

## CREDIT OPINION

24 March 2022

Update

### RATINGS

#### South Coast British Columbia Transport. Auth

Domicile	Vancouver, 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) (Canada)

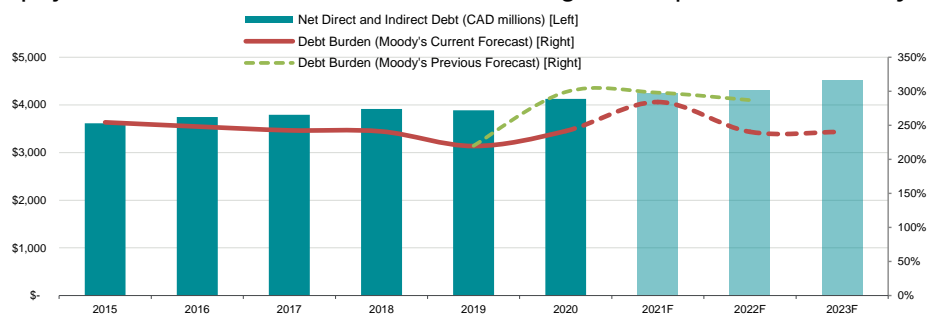
Update following outlook change to stable

## Summary

The credit profile of the [South Coast British Columbia Transportation Authority](#) (TransLink, Aa2 stable) 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. However, a significant drop in passenger volumes and transit revenues during the pandemic and a gradual but protracted recovery pressures operations. These are mitigated by significant federal and provincial pandemic transfers, and our expectation of further government support in case of additional stress. TransLink's net debt, which we project to stabilize at long-term levels of 240-250% of revenue and in line with our pre-pandemic estimate, remains high relative to rated global peers.

Exhibit 1

### We project the debt burden to stabilize at historical levels given anticipated revenue recovery



Sources: TransLink and Moody's Investors Service

## Credit strengths

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

## Credit challenges

- » Operating profile remains sensitive to changes in transit demand, but is mitigated by significant government support
- » Debt burden remains elevated relative to peers

## Rating outlook

The stable outlook reflects manageable fiscal pressures given management's ongoing cost mitigation efforts, which reflects the strong governance of TransLink, and the supportive operating environment which combined allow TransLink to continue to realize balanced operating results. Although TransLink's operating profile is sensitive to ridership changes given the high dependence on transit fares, we expect to see a gradual recovery in ridership levels and own-source revenue as the pandemic environment transitions to endemic.

The stable outlook also considers the sizeable liquidity which will continue to provide support to a controlled debt burden. It further reflects our view of additional government support in case of additional fiscal stress should ridership levels continue to lag pre-pandemic levels.

## Factors that could lead to an upgrade

New significant and sustainable revenue sources for capital projects, a significant increase in transit use above pre-pandemic levels, coupled with 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 the debt-to-revenue ratio increased above 300%. A long-term reversal in travel demand coinciding with a deterioration in TransLink's fiscal and liquidity profile would also result in downward pressure on the rating.

## Key indicators

Exhibit 2

### TransLink

(Calendar Year ending Dec 31)	2016	2017	2018	2019	2020	2021F	2022F
Annual Ridership (millions) [1]	234.2	247.8	262.6	272.4	128.0	143.8	212.3
Net Debt (CAD millions)	3747.9	3792.1	3915.6	3888.0	4125.9	4244.4	4315.9
Net Debt as a % of Revenues [2]	248.2	242.6	241.0	219.6	241.6	284.2	240.5
Interest Payment as % of Revenues [2]	11.9	11.7	11.4	10.6	11.2	12.1	10.0
Farebox Recovery Ratio (%) [3]	47.9	48.6	50.1	50.8	29.8	29.0	39.0
Days Cash on Hand	107.7	145.4	165.6	152.5	139.0	154.5	110.8

[1] Number of unconnected passenger trips (passenger journeys)

[2] Revenues are net of capital contributions

[3] Transit revenue as a percentage of operating expenses

Sources: TransLink and Moody's Investors Service

## Detailed rating considerations

On March 18, 2022, we affirmed TransLink's Aa2 ratings and revised the outlook to stable. This reflects its sizeable liquidity and favourable operating performance which continues to benefit from significant federal and provincial pandemic funding, and our expectation of further government support in case of additional stress.

