MOODY'S RATINGS

Rating Action: Moody's Ratings announces the impact of the Province of British Columbia's negative outlook on related ratings

17 Apr 2024

Toronto, April 17, 2024 -- Moody's Ratings (Moody's) today affirmed the baseline credit assessments (BCAs) and all ratings of the City of Vancouver (Vancouver), the University of British Columbia (UBC), the Municipal Finance Authority of British Columbia (MFABC), and South Coast British Columbia Transportation Authority (TransLink), and maintained their stable outlooks. Concurrently, Moody's Ratings affirmed the BCA and ratings of Simon Fraser University (SFU) and changed its outlook to negative from stable.

These actions follow the change in outlook to negative from stable and affirmation of the aa1 BCA and Aaa ratings of the Province of British Columbia on 9 April 2024. For full details, please refer to the press release (https://ratings.moodys.com/ratings-news/418456). Today's rating action reflects Moody's Ratings assessment of the fiscal, economic and support linkages between the Province of British Columbia and its local governments and government-related issuers.

RATINGS RATIONALE

RATIONALE FOR AFFIRMING THE RATINGS WITH A NEGATIVE OUTLOOK FOR SFU

The negative outlook on SFU's Aa1 ratings reflects the negative outlook on the Province of British Columbia. As a result, should the province be downgraded, Moody's would also consider downgrading SFU's ratings as SFU's current standalone credit strength along with the likelihood of extraordinary from the province would not support a rating equivalent to that of the province.

The affirmation of SFU's aa3 BCA and Aa1 ratings reflects its strong academic reputation and research strength as a mid-sized comprehensive university, high levels of total wealth compared to peers and a low debt burden that supports high debt affordability. The university typically posts solid operating results with an EBIDA margin averaging around 10% in the last three years, although Moody's Ratings projects some weakening given inflationary cost pressures and provincial restrictions on domestic student fee increases. A sizeable deferred maintenance backlog weakens SFU's competitive position and could unfavourably impact students' campus experience. A recent federal cap on international students could pressure enrolment levels, although the university currently does not anticipate further notable declines in international enrollment. The Aa1 ratings take into consideration the aa3 BCA as well as Moody's Ratings assessment of a high likelihood of extraordinary support from the province should SFU face acute liquidity stress.

RATIONALE FOR AFFIRMING THE RATINGS WITH A STABLE OUTLOOK FOR UBC, VANCOUVER, MFABC AND TRANSLINK

The affirmation of the ratings with stable outlooks for these four entities reflects the assessment by Moody's Ratings that the fiscal and credit pressures facing the province will not translate into similar pressure for these issuers or adversely impact the creditworthiness of these issuers. The ratings also incorporate Moody's Ratings assessment of a high likelihood of extraordinary support from the province should any of these entities face acute liquidity stress.

The affirmation of Vancouver's aaa BCA and Aaa ratings with a stable outlook reflects the city's exceptional liquidity, a low debt burden (net direct and indirect debt to operating revenue) of around 30-35%, and very strong debt affordability. The city's credit profile is protected from provincial fiscal pressures as operating funding from the province accounts for only 2% of operating revenues while the vast majority of the city's revenue are sourced from property taxes and user fees which tend not to fluctuate with economic changes. Moody's Ratings views the city's governance and management as very strong, with transparent and timely financial reports and long-term management of the city's assets and green space. Credit risks mainly reflect rising capital expenditures and operating pressures, including social risks like housing affordability challenges.

The affirmation of UBC's aa1 BCA and Aa1 ratings with a stable outlook reflects its outstanding market position as one of the top Canadian universities with very strong student demand which ensures high levels of tuition revenues. UBC's academic and research reputation is market leading in Canada and well recognized internationally. While UBC receives significant capital funding support from the province, it relies less on ongoing funding support from the province than many peers, shielding its credit profile from provincial credit challenges. UBC also has significant other own-source revenues including from a substantial endowment which provides annual income to the university. These factors enable solid operating results (8-10% EBIDA margins) despite provincial limits on domestic tuition fee increases. UBC's debt levels are low compared to peers, in part given a provincial debt restriction on new debt issuance. The university has exceptional total wealth metrics relative to peers with total cash and investment providing 8.2x coverage of Moody's Ratings-adjusted debt and 1.1x coverage of operating expenses (2023). A recent federal cap on international students could reduce enrolment levels, although the university does not anticipate it to be material.

