MOODY'S RATINGS

Rating Action: Moody's Ratings takes action on five sub-sovereign issuers in the Province of British Columbia

09 Apr 2025

Toronto, April 09, 2025 -- Moody's Ratings (Moody's) has today taken rating actions on five sub-sovereign issuers in the Province of British Columbia including the City of Vancouver (Vancouver), the Municipal Finance Authority of British Columbia (MFABC), the University of British Columbia (UBC), Simon Fraser University (SFU), and the South Coast British Columbia Transportation Authority (TransLink).

These actions follow the downgrade in the Province of British Columbia's rating to Aa1 from Aaa, with a negative outlook, on 2 April 2025. For full details, please refer to the press release (https://ratings.moodys.com/ratings-news/440567). Today's rating action reflects Moody's assessment of the fiscal, economic and support linkages between the Province of British Columbia and its regional and local governments (RLGs) and government-related issuers (GRIs).

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

RATIONALE FOR THE RATING AFFIRMATIONS WITH STABLE OUTLOOK FOR VANCOUVER, MFABC AND UBC

The affirmation of Vancouver's aaa BCA and Aaa ratings, with a stable outlook, reflects its strong credit fundamentals which we expect to remain unchanged despite the pressures facing the province. These include the city's exceptional liquidity from high levels of cash and investments, low debt levels (around 30% of revenue in 2024, and remaining under 40% by 2027), and strong debt affordability. The city's credit profile is insulated from provincial credit pressures due to low levels of provincial funding (around 2% of operating revenues) and stable revenue sources from property taxes and user fees. The revenue structure and its stability largely shelter Vancouver from adverse macroeconomic factors that impact the province, including trade uncertainty and tariffs. We consider the city's governance and fiscal and debt management to be very strong. The BCA also considers slowing population growth due to recent federal immigration caps, and increased capital spending for infrastructure and social expenses to address mental health, addiction, and housing affordability concerns. Although Vancouver's aaa BCA already positions it at the Aaa rating level, we also consider a high likelihood of extraordinary support from the province should the city face significant liquidity distress.

The affirmation of MFABC's aaa BCA and Aaa ratings with a stable outlook, reflects very limited linkages between MFABC and British Columbia, insulating MFABC from provincial credit stress. Linkages to the province are through the relationship between MFABC's borrowing members and the province, rather than MFABC directly. Similar to Vancouver, regional municipal district borrowers are not meaningfully exposed to provincial or macroeconomic credit challenges given stable revenue sources from property taxes and user fees for municipalities. Although hospital districts have very close linkages to the province, and therefore rating changes at the province would be mirrored in our credit assessments of the hospital districts, their relative share of MFABC's pool of borrowers results in limited credit impacts. Additionally, in the current environment, the hospital districts will benefit from rising healthcare funding and spending commitment from the province. MFABC's structure benefits from very robust credit protection mechanisms which provide significant bondholder protections, and the joint and several liability of borrowing members for all obligations within their regional district. MFABC's credit profile is further supported by its taxing powers on all taxable properties in British Columbia, unique among our pool and government-related issuers. We view MFABC's governance supporting the structure as very strong, with exceptional fiscal, investment and liquidity management characteristics. The overall level of liquidity is very high, which also ensures robust cash flow coverage. Although MFABC's aaa BCA already positions it at the Aaa rating level, we also consider a high likelihood of extraordinary support from the province should the city face significant liquidity distress.

The affirmation of UBC's aa1 BCA and Aa1 ratings with a stable outlook, reflects its excellent market position with consistently very strong student demand. While UBC receives significant capital funding from the province, it relies relatively less on ongoing funding support from the province than many peers, partially shielding its credit profile from provincial credit and funding challenges. The university's academic and research reputation is market leading in Canada and recognized internationally. Low debt levels are complemented by exceptional total wealth metrics relative to peers. Total cash and investment – including endowments - have grown significantly over the last five years, providing 8.5x coverage of adjusted debt and 1.0x coverage of operating expenses (2024). A federal cap on international students will limit enrolment growth given UBC's high reliance on international students (27% of full-time equivalent (FTE) students), although strong domestic demand will help mitigate weakness in international student enrolment growth. UBC faces operating pressures from wage and cost inflation and provincial caps on domestic tuition fee increases which will constrain operating revenue growth. UBC's rating reflects its aa1 BCA and our assessment of a high likelihood of extraordinary support from the province should UBC face significant liquidity distress.

RATIONALE FOR THE RATING DOWNGRADE AND CHANGE IN OUTLOOK TO STABLE FOR SFU

The affirmation of SFU's aa3 BCA reflects our view that we do not see material adverse changes in SFU's standalone creditworthiness. The downgrade in SFU's ratings to Aa2 from Aa1 reflects the greater intergovernmental linkages between SFU and the province and our view that the downgrade of the province's rating reduces the availability of credit uplift under our joint default analysis (JDA) to SFU, keeping the ratings of the university one notch below that of the province.

SFU has a very good brand and strategic position as a mid-sized comprehensive with a renowned research profile. The university has high levels of total wealth compared to peers and a low debt burden that supports high debt affordability. A federal cap on international students will limit international enrolment growth, although strong domestic demand will help mitigate weakness in international student enrolment growth. SFU also faces operating pressures from wage and cost inflation and provincial caps on domestic tuition fee increases which will constrain operating revenue growth. As a result, we project that EBIDA margins will decline to 6-8% over the next two years from an average EBIDA margin of 9.3% between 2021-22 and 2023-24, levels that are nevertheless in line with peers. The BCA also considers the university's sizeable deferred maintenance backlog which weakens its competitive position and will require growing spending in the absence of significant new provincial or federal funding sources.