The credit profile of TransLink, as expressed by its Aa2 stable rating, combines a baseline credit assessment (BCA) of a1 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 transportation provider for the Greater Vancouver economy

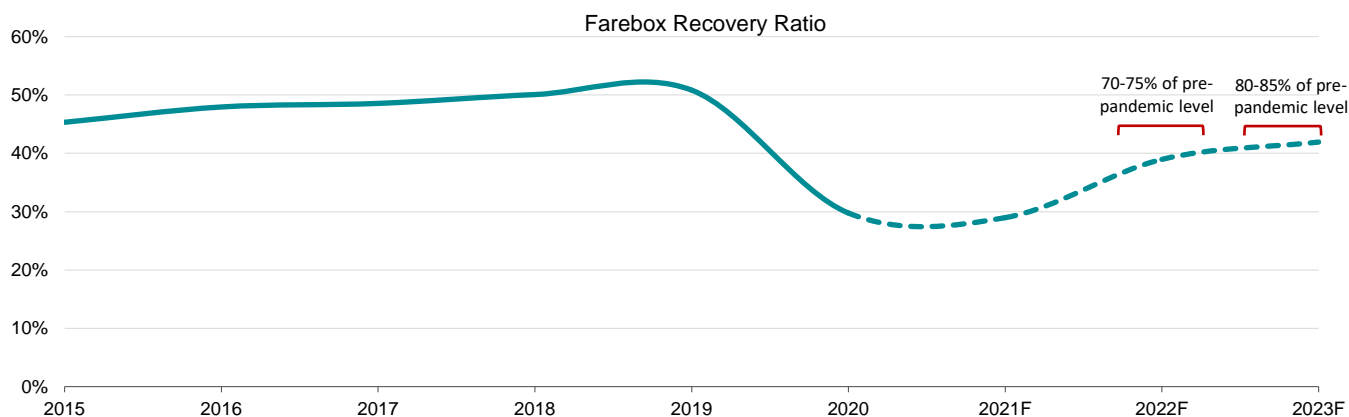
TransLink's services are essential to the functioning of the Greater Vancouver economy. It is the main provider of transportation services in the Greater Vancouver region and serves a large population of 2.7 million. TransLink is responsible for around 90% of the region's transit and therefore does not have viable competitors, which helps facilitate ridership recovery over the next two years. Its growth has been strongly correlated with long-term demand for public transit from a growing regional population.

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TransLink operates an extensive bus and rail network, including the SkyTrain rapid light-rail transit system, passenger ferries, an express commuter rail and transit for mobility-impaired passengers. Prior to the coronavirus pandemic, its network provided around 272 million rides annually, with a farebox recovery ratio (farebox revenues relative to operating expenses) of 51% (2019). Although these metrics weakened significantly during the pandemic, we expect to see a gradual recovery as the pandemic environment transitions to endemic, leading to a recovery in farebox revenues to 70-75% of 2019 levels in 2022 and improving to 80-85% in 2023.

Exhibit 3

**Transit revenues will gradually recover over the next two years**  
(Transit revenues as a % of operating expense)



Sources: TransLink and Moody's Investors Service

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. It 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 provides access to diversified revenue sources**

TransLink's governing legislation allows it to raise property taxes or access any legislated revenue source at the discretion of its board of directors in order to meet its debt obligations. TransLink's taxation powers also allow it to have diverse revenue sources, including predictable property taxes which could be used to compensate for lost passenger revenues. Property taxes – which make up 20-25% of total revenues – tend not to fluctuate with economic shocks, insulating it from pandemic-related economic pressures including ridership declines. TransLink also receives revenue from fuel tax and parking rights tax which however are sensitive to changes in driving patterns.