The affirmation of MFABC's aaa BCA and Aaa and P-1 ratings with a stable outlook reflects very robust credit protection mechanisms. This includes a general liability provision whereby MFABC's borrowers within the same regional district are jointly and severally liable for all obligations. These provide considerable strength to MFABC's institutional structure, which is complemented by Moody's Ratings assessment of very strong fiscal, investment and liquidity management. The overall level of liquidity is very high, which also ensures robust cash flow coverage. MFABC's credit profile is further supported by its taxing powers on all taxable properties in British Columbia, making it unique among pooled issuers. In Moody's Ratings assessment, the credit profiles of MFABC's borrowing pool are not meaningfully exposed to provincial credit challenges given either stable revenue sources from property taxes and user fees for municipalities, while the province's significantly increased health spending commitment for the next few years will help protect hospital districts' revenues.

The affirmation of TransLink's a1 BCA and Aa2 ratings with a stable outlook reflects its strategic importance as the main provider of essential transportation services in the greater Vancouver region, underpinning Moody's Ratings view that a weakening of the province's credit profile would not materially affect the level of extraordinary support. TransLink's governance and institutional characteristics are very strong, with rolling 10-year capital plans within a 30-year overall plan. TransLink's credit profile also reflects its unique status as a taxing authority, which further helps shield it from provincial pressures. Ridership levels continue to improve from pandemic-driven declines, although inflation and supply chain constraints impact operating and capital costs, which could result in a significant funding gap between 2026 and 2033. Recent significant provincial funding, and TransLink's long-term debt management, limits the rise in debt which Moody's Ratings now projects at 180% of revenue in 2024, down from a recent high of 249% in 2021.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

The CIS-2 Credit Impact Score for UBC and Vancouver reflect a low impact of ESG considerations on their ratings. The CIS-3 for SFU and TransLink reflect a combination of social risks impacting the ratings. There is no CIS assigned for MFABC.

The E-2 environmental issuer profile scores (IPS) for UBC, SFU and Vancouver indicate no material exposure to environmental risks. Moody's Ratings also views MFABC's exposure to environmental risks to be low. TransLink's E-3 IPS reflects exposure to both physical climate risks carbon transition risk given its that a portion of its fleet is gas and diesel powered, although TransLink incorporates meaningful environmental sustainability and green initiatives into its strategic plans.

The S-2 social IPS for Vancouver reflects very high livability and favourable demographic trends, which are balanced by housing affordability pressures. Moody's Ratings also views MFABC's exposure to social risks to be low. The S-3 IPS for UBC, SFU and TransLink reflect their exposure to a combination of demographic, immigration and other social pressures.

The G-1 governance IPS for Vancouver reflects overall very robust governance and fiscal, capital and investment planning. Moody's Ratings also assesses MFABC's governance to be very strong with prudent and comprehensive risk management. The G-2 IPS for UBC, SFU and TransLink indicate no material governance concerns for these entities.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

SFU's outlook could be stabilized if the outlook of the Province of British Columbia is stabilized. Conversely, a downgrade of the province's ratings could lead to a downgrade of SFU's ratings. Additionally, SFU's ratings could be downgraded following a sustained decline in enrolment demand leading to weaker operating performance including lower EBIDA margins, or a significant rise in the debt burden with a corresponding decline in liquidity could result in downward rating pressure. An inability to successfully address the university's deferred maintenance, leading to a growing backlog, would also result in downward rating pressure.

Given its Aaa ratings, Vancouver's ratings cannot be upgraded. The city's ratings could be downgraded from a sustained period of fiscal shortfalls if high levels of immigration and other macro challenges exacerbated the city's capital and social spending challenges. A material reduction in the city's liquidity levels would also result in downward pressure on the rating.

