

CREDIT OPINION

8 October 2019

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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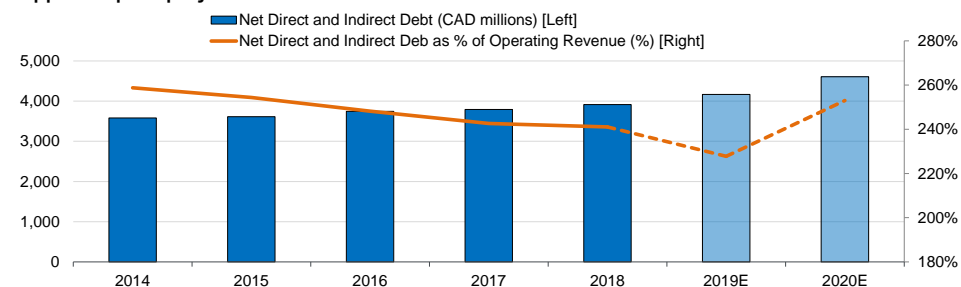
South Coast British Columbia Transport. Authority (TransLink) (Canada)

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 authority's debt burden is one of the highest among Moody's rated global peers with debt elevated near 250-260% of revenues over the next three years.

Exhibit 1

Debt will remain elevated and may rise to 260% of operating revenue over the next 2-3 years to support capital projects


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 supported by robust ridership

Credit challenges

- » Very high debt burden supporting large-scale capital plans
- » Capital projects are subject to execution and financing risks

Rating outlook

The outlook is stable, reflecting our view that TransLink will continue to record strong operating results supported by increasing ridership and population growth in the Greater Vancouver service area.

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

South Coast British Columbia Transportation Authority

(Calendar Year)	2014	2015	2016	2017	2018	2019F
Annual Ridership (millions) [1]	234.6	238.8	234.2	247.8	263.0	267.7
Net Debt (CAD millions)	3,580.1	3,613.2	3,747.9	3,792.1	3,915.6	4,167.0
Net Debt as a % of Revenues [2]	258.8	254.4	248.2	242.6	241.0	227.8
Interest Payment as % of Revenues [2]	12.4	12.4	11.9	11.7	11.4	11.4
Farebox Recovery Ratio (%) [3]	49.0	48.4	50.3	52.2	53.9	52.5
Days Cash on Hand	90.4	87.9	93.4	126.4	144.0	110.0

[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 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) 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.

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 and replacement taxes, parking taxes, and a hydro levy account for about 80% of its operating revenues while operating grants from senior governments contribute just under 4%. Excluding the Golden Ears Bridge Tolling Replacement Revenue payable by the province, TransLink anticipates declining government operating transfers as a percentage of total revenues each year over the 2018-2027 Phase 2 investment plan period. At the same time, capital investments from both the provincial and federal governments are expected to increase in support of TransLink's investment plan.

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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 has been robust with a 6% increase in journeys and 7% increase in boardings in 2018. 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 legislated revenue source not included in its strategic plan if its board considers it necessary to do so in order to meet its debt obligations. TransLink also has significant unutilized revenue sources such as vehicle levies and area benefit taxes that could be used to meet future financial requirements.

Strong governance and management practices

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.

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). Phase 3 of the rolling 10 year investment plan is expected in June 2020 for the 2021-2030 period and an update to the regional transportation strategy is anticipated in December 2020. TransLink is also required by law to present balanced budgets.

An internal debt ceiling of CAD 5.5 billion of gross debt as well as an internal policy limit of 20% on gross interest cost limit 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.