As a transit agency with taxing powers, TransLink's institutional characteristics correspond to those of both a transit authority (farebox revenues) and a municipal government (legislated balanced budget requirements, taxing authority) in Canada, making it unique among the majority of mass transit providers. TransLink does not rely on operating grants from local governments or the province. Although TransLink has benefitted from significant new COVID-related provincial and federal transfers between 2020-2022, we expect that government transfers will revert to historical levels over the next two years.

TransLink's status as a taxing authority also provides significant debenture holder security, and enables it to raise taxes and revenue sources which could be used to compensate for lost passenger revenues. TransLink's 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. Although TransLink may have limited willingness to raise taxes during a stressed environment (including the coronavirus pandemic), this status nevertheless provides fiscal flexibility. 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 institutional characteristics**

We characterize TransLink's governance and management practices as strong. The authority uses 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 a 30-year long-term regional transportation strategy (updated every 5 years) and 10-year fully funded investment plans (updated at least every 3 years). Throughout the pandemic, management has also used extensive scenario analysis to identify and manage pressures early on, including multi-scenario revenue, expense and debt forecasts. In addition, the authority initiated significant cost reduction efforts during the pandemic, including a hiring freeze, service reductions, and deferring planned service expansions.

Oversight is provided by the Mayors' Council which reviews and approves TransLink's long-term transportation plans and provides certain oversight responsibilities for fares, executive compensation and customer surveys and complaints. The Mayors' Council, which primarily includes the mayors (or their representatives) from the 21 municipalities in Metro Vancouver, also 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, providing a level of provincial oversight as well.

Debt accumulation is constrained by a legislated debt ceiling (currently CAD5.5 billion in 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 board of directors and Mayors' Council, although the debt ceiling has been increased several times since 2014 - most recently in 2018 from CAD4 billion - to accommodate higher debt requirements for capital costs, highlighting the authority's requirement for high levels of debt. The Mayors' Council also approves annual fare increases and annual property tax revenue increases beyond legislated limits, although fare increases have been limited to 2.3% annually until 2024. Given that raising taxes during the coronavirus pandemic could be politically unpopular, we do not anticipate significant tax increases beyond legislated limits in the near term.

**Operating profile remains sensitive to changes in transit demand, but is mitigated by significant government support**

Given the high dependence on transit fares in addition to taxes that depend on commuting trends (including parking taxes), TransLink's operating profile is highly sensitive to ridership/trip volumes. Annual ridership on its transit fleet including bus and rapid transit (SkyTrain) routes fell by 55% in 2020 compared to 2019 levels, gradually improving in 2021 although recovery was hindered by multiple waves of COVID-19 outbreaks. We expect a gradual, although protracted, recovery in transit ridership reflecting the transition to an endemic from a pandemic environment, with ridership levels at nearly 80% by the end of 2022 (of 2019 levels) and 90% in 2023.

Leading up to the pandemic, transit fares accounted for approximately 30% to 35% of TransLink's operating revenues. As part of pan-Canadian pandemic related support, TransLink received CAD661 million in combined federal and provincial operating funding which fully mitigated its net loss (net of expense savings) of CAD337 million for 2020, with the balance carried over to cover approximately CAD192 million net loss in 2021. Any unused portion can be applied to 2022 or subsequent shortfalls, and will also cover lower planned fare increases over the next four years.

Sustained changes in passengers' willingness to travel by public transit or a permanent shift away from the use of office space and toward more flexible working patterns could lead to long-term declines in ridership and an impairment in passenger revenues, leading to long-term adverse changes in TransLink's fiscal profile. We have recently estimated that a 20% sustained ridership decline would lead to an approximately 8% loss in own-source revenues.

**Debt burden remains elevated relative to peers**

TransLink's debt levels, which are high for its rating category, will continue to grow as the authority issues 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 million annually (net of refinancing) over the next two years primarily to support new expansion capital projects, including the expansion of the SkyTrain lines. These levels represent a return to more predictable increases following TransLink's slightly elevated CAD400 million (net of refinancing) in debenture issuances in 2020 which reflect a combination of funding for capital spending in the year as well as pre-borrowing for 2021.

