City of Vancouver (Canada)
Update to credit analysis

Summary
The credit profile of the City of Vancouver (Aaa stable) reflects exceptional liquidity from high levels of cash and investments, low levels of debt and high debt affordability. The city’s credit profile also reflects a strong local economy with access to a growing and broad tax base which has consistently translated into strong operating results. These strengths, coupled with very strong governance and management, allow the city to face coronavirus-related pressures without material long-term adverse credit implications. The city is challenged by rising infrastructure needs from a growing population and housing affordability concerns which will keep expenses elevated over the next few years.

Exhibit 1
Debt levels remain low with high debt affordability

Credit strengths
» Exceptional liquidity coupled with high debt affordability
» Strong and diverse economy underpins long-term strength
» Stable revenue sources and operational flexibility cushion operating pressures
» Strong governance and fiscal management, and supportive institutional framework

Credit challenges
» Continued housing affordability challenges
» Infrastructure needs require large-scale capital spending
Rating outlook
The outlook is stable and reflects continued strong debt affordability, exceptional liquidity levels and prudent fiscal management which will allow the city to maintain stable operating results.

Factors that could lead to a downgrade
A sustained period of fiscal losses, a significant increase in the city’s debt burden beyond projected levels or a permanent reduction in the city’s liquidity sources would result in downward pressure on the rating.

Key indicators

Exhibit 2
City of Vancouver

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<tbody>
<tr>
<td>Net Direct Debt/Operating Revenue (%)</td>
<td>51.9</td>
<td>49.6</td>
<td>45.2</td>
<td>40.0</td>
<td>38.6</td>
<td>38.4</td>
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<td>Gross Operating Balance/Operating Revenue (%)</td>
<td>15.4</td>
<td>14.5</td>
<td>14.6</td>
<td>18.9</td>
<td>18.9</td>
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<td>Cash Financing Surplus (Requirement)/Total Revenue (%)</td>
<td>12.3</td>
<td>4.1</td>
<td>5.8</td>
<td>10.8</td>
<td>14.0</td>
<td>31.5</td>
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<tr>
<td>Interest Payments/Operating Revenue (%)</td>
<td>2.7</td>
<td>2.8</td>
<td>2.8</td>
<td>2.4</td>
<td>2.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Debt Service/Total Revenue (%)</td>
<td>3.3</td>
<td>2.4</td>
<td>9.2</td>
<td>2.3</td>
<td>8.7</td>
<td>8.9</td>
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<tr>
<td>Capital Spending/Total Expenditures (%)</td>
<td>16.6</td>
<td>26.1</td>
<td>20.2</td>
<td>14.8</td>
<td>18.1</td>
<td>20.1</td>
</tr>
<tr>
<td>Self-Financing Ratio</td>
<td>1.9</td>
<td>1.2</td>
<td>1.4</td>
<td>1.9</td>
<td>1.9</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Sources: City of Vancouver, Moody’s Investors Service

Detailed credit considerations
The credit profile of Vancouver, as expressed in its Aaa stable rating, reflects a baseline credit assessment (BCA) of aaa for the city and the likelihood of extraordinary support coming from the Province of British Columbia (Aaa stable) in the event that the city faced acute liquidity stress.

Baseline credit assessment
Exceptional liquidity coupled with high debt affordability
Vancouver maintains exceptional levels of liquidity with continued improvement in metrics over the last decade. Cash and investments (net of sinking funds, and including discretionary and non-discretionary reserves) of CAD2.75 billion covered approximately 4.5x total outstanding net direct and indirect debt and 2.1x operating expense in 2020, levels which exceed the majority of Aaa-rated peers. The city’s robust liquidity profile provides it with a significant net cash position and a significant cushion against liquidity pressures, including those related to the coronavirus pandemic and capital spending.

