. The post-coronavirus recovery could be hindered by subsequent reversal in travel demand and additional containment measures as a result of further waves of virus transmission and permanent changes in passengers' willingness to travel, reducing demand for passenger services over the longer term, leading to sustained revenue shortfalls.

In order to improve its long-term financial sustainability, TransLink has already identified CAD69 million in expense savings primarily from reduced operating spending and service reductions. In addition, the Government of Canada (Aaa stable) recently announced a CAD19 billion coronavirus relief package for Canadian provinces and territories, of which an anticipated CAD2.2 billion will be allocated to the Province of British Columbia. On July 23, a subsequent federal announcement noted that of this amount, an anticipated CAD540 million will accrue to transit, with a matching amount from the province.

Exhibit 3

The farebox recovery ratio will be below pre-pandemic levels in 2020 and 2021
(Transit revenues as a % of operating expense)



Source: Moody's Investors Service, TransLink

Rise in debt burden significantly exceeds our pre-pandemic estimate

TransLink's debt levels, which are high for its rating category, will rise further as the Authority continues to issue debt to fund a significant portion of its long-term capital projects. We expect that the notional level of outstanding debt will rise by about CAD200-300 million annually (net of refinancing) over the next two years primarily to support new expansion capital projects, including the expansion of the SkyTrain lines, under its investment plan.

The rise in debt levels and corresponding decline in operating revenues will result in a significant increase in the debt burden, rising to nearly 300% in 2020 and remaining near similar levels if TransLink faced a persistent revenue shortfall compared to pre-pandemic expectations of steady increases in revenue. This level exceeds our pre-pandemic estimate of the debt burden of 250-260% for the 2020-2023 period as the outstanding notional level of debt rises while revenues will be lower.

TransLink relies primarily on long-term debt for capital funding purposes. While debt accumulation is capped at the authority's legislated debt limit of CAD5.5 billion, the debt ceiling has been increased several times in recent years to accommodate higher debt requirements for capital costs, highlighting the authority's requirement for high levels of debt.

Total short-term borrowing stood at approximately CAD100 million at year-end 2019, including CAD60 million used of its CAD500 million commercial paper program. Short-term borrowing represented only 2% of its overall outstanding borrowing in 2019.

As we highlighted, 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. In addition, at the end of 2019 TransLink maintained CAD956 million in sinking funds and debt reserve funds which provide support to bondholders.

Capital projects are subject to execution and financing risks

TransLink has a number of large-scale critical projects over the next few years which could be subject to approval, execution and financing risk reflecting management's ability to complete projects on time and on budget. Previously identified projects include expansions of major road networks, upgrades to the SkyTrain network, the construction of the Surrey to Langley extension of the SkyTrain rapid transit line and expanding bus services to accommodate expected population and economic growth in the region.

TransLink's capital projects for the 2021-2030 period, which we expect will include many of the previously identified projects, will be detailed under its upcoming investments plan to be released in 2021. Funding for these projects will require ongoing and diverse revenues from operations, debt and government support. Historically, the provincial and federal governments contributed 40% each, however given our forecast of weaker operating revenues, funding for the capital plans will rely more heavily on government support.

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.

ESG considerations

How environmental, social and governance risks inform our credit analysis of TransLink

Moody's takes into account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of TransLink, we assess the materiality of ESG to the credit profile as follows:

Environmental considerations are material to TransLink's credit profile given that its large fleet of gas and diesel powered vehicles require significant capital expenditures. However, TransLink incorporates environmental sustainability and green initiatives into its strategic plans, including efforts to reduce greenhouse gas emissions by 80% and utilizing 100% renewable energy in all of its operations, both by 2050. In addition, TransLink issued its first green bond in November 2018 to finance its low carbon capital initiatives including procurement of electric buses and construction of new rail rapid transit lines.

Social considerations are material to TransLink's credit profile, and we regard the coronavirus outbreak as a social risk under the ESG framework, given the substantial implications for public health and safety. TransLink is significantly exposed to the impacts of the coronavirus outbreak including changes in passenger demand and increased cleaning of public spaces and equipment. Nevertheless, increasing population levels and predictable demographic trends in the Greater Vancouver region serviced by TransLink have supported historical increases in ridership.

Governance considerations are material to TransLink's profile but we view governance risk as low. Governance considerations include robust planning and financial management through a 30-year long term regional transportation strategy and rolling 10-year capital investment plans. In recent years, strong management has resulted in improved brand image and public perception of TransLink. TransLink recently also launched an accountability centre that allows public monitoring of its performance metrics, providing visibility into its performance indicators.

Further details are provided in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks.

Rating methodology

The assigned BCA of a1 is in line with the scorecard-indicated BCA of a1. For details about our rating approach, please refer to the Mass Transit Enterprises Methodology (December 2017) and Government-Related Issuers Methodology (February 2020).

Exhibit 4

TransLink - 2019 scorecard

Mass Transit Enterprises Methodology

Factor 1 : Size (15%)	Measure	Score
a) Issuer Size - Annual Ridership (Million)	271	Aa
b) Market Size - Service Area Population (Million)	2.7	Aa
Factor 2 : Market Position (35%)		
a) Operating Environment	Aa	Aa
b) Service Area Characteristics	Aaa	Aaa
c) Market Share - Utilization (%)	100.8	Aa
Factor 3 : Financial Flexibility (20%)		
a) Level of Self-Support - Farebox Recovery Ratio (%)	51.1%	Aaa
b) Budget Flexibility (3 Year Avg Fixed Costs as % of Oper. Exp.)	16.1%	A
Factor 4 : Debt & Financial Metrics (30%)		
a) Leverage - Net Debt/Revenues	2.21	Baa
b) Budget Balance -Interest as a % of Operating Revenues (3 Year Avg)	11.2%	Baa
c) Budget Balance - Net Margin (3 Year Avg)	22.6%	Aaa
d) Liquidity - Days Cash on Hand	153.4	Aa
Baseline Credit Assessment (BCA):		
Adjustments / Notching Factors		
Factor 3: Budget flexibility		
2) Independent taxing authority	0.5	
Other		
3) Credit event / Trend not yet reflected in existing data set	-1	
Baseline Credit Assessment (BCA)		
a) Indicated Rating from Grid After Notching Adjustment		a1
b) BCA assigned		a1

Note: Financial year-end 31 December 2019

Source: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
SOUTH COAST BRITISH COLUMBIA TRANSPORT. AUTH	
Outlook	Negative
Issuer Rating -Dom Curr	Aa2
Senior Unsecured -Dom Curr	Aa2

Source: Moody's Investors Service

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