SFU's rating reflects its aa3 BCA and our assessment of a high likelihood of extraordinary support from the province should SFU face significant liquidity distress.

RATIONALE FOR THE RATING AFFIRMATION AND CHANGE IN OUTLOOK TO NEGATIVE FOR TRANSLINK

The negative outlook reflects the risk that, in the absence of new sustainable revenue sources to replace declining fuel tax revenues or cost cutting measures to address rising expenses, TransLink will be unable to successfully address its structural deficits, which it estimates at an aggregate CAD5.3 billion between 2026 and 2033. The negative outlook also reflects the negative outlook on the rating of the province given the linkages between TransLink and the province.

The affirmation of TransLink's a1 BCA and Aa2 ratings reflects its strategic importance as the main provider of essential transportation services in the Greater Vancouver region and its high level of operating funding generated within this region rather than from provincial sources. TransLink's governance and institutional characteristics are very strong, with rolling 10-year capital plans within a 30-year strategic plan that provide long-term stability and visibility to capital planning. Capital spending needs are supported by exceptional federal funding commitments, including more than CAD2.1 billion for transit projects starting in 2026. TransLink's credit profile also reflects its status as a taxing authority, unique across mass transit providers and government-related issuers, which provide significant financial flexibility to increase revenue sources, as needed. Ridership, which provides a key revenue source, has improved significantly in recent years, although they are still modestly below pre-pandemic levels. Wage and overall cost escalation and declining fuel tax revenues weigh on operations and capital projects, leading to structural deficits. While debt levels are still higher than most peers, they have improved significantly since 2021, with our projection of the debt burden of 170-175% of revenue over the next two years.

TransLink's rating also considers our assessment of a high level of extraordinary support from the province should TransLink face significant liquidity distress.

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 primarily social risks having a limited impact on the current the ratings with potential for future negative impact over time over time. 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. We also view 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 of Vancouver reflects very high livability and favourable demographic trends, which balances significant housing affordability pressures. We also view 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 of Vancouver reflects overall very robust governance and fiscal, capital and investment planning. We also assess 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

Given Vancouver's Aaa rating, an upgrade is not possible. Downward rating pressure would result from a sustained period of fiscal shortfalls if housing affordability or other social challenges exacerbated the city's capital and social spending needs. A material reduction in the city's liquidity levels would also result in downward pressure on the rating.

Given MFABC's Aaa rating, an upgrade is not possible. 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.

UBC's ratings could be upgraded if operating margins improved significantly due to robust revenue growth and expense controls or due to easing provincial restrictions on tuition fee increases. A large and sustained increase in the university's cash and investment holdings above our current projects would also lead to upward rating pressure. Conversely, the ratings could be downgraded if the university's operating margins deteriorated significantly due to declining student demand or if expect that the province will be unable to maintain operating funding to the university at anticipated levels. A sustained decline in total wealth including a decline in reserve and endowment balances, would also contribute to downward rating pressure.

SFU's ratings could be upgraded if operating margins improved significantly due to robust revenue growth and successful expense controls or due to easing provincial restrictions on tuition fee increases. Conversely, SFU's ratings could be downgraded if enrolment demand and therefore tuition revenue declined materially, or if the province significantly reduces operating funding to the university. leading to weaker EBIDA margins. A significant rise in the debt burden with a corresponding decline in liquidity could result in downward rating pressure. Further, an inability to successfully address the university's relatively high deferred maintenance, could affect its competitiveness and lead to downward rating pressure.

Given the negative outlook on TransLink's ratings, an upgrade is unlikely in the near term. The outlook could be stabilized if TransLink were able to secure new significant and sustainable revenue sources to address its long-term operating funding gap. The rating could be downgraded if the debt burden increased well above our projected levels, or if the authority is unable to address its long-term funding challenges, leading to service cuts in critical areas. A long-term reversal in travel demand would also result in downward pressure on the rating. A downgrade of the Province of British of Columbia's ratings would exert additional downward pressure on TransLink's ratings.

LIST OF AFFECTED RATINGS

Issuer: Vancouver, City of

..Affirmations:

.... Baseline Credit Assessment, Affirmed aaa

.... Senior Unsecured, 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, Affirmed Aa1

..Outlook Actions:

....Outlook, Remains Stable

Issuer: South Coast British Columbia Transportation Authority

..Affirmations:

.... Baseline Credit Assessment, Affirmed a1

.... LT Issuer Rating, affirmed Aa2

.... Senior Unsecured, Affirmed Aa2

..Outlook Actions:

....Outlook, Changed to Negative from Stable

Issuer: Municipal Finance Authority of British Columbia

..Affirmations:

.... Baseline Credit Assessment, Affirmed aaa

.... Commercial Paper, Affirmed P-1

.... Senior Unsecured, Affirmed Aaa

..Outlook Actions:

....Outlook, Remains Stable

Issuer: Simon Fraser University

..Affirmations:

.... Baseline Credit Assessment, Affirmed aa3

..Downgrades:

.... Senior Unsecured, Dowgranded to Aa2 from Aa1

..Outlook Actions:

....Outlook, Changed to Stable from Negative

The principal methodology used in rating City of Vancouver was Regional and Local Governments published in May 2024 and available at https://ratings.moodys.com/rmc-documents/421891. The principal methodologies used in rating Simon Fraser University and University of British Columbia were Government-Related Issuers methodology published in January 2024 and available at https://ratings.moodys.com/rmc-documents/406502, and Higher Education published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425580. The principal methodologies used in rating South Coast British Columbia Transportation Authority were Mass Transit Enterprises published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425581, 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 published in August 2024 and available at https://ratings.moodys.com/rmc-documents/426425, 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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