

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>.

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