

CREDIT OPINION

20 October 2016

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 (TransLink)

Update to Discussion of Key Credit Factors

Summary Rating Rationale

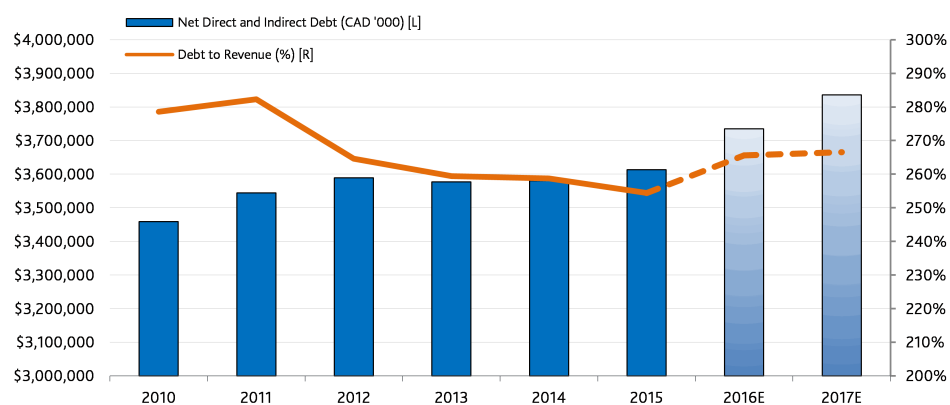
The Aa2 rating assigned to the South Coast British Columbia Transportation Authority ("TransLink") reflects (1) the authority's strong market position as the main provider of transportation services in the Greater Vancouver region with a robust ridership, (2) access to a diverse set of revenue sources, including its status as a taxing authority, and (3) solid governance and management practices requiring balanced operating budgets, 10-year fully funded investment plans and a 30-year long-term strategy.

TransLink has one of the highest debt burden (254% of revenue net of capital contributions in 2015) and interest burden (12.4% of revenue net of capital contributions in 2015) among similarly rated global peers, but benefits from more diverse revenue sources, as well as favorable network characteristics, and solid operating margins and liquidity. In addition, 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.

We expect that TransLink's debt burden will remain elevated in the medium term given future expansionary capital investments, but will peak near 270% in the medium term before beginning to gradually decline as the pace of revenue growth will exceed debt growth.

Exhibit 1

Debt burden remains elevated but will peak near 270% in the medium term



Source: Moody's Investors Service, TransLink

Credit Strengths

- » Access to a wide variety of revenue sources stemming from TransLink's status as a taxing authority
- » Despite recent challenges, governance policies support solid governance and management practices
- » Track record of strong financial results

Credit Challenges

- » Debt levels in the medium term will remain elevated due to high expansionary capital requirements
- » Strong governance structure and leadership will be critical for restoring public confidence

Rating Outlook

The rating outlook is stable, given continued consolidated surpluses and elevated but manageable debt burden.

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
- » Material adverse changes to TransLink's governing legislation or governance model

Key Indicators

Exhibit 2

(Calendar Year)	2011	2012	2013	2014	2015
Net Debt (C\$000)	3,544,341	3,589,025	3,577,233	3,580,066	3,613,243
Net Debt per Revenue Passenger (C\$)	15.2	15.0	15.3	15.3	15.1
Growth in Revenue Passengers (%)	6.6	2.4	(2.1)	0.3	1.8
Net Debt as a % of Revenues [1]	282.3	264.6	259.5	258.8	254.4
Interest Payment as % of Revenues [1]	12.2	12.0	12.0	12.4	12.4
Farebox Recovery Ratio (%) [2]	47.6	47.4	51.0	49.0	48.4

[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

Detailed Rating Considerations

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.

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 the authority, 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.

Baseline Credit Assessment

ACCESS TO A VARIETY OF REVENUE SOURCES STEMMING FROM ITS STATUS AS A 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. The authority 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 82% 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 overall 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.

We expect that TransLink can continue to exploit its status as a taxing authority despite a rejected sales tax referendum in 2015 which leaves the authority with more limited funds to finance its expansion over the next 10 years.

DESPITE RECENT CHALLENGES, GOVERNANCE POLICIES SUPPORT SOLID GOVERNANCE AND MANAGEMENT PRACTICES

TransLink continues to benefit from sound governance and management practices. The authority 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. The authority is also required to present a balanced budget, a 10-year fully funded investment plan, and is subject to restrictions that limit its gross debt to a maximum of CAD3.5 billion (debt reached CAD2.8 billion in 2015). 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.