TransLink's debt burden (net direct and indirect debt as a % of revenues) stood at 242% in 2020, above its pre-pandemic level of 221% in 2019. TransLink relies primarily on long-term debt for capital funding purposes. The debt burden temporarily increased to approximately 285% in 2021 given that a portion of government transfers allocated for 2021 were recognized in 2020 due to an

accounting treatment. Although we project that the debt burden will stabilize at around 240-250% in 2022-2024 as predictable debt increases will be mitigated by our expectation of rising revenue, these levels remain above the majority of its rated transit peers. Interest expense, which we expect will gradually improve to 10% from 12% of revenues over the next two years, is also high compared to peers and will require strong expense management. At the same time, 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.

While debt accumulation is capped at a legislated debt limit of CAD5.5 billion, the debt ceiling has been increased several times since 2014 to accommodate higher debt requirements for capital costs. Offsetting some of these pressures is the federal government's announcement to establish the Permanent Transit Fund (PTF) which aims to provide an additional CAD3 billion in annual funding for transit projects across Canada starting in 2026, increasing visibility into future funding support.

Total short-term borrowing stood at an estimated CAD60 million at year-end 2021, reflecting its unsecured credit line balance, which is backstopped by a CAD500 million commercial paper program (unused in 2021). Short-term borrowing represented only 1% of its overall outstanding borrowing in 2020, a low level that does not lead to material refinancing risk. In addition, at the end of 2021 TransLink maintained CAD1.1 billion in sinking funds and debt reserve funds which provide support to bondholders.

### 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 has issued two green bonds (2018 and 2019) 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 long-term changes in passenger demand and pandemic-related health and safety costs. 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. Nevertheless, a sophisticated cyberattack in December 2020 gained access to restricted employee data which required significant data restoration, although transit services were not impacted.

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 close to the scorecard-indicated BCA of a3. 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 - 2020 scorecard

## Mass Transit Enterprises Methodology

Factor 1 : Size (15%)	Measure	Score
a) Issuer Size - Annual Ridership (Million)	128	Aa
b) Market Size - Service Area Population (Million)	2.7	Aa
<b>Factor 2 : Market Position (35%)</b>		
a) Operating Environment	Aa	Aa
b) Service Area Characteristics	Aaa	Aaa
c) Market Share - Utilization (%)	46.8	A
<b>Factor 3 : Financial Flexibility (20%)</b>		
a) Level of Self-Support - Farebox Recovery Ratio (%)	29.8%	A
b) Budget Flexibility (3 Year Avg Fixed Costs as % of Oper. Exp.)	15.1%	A
<b>Factor 4 : Debt &amp; Financial Metrics (30%)</b>		
a) Leverage - Net Debt/Revenues	2.42	Baa
b) Budget Balance -Interest as a % of Operating Revenues (3 Year Avg)	11.1%	Baa
c) Budget Balance - Net Margin (3 Year Avg)	23.2%	Aaa
d) Liquidity - Days Cash on Hand	139.0	A
Baseline Credit Assessment (BCA):		
<b>Adjustments / Notching Factors</b>		
<b>Factor 3: Budget flexibility</b>		
2) Independent taxing authority	0.5	
<b>Other</b>		
3) Credit event / Trend not yet reflected in existing data set	-1	
<b>Baseline Credit Assessment (BCA)</b>		
a) Indicated Rating from Grid After Notching Adjustment		a2
b) BCA assigned		a1

Financial year-end 31 December 2020

Source: Moody's Investors Service

## Ratings

Exhibit 5

Category	Moody's Rating
<b>SOUTH COAST BRITISH COLUMBIA TRANSPORT.</b>	
<b>AUTH</b>	
Outlook	Stable
Baseline Credit Assessment	a1
Issuer Rating -Dom Curr	Aa2
Senior Unsecured -Dom Curr	Aa2

Source: Moody's Investors Service

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