Strong operating results supported by robust ridership

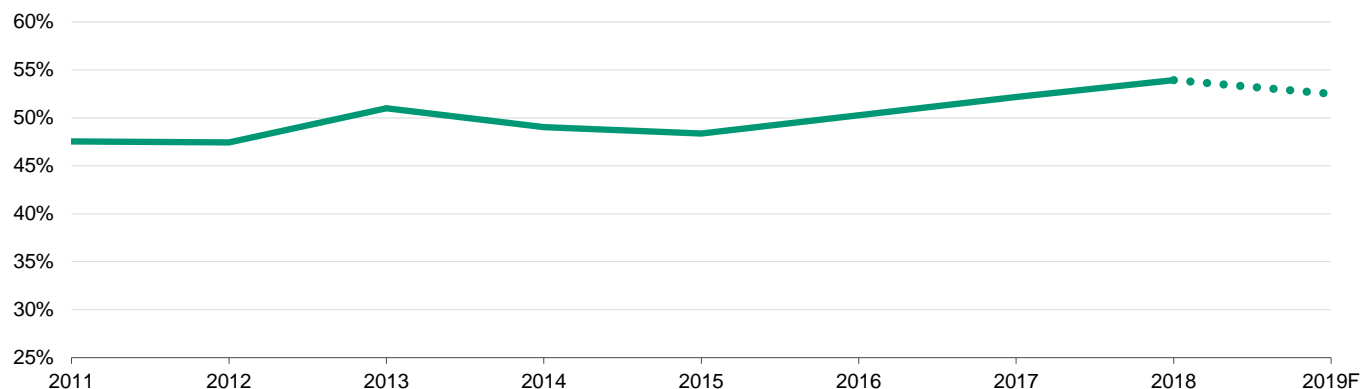
TransLink has shown a consistent ability to post solid operating margins before interest and depreciation with surpluses averaging 11% of operating revenues between 2013-2018. Over the next two years, we expect that the region will be able to continue generating similar surpluses supported by strong transit revenue due to robust and increasing ridership in the Metro Vancouver area, including on the Evergreen Skytrain line, as well as stable taxation revenue from a variety of sources such as parking, gas, properties and hydro. We expect combined transit and taxation revenues to still constitute the largest share of TransLink's total revenue (up to 80%). Operating grants from governments constitute only a small component of revenue (less than 3%), including compensation for the foregone toll revenues from the Golden Ears bridge.

In 2018, TransLink posted a Moody's-adjusted operating surplus of CAD 184 million, above the average of the last five years of CAD 161 million, supported by strong transit fee and tax revenues and government transfers, partly offset by higher expenses to support service expansions. Despite higher expenses, TransLink maintains very strong and improving farebox recovery ratios, rising to 54% in 2018 from 48% in 2014. We expect that the farebox recovery ratio will remain near current levels over the next 2-3 years given our forecast of continued strong ridership and TransLink's focus on expenditure controls.

For 2019, TransLink budgeted a surplus of CAD 189 million on strong transit revenue and revenue from taxation and levies, tempered by rising expenses due to higher operating (predominantly bus and rail) and interest costs. We expect that TransLink will be able to continue generating meaningful surpluses in 2020 and beyond supported by a rising service area population from immigration, an expanding transit network with strong ridership growth, and potential new revenue sources.

Exhibit 3

Farebox recovery ratios will remain strong, supported by robust ridership
(Farebox recovery ratio (transit revenues as a % of operating expenses))



Source: Moody's Investors Service, TransLink

Very high debt burden supporting large-scale capital plans

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 support around one quarter of the capital expenditures of the 2018-2027 Phase 2 plan for new expansion projects. To accommodate higher debt requirements for capital costs, the debt ceiling has been increased twice within the last three years, to CAD 5.5 billion from CAD 3.5 billion, which highlights the authority's requirement for high levels of debt.

Short-term borrowing stood at CAD 120 million at year-end 2018 of its CAD 500 million commercial paper program, which represented only a small component (2.5%) of its overall outstanding borrowing.

We expect that net direct and indirect debt could reach CAD 4.2 billion by the end of 2019 and may exceed CAD 5 billion by 2022, including around CAD 700 million in anticipated debt issuance in 2020 (one third of which is for refinancing maturing bonds). As a result, despite an anticipated rise in revenues, TransLink's debt burden will remain elevated around 250-260% of operating revenues over the next three years before gradually declining 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. In addition, TransLink maintained CAD 875 million in sinking funds and debt reserve funds at year-end 2018 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 remain subject to approval, execution and financing risk reflecting management's ability to complete projects on time and on budget. These 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 over the next 10 years are incorporated into its 2018-2027 Phase 2 investment plan which requires significant capital expenditures of CAD 7.3 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. Although support from the federal government (31%) and provincial government (40%) constitute the majority of capital funding over the ten years, TransLink's share of approximately 30% of the capital plan funding exposes the authority to funding uncertainty.

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 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:

We assess environmental risk as moderate given that TransLink operates a significant fleet of gas and diesel powered vehicles. 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.

We assess social risk as low given the increasing population levels and predictable demographic trends in the Metro Vancouver region serviced by TransLink. Public transit remains very popular in the region evidenced by increased ridership and number of journeys.

We also assess 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

For details about our rating approach, please refer to the [Mass Transit Enterprises Methodology](#) (December 2017) and [Government-Related Issuers](#) (June 2018) methodologies.

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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