The Mayors' Council, made up of the mayors from the 21 municipalities in Metro Vancouver, the Chief of the Tsawwassen First Nation, and the elected representative of Electoral Area "A, 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 STRONG FINANCIAL RESULTS

Funds for expansionary capital projects are limited and TransLink has a high fixed cost burden in terms of depreciation and interest expense (each about 12% of revenue in 2015, consistent with prior years). However, TransLink benefits from solid operating margins before interest and depreciation which have supported small positive consolidated surpluses in 2013 and 2014. TransLink posted a significant increase in its consolidated surplus in 2015 at CAD162 million (up from CAD26.9 million in 2014). The increase was primarily due to higher tax revenues and to an increase in government transfers as a result of a required accounting change relating to the Federal Gas Tax Fund. In addition, the agency has achieved CAD320 million of claimed cost savings since 2012 (22% of 2015 total expenses) and has maintained capital expenditures under control. For 2016, TransLink has budgeted a consolidated surplus of CAD172 million.

The authority has recently 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, we expect that going forward, the electronic payment system will help increase efficiency and provide the authority with valuable data to optimize service levels.

DEBT LEVELS IN THE MEDIUM TERM WILL REMAIN ELEVATED DUE TO HIGH EXPANSIONARY CAPITAL REQUIREMENTS

We expect that TransLink will move forward with a number of critical projects over the next few years, including the Evergreen Extension project (which is expected to be completed in late 2016 and carries a CAD400 million contribution agreement from TransLink), improving bus services, and adding future light rail services to accommodate expected population growth. The federal and provincial governments have each previously provided one third of the funding for TransLink's major capital expansions, although the federal government has recently shown willingness to support up to half of eligible transit project costs.

Until the Mayors' Council approves a new capital plan, TransLink continues to operate under its existing 10-year 2014 base plan. The 2014 base plan foresees only limited future increases in debt mainly in the period of 2015-2017 and would lead to a gradual deleveraging starting in 2018.

TransLink's wider responsibilities and status as a taxing authority allow it to sustain a higher debt burden (254% of revenue net of capital contributions in 2015) than other public mass transit enterprises at the same rating level. Although we expect the agency's debt burden to peak near 270% of revenue in the medium term and gradually decline afterwards, any new borrowing leading to an increase in its debt burden beyond 300% of revenue would be credit negative. As noted, additional safeguards include the requirement that the Mayors' Council approve any gross debt increases beyond CAD3.5 billion, excluding public private partnership (P3) liabilities.

STRONG GOVERNANCE STRUCTURE AND LEADERSHIP WILL BE CRITICAL FOR RESTORING PUBLIC CONFIDENCE

Turnover in TransLink's leadership team and controversy about executive remuneration temporarily created corporate governance uncertainties in 2015 and early 2016. However, we note positively that a new CEO has been appointed effective March 2016 who has committed to strengthening TransLink's governance structure. Strong management leadership and a constructive working relationship with the Mayors' Council will also be critical for restoring public confidence in TransLink, which took a hit during the rejected sales tax referendum in 2015 and prolonged difficulties in rolling out the Compass fare card.

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.

Rating Methodology and Scorecard Factors

Exhibit 3

South Coast British Columbia Transportation Authority ("TransLink")

Global Mass Transit Enterprises Methodology Grid	Weight	Measure (12/31/2015)	Score
Factor 1 : Size (15%)			
a) Issuer Size - Annual Ridership (Million)	10%	239	Aa
b) Market Size - Service Area Population (Million)	5%	2.5	Aa
Factor 2 : Market Position (35%)			
a) Operating Environment	20%	Aa	Aa
b) Service Area Characteristics	5%	Aa	Aa
c) Market Share - Utilization (%)	10%	95.5	Aa
Factor 3 : Financial Flexibility (20%)			
a) Level of Self-Support - Farebox Recovery Ratio (%)	10%	45.3%	Aa
b) Budget Flexibility (3 Year Avg Fixed Costs as % of Oper. Exp.)	10%	20.0%	Baa
Factor 4 : Debt & Financial Metrics (30%)			
a) Leverage - Debt/Revenues	15%	2.5	Ba
b) Budget Balance - (US) Debt Service Coverage (3 Year Avg) /(Int'l) Interest as a % of Operating Revenues (3 Year Avg)	5%	12.3%	Ba
c) Budget Balance - Net Margin (3 Year Avg)	5%	21.4%	Aaa
d) Liquidity - Days Cash on Hand	5%	101	A
Baseline Credit Assessment (BCA):			
Additional Adjustments/Notching Factors			0.5
a) Indicated BCA from Grid			a1
b) Actual BCA Assigned			a1

Source: Moody's Investors Service

Ratings

Exhibit 4

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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