The city’s high level of wealth coincides with low debt levels and favourable debt metrics. Net direct and indirect debt stood at 38.4% of operating revenue in 2020, a low level that has consistently improved since 2009 and which also compares favourably with Moody’s-rated Canadian municipalities. Ongoing debt maturities will be financed primarily from sinking fund reserves, which represented 43% of total direct debt in 2020. The city also includes safeguards against excessive debt, including setting an internal limit on its annual tax-supported debt servicing payments to 10% of operating expenses (the city expects this ratio to be below the limit over the next five years). The Moody’s-adjusted net direct and indirect debt balance includes the city’s debentures net of sinking funds (CAD622 million in 2020), and excludes the debt of Metro Vancouver (CAD2.4 billion in 2020). The city, which is a member of but does not borrow through Metro Vancouver, has contingent liability through a joint and several guarantee for the debt of Metro Vancouver which borrows through the Municipal Finance Authority of British Columbia (Aaa stable) on behalf of its member area municipalities (except Vancouver).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
Debt affordability is also supported by a protracted period of low interest rates, resulting in interest payments relative to operating revenue of 2.1% in 2020, which compares favourably to municipal peers. Although we expect a gradual rise in interest rates in 2022 and 2023, we continue to view the city’s debt affordability as very strong.

**Strong and diverse economy underpins long-term strength**

Vancouver’s economic metrics are among the strongest within Canadian municipalities. Population growth, predominantly from immigration, has been consistent in recent years, rising to nearly 700,000 (2.7 million for the metropolitan area) at year-end 2020.

The city serves as a major trade, transportation and service centre and is home to Canada's largest and busiest port, the Port of Vancouver. The economy is diversified and benefits from its position as a gateway to the Pacific and access to Asian markets. The economy has expanded at a solid pace in recent years, supported by strong performances in the resource, services, technology and construction sectors. Strong growth has been fuelled by both commercial and residential real estate construction in support of increasing housing demand, which over the last few years exceeded housing supply. Despite measures to curb speculative demand and some softening in the housing market, the construction sector remains strong, although the coronavirus pandemic has at least temporarily restrained the pace of construction activity.

Rising population and strong primary sectors resulted in robust historical economic growth. This growth momentum was disrupted by the coronavirus pandemic with the majority of impact in 2020, before a recovery in 2021. The pace of the economic recovery remains dependent on a number of factors outside the control of the city’s administration, including the speed of vaccine rollouts and additional waves of outbreaks. The city’s unemployment rate, which has fluctuated between 4% and 5% in recent years before the pandemic, rose to 8.8% in 2020. For 2021 and 2022, we expect a gradual easing back toward the long-term trend as an economic recovery takes hold.

**Stable revenue sources and operational flexibility cushion operating pressures**

Vancouver’s operating structure benefits from stable property taxes and utility fees which tend not to fluctuate with economic changes. Combined, property taxes and utility fees account for around three-quarters of operating revenue and will drive most of the future revenue growth.

The city’s revenue structure, along with its exceptional liquidity, allows it to face manageable operating pressures including those arising from the pandemic without material long-term credit implications for the city. The city was able to achieve a consolidated surplus of CAD229 million (12% of revenue), due to a combination of using reserves, stronger than budget revenues (property taxes and cost recoveries and grants), and lower than budget expenses (significant cost containment efforts and natural expense reductions including lower expenses due to lower demand for some services). The city also received CAD16 million coronavirus-related restart funding from the federal and provincial governments in 2020, with an additional CAD19 million expected in 2021 and 2022 from other government assistance programs. Given the economic rebound in 2021 and our projection of further stabilization in 2022, we expect that the city will continue to meet its operating challenges resulting in balanced budget outcomes.

**Exhibit 3**

**Property taxes and utility fees remain stable sources of revenue**

[Graph showing property taxes and utility fees as a percentage of operating revenues from 2013 to 2020]

*Sources: City of Vancouver, Moody’s Investors Service*
Vancouver’s budgetary flexibility is somewhat constrained by its need to manage property tax increases in conjunction with other taxing authorities including the Province of British Columbia (for school taxes), TransLink (the region’s public transit authority), as well as regional authorities of Metro Vancouver. The city could face fiscal pressures if expenditures outpaced revenue growth, however Vancouver’s ability to maintain strong fiscal results is supported by prudent fiscal management and its ability to generate strong cash flows.

**Strong governance and fiscal management, and supportive institutional framework**
Vancouver’s operating results are supported by strong governance and prudent financial management practices including comprehensive, transparent and timely financial reporting. The city uses a long-term financial planning framework, including a 10-year Capital Strategic Outlook, a 4-year Capital Plan, and a 5-year Financial Plan which help identify anticipated pressures upfront. The strength of the city’s governance is also evidenced by its strategic planning during the coronavirus pandemic, including incorporating scenario analysis into its fiscal planning and an ability to quickly adjust expenditures in response to revenue shortfalls.