UBC's ratings could be upgraded if UBC's operating margins improved significantly due to robust revenue growth and expense controls or an easing of provincial restrictions on tuition fee increases, along with continued growth in fundraising activities. A significant and sustained increase in the university's cash and investment holdings could also lead to upward rating pressure. Conversely, its rating could be downgraded if the university's operating margins deteriorated considerably due to declining student demand or an unanticipated rise in expenses. A sustained decline in total wealth including a decline in reserve and endowment balances, or a weaker capacity to attract donors resulting in weaker fundraising dollars would also contribute to downward rating pressure.

Given its Aaa ratings, MFABC's ratings cannot be upgraded. MFABC's ratings could be downgraded following a substantial decline in reserves and liquidity leading to weaker coverage levels, weaker loan portfolio quality or a significant weakening of the credit protection mechanisms.

TransLink's ratings could be upgraded if it were able to secure new significant and sustainable revenue sources for capital projects. A significant increase in transit use above pre-pandemic levels, coupled with a continued reduction in debt levels would also result in upward pressure on the rating. Conversely, 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.

LIST OF AFFECTED RATINGS

Issuer: Vancouver, City of

..Affirmations:

.... Baseline Credit Assessment, Affirmed aaa

.... Senior Unsecured Regular Bond/Debenture, Affirmed Aaa

..Outlook Actions:

....Outlook, Remains Stable

Issuer: University of British Columbia

..Affirmations:

.... Baseline Credit Assessment, Affirmed aa1

.... LT Issuer Rating, Affirmed Aa1

.... Senior Unsecured Regular Bond/Debenture, Affirmed Aa1

..Outlook Actions:

....Outlook, Remains Stable

Issuer: Simon Fraser University

..Affirmations:

.... Baseline Credit Assessment, Affirmed aa3

.... Senior Unsecured Regular Bond/Debenture, Affirmed Aa1

..Outlook Actions:

....Outlook, Changed To Negative From Stable

Issuer: South Coast British Columbia Transportation Authority

..Affirmations:

.... Baseline Credit Assessment, Affirmed a1

.... LT Issuer Rating, Affirmed Aa2

.... Senior Unsecured Regular Bond/Debenture, Affirmed Aa2

..Outlook Actions:

....Outlook, Remains Stable

Issuer: Municipal Finance Authority of British Columbia

..Affirmations:

.... Baseline Credit Assessment, Affirmed aaa

.... Senior Unsecured Regular Bond/Debenture, Affirmed Aaa

.... Commercial Paper, Affirmed P-1

..Outlook Actions:

....Outlook, Remains Stable

The principal methodology used in rating City of Vancouver was Regional and Local Governments published in January 2018 and available at https://ratings.moodys.com/rmc-documents/66129 . The principal methodologies used in rating the University of British Columbia and Simon Fraser University were Higher Education Methodology published in August 2021 and available at https://ratings.moodys.com/rmc-documents/72158 , and Government-Related Issuers methodology published in January 2024 and available at https://ratings.moodys.com/rmc-documents/406502 . The principal methodologies used in rating South Coast British Columbia Transportation Authority were Mass Transit Enterprises Methodology published in December 2017 and available at https://ratings.moodys.com/rmc-documents/64385 , and Government-Related Issuers methodology published in January 2024 and available at https://ratings.moodys.com/rmc-documents/406502 . The principal methodologies used in rating Municipal Finance Authority of British Columbia were Public Sector Pool Programs and Financings Methodology published in April 2020 and available at https://ratings.moodys.com/rmc-documents/66017 , and Government-Related Issuers methodology published in January 2024 and available at https://ratings.moodys.com/rmc-documents/406502 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Adam Hardi, CFA
Vice President - Senior Analyst
Sub-sovereign group
Moody's Canada Inc.
70 York Street
Suite 1400
Toronto, ON M5J 1S9
Canada
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Marie Diron
MD-Global Sovereign Risk
Sub-sovereign group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Canada Inc.
70 York Street
Suite 1400
Toronto, ON M5J 1S9
Canada
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

---

approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.