Moody's

Rating Action: **Moody's affirms Vancouver's Aaa rating and maintains stable outlook**

27 Sep 2023

Toronto, September 27, 2023 -- Moody's Investors Service ("Moody's") today affirmed the City of Vancouver's ("Vancouver") Aaa senior unsecured debt ratings and aaa baseline credit assessment ("BCA"), and the outlook remains stable.

Affirmations:

..Issuer: Vancouver, City of

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

....Baseline Credit Assessment, Affirmed aaa

Outlook Actions:

..Issuer: Vancouver, City of

....Outlook, Remains Stable

RATINGS RATIONALE

The affirmation of the aaa BCA and Aaa ratings reflects Vancouver's very strong liquidity which provides robust coverage of debt and expenses, low debt levels and the city's demonstrated strong governance which Moody's expects will continue to support favourable operating results in the face of high inflation and interest rates.

The city benefits from a largely stable and predictable revenue base, with approximately 75% of its operating revenue from own sources including property tax and user fees. The city has only a low reliance on provincial operating funding. Provincial regulation requires that the city budgets on a balanced basis. The city's decision to raise municipal property taxes by 10.7% in 2023, above inflation, along with its commitment to maintain larger than historical property tax increases over the next five years, will help balance rising inflationary and interest costs and higher social spending. As a result, Moody's projects that operating surpluses over the next few years will be in line with recent levels which averaged 19.3% of operating revenues over the past 5 years.

Economic growth is supported by a diverse range of sectors, including finance, real estate, tourism, technology, and construction, supporting both a large tax base and high employment levels following a rebound from the pandemic. Despite its high cost of living, Vancouver consistently ranks as most one of the most liveable cities globally given its geographic advantages, easy access to Asian markets, and consistent environmentally focused city planning, which will support continued high levels of immigration and business investment in the city.

Cash and investments stood at CAD3.1 billion at year-end 2022 which covered 5.1x net debt and 2.1x of operating expenses, very high levels compared to peers. These levels continue to provide significant debtholder security and shields against rising debt and potential operating shortfalls.

Vancouver's net direct and indirect debt stood at 32.5% of operating revenue in 2022, at the low end of Aaa-rated peers, and has followed a consistent decline for over a decade. Under provincial legislation, the city can issue debt only for capital projects. Although the city expects to finance approximately 20% of its four-year (2023–2026) CAD 3.5

billion capital plan through debt, growth in the significant sinking funds put aside to fund maturing debentures – equal to 35% of gross debt in 2022 – will ensure that the debt burden will rise only modestly. Moody's projects that the debt burden will remain under 40% over the next three years. At the same time, the city will maintain very strong debt affordability, with interest expense remaining below 2% of operating revenues over this period.

Upward pressure on capital spending, and therefore debt needs, could arise from the high level of spending within the high inflationary environment. It is the city's long-standing practice to only proceed with capital plans that are fully funded, while contracts are typically fixed price, ensuring a strong level of predictability and easing future costs pressures. Moody's expects that the city will be able to finance the capital plan from reserves, development charges and debt as well as from provincial and federal funding on cost-shared projects. The city maintains spending flexibility in the capital plan by deferring some of the less important capital projects or revising the scope of certain projects.

The city will also continue to face challenges from cost pressures to address housing affordability and mental health and addiction concerns. Measures to address affordable housing pressures include facilitating purpose-built rental housing and modular housing, regulations aimed at reducing red tape, and maintaining an empty homes tax. In addition, the city will use part of its property tax increases to hire a significant number of mental health nurses and to increase police staff.

The Aaa rating incorporates the aaa BCA, which takes into consideration the above mentioned credit factors, and Moody's assumption of a high likelihood of extraordinary support coming from the Province of British Columbia (Aaa stable) should the city face acute liquidity stress.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Vancouver's capacity to preserve its strong fiscal performance over the next 18-24 months from predictable sources of income, which will allow the city to adequately address infrastructure and social needs, along with maintaining outstanding liquidity and low debt levels.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Collectively, environmental, social and governance considerations do not have a material overall impact on the Aaa rating assigned to Vancouver, as captured by Moody's assignment of a CIS-2 ESG Credit Impact Score.

The E-2 issuer profile score (IPS) reflects the city's exposure to rising sea level risk and its proximity to areas which are impacted by wildfires and flooding, however these risks are managed through its Climate Emergency Action Plan and Climate Change Adaption Strategy. Vancouver is one of the most progressive Canadian cities for green and sustainability initiatives.

The S-2 IPS reflects very high livability with a strong draw for domestic and international immigration which benefits th local economy, although higher spending needs to address housing affordability concerns and metal health and addiction issues raise housing and social costs for the city.

The G-1 IPS reflects transparent, timely financial reports including forward-looking fiscal policies and very strong debt and liquidity management which mitigates futures cash outlays for the city.

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

Downward rating pressure would result 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.

The principal methodology used in these ratings was Regional and Local Governments published in January 2018 and available at https://ratings.moodys.com/rmc-documents/66129. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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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