With the exception of utility projects (water, sewer and neighbourhood energy), authority to borrow for capital projects requires electorate approval and is sought via plebiscite held concurrently with civic elections. In addition to multi-year financial planning, management has historically adhered to conservative debt and investment management policies, limiting the city’s exposure to market related risks and helping to ensure relatively smooth debt servicing costs.

Vancouver’s credit profile also benefits from the stability inherent in the provincial institutional framework. The division of roles and responsibilities between the province and municipalities is clearly articulated. Provincial legislation dictates a high degree of oversight, including limits on debt burdens, while policy flexibility, on both the revenue and expenditure sides, helps Vancouver manage pressures as they arise.

**Continued housing affordability challenges**
Vancouver’s limited land base and growing population have resulted in the city becoming one of the most densely populated major cities in Canada. Housing prices in Vancouver have seen rapid historical increases due to a strong regional economy and job growth, consistent demand from a rising population, and limited supply of housing stock, leading to housing affordability pressures. The cost of living remains high, limiting employers’ ability to attract workers. In addition, new transit infrastructure continues to create housing demand along transit routes.

At the same time, the city faces expenditure pressures since it needs to allocate significant capital resources to increase affordable housing supply and improve vacancy rates. Although the coronavirus pandemic dampened property prices and demand in the first half of 2020, demand and prices have since rebounded. While a softening housing market could negatively impact the city’s revenues, including lower license and development fee revenues, we expect demand to outpace supply in the next 2-3 years and therefore affordability will remain a challenge for the city.

The federal and provincial governments instituted a number of policy actions in recent years to temper the persistent rise in housing prices. These measures included tighter federal mortgage eligibility rules, a property transfer tax on purchases by foreign residents, a tax on vacant and secondary homes, and a luxury home surtax. The city implemented its own measures with the empty homes tax and new short-term rental regulations.

**Infrastructure needs require large-scale capital spending**
Rising population and job growth will continue to require the city to expand its capital infrastructure including transportation networks, housing and utility projects. The city also needs to maintain its existing transportation and utilities infrastructure. The combination of maintaining existing infrastructure and expanding its networks will continue to necessitate both property tax and utility rate increases. In April 2019, Council also approved a 1% tax shift from non-residential to residential properties for 2019, with an additional 1% phased in 2020 and 2021.

The city’s capital plan totals CAD2.9 billion over the four-year period 2019-2022. The capital plan is funded through a combination of pay-as-you-go financing from development contributions, property tax and utility fees, capital reserves and debt financing. Around two-thirds of the plan supports renewing and maintaining the city’s ageing infrastructure, which requires significant annual capital outlay. One-third supports new capital projects or upgrades to existing infrastructure. Nevertheless, the city maintains some flexibility
in capital planning. For example, in response to the pandemic the city recalibrated and scaled back nearly CAD260 million in growth-related capital projects to help alleviate financial strain for the 2020-2022 periods.

The city’s capital budgeting includes new debt issuances estimated at CAD100 million in each of the next three years to maintain and renew critical infrastructure and public amenities in state of good repair. This puts manageable pressure on debt and liquidity metrics.

**Extraordinary support considerations**

Moody’s assigns a high likelihood of extraordinary support from the Province of British Columbia, reflecting our assessment of risk to the province’s reputation as a regulator of municipalities and incentive for the provincial government to minimize the risk of potential disruptions to capital markets if Vancouver or any other municipality were allowed to default.

**ESG considerations**

**Vancouver’s ESG Credit Impact Score is Positive CIS-1**

*Exhibit 4*

**ESG Credit Impact Score**

<table>
<thead>
<tr>
<th>CIS-1</th>
<th>Positive</th>
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For an issuer scored CIS-1 (Positive), its ESG attributes are overall considered as having a positive impact on the rating. The overall positive influence from its ESG attributes on the rating is material.

*Source: Moody’s Investors Service*

The City of Vancouver’s ESG Credit Impact Score is positive (CIS-1) reflecting neutral-to-low exposure to environmental and social risks and a positive governance profile including high liveability, strong sustainability initiatives and very strong governance.

*Exhibit 5*

**ESG Issuer Profile Scores**

<table>
<thead>
<tr>
<th>Environmental</th>
<th>Social</th>
<th>Governance</th>
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<tbody>
<tr>
<td>E-2 Neutral-to-Low</td>
<td>S-2 Neutral-to-Low</td>
<td>G-1 Positive</td>
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</table>

*Source: Moody’s Investors Service*

**Environmental**

The E issuer profile score is neutral-to-low (E-2). The city is one of the most progressive Canadian cities for green initiatives, which is addressed through its multi-year Greenest City Action Plan and Renewable City Action Plan, targeting carbon and waste reductions, rain city strategy, renewable energy initiatives and green buildings and transportation. The city proactively manages climate risk through its Climate Emergency Action Plan and also addresses other climate-related risks through its climate task force, with published and transparent metrics.

**Social**

Vancouver’s S issuer profile score is neutral-to-low (S-2). The city has a very high liveability index with a strong draw for domestic and international immigration. However, high housing and living costs could limit employers’ ability to attract workers and dampen
economic activity. This requires the city to allocate development contributions to increase affordable housing supply, although a large portion of costs relating to improving affordability are borne by the provincial and federal governments. The opioid pandemic also raises social costs for the city. Although we regard the coronavirus outbreak as a social risk given the implications for public health, the credit impact from the pandemic is low as the majority of related healthcare expenses are the responsibility of the province and not the city.

**Governance**

The positive G issuer profile score (G-1) reflects transparent, timely financial reports including forward-looking fiscal policies through its 10-year Capital Strategic Outlook, 4-year capital plan, and 5-year balanced financial plan, and adheres to strict policies on debt and investment management. The city utilizes financing planning is forward looking which allows it to identify potential budget challenges early on and adjust fiscal and capital plans early on.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.
Rating methodology and scorecard factors
The assigned BCA of aaa is one notch above the scorecard-indicated outcome of aa1. The scorecard-indicated outcome of aa1 reflects (i) an idiosyncratic risk score of 2 (presented below) on a 1 to 9 scale, where 1 represents the strongest relative credit quality and 9 the weakest; and (ii) a systemic risk score of Aaa, as reflected in the sovereign bond rating for the Government of Canada (Aaa stable).

For details about our rating approach, please refer to Rating Methodology: Regional and Local Governments, 16 January 2018.

Exhibit 6
City of Vancouver
Regional & Local Governments

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<th>Baseline Credit Assessment – Scorecard</th>
<th>Score</th>
<th>Value</th>
<th>Sub-factor Weighting</th>
<th>Sub-factor Total</th>
<th>Factor Weighting</th>
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<td><strong>Factor 1: Economic Fundamentals</strong></td>
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<td>Economic Strength [1]</td>
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<td>99.34%</td>
<td>70%</td>
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<td>Economic Volatility</td>
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<td>30%</td>
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<td><strong>Factor 2: Institutional Framework</strong></td>
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<tr>
<td>Legislative Background</td>
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<td>50%</td>
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<td>Financial Flexibility</td>
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<td>50%</td>
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<td><strong>Factor 3: Financial Position</strong></td>
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<td>Operating Margin [2]</td>
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<td>19.01%</td>
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<td>Interest Burden [3]</td>
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<td>2.22%</td>
<td>12.5%</td>
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<td>Liquidity</td>
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<td>25%</td>
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<td>Debt Burden [4]</td>
<td>3</td>
<td>38.39%</td>
<td>25%</td>
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<td>Debt Structure [5]</td>
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<td>13.16%</td>
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[1] Local GDP per capita as % of national GDP per capita
[2] Gross operating balance by function/operating revenues
[3] (Adjusted) interest expenses/operating revenues
[4] Net direct and indirect debt/operating revenues
[5] Short-term direct debt/total direct debt
Source: Moody’s Investors Service; Fiscal 2020.

Ratings

Exhibit 7

<table>
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<th>Category</th>
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<td>Outlook</td>
<td>Stable</td>
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<td>Senior Unsecured - Dom Curr</td>
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Source: Moody’s Investors Service
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City of Vancouver (Canada): Update to credit analysis