

TransLink's long-term debt to hit \$2.38 billion

Agency raises hundreds of millions by issuing 10-year bonds

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By James Kwantes, Vancouver Sun; With Files From Doug Ward February 18, 2011



Buses sit stuck in the snow on Gaglardi Way on their way up the hill to Simon Fraser University in Burnaby on Thursday.

Photograph by: Wayne Leidenfrost, PNG, Vancouver Sun; With Files From Doug Ward

There's a price to pay for the new infrastructure that supports Metro Vancouver's growing population - a rising TransLink debt load. The public transportation agency's latest business plan calls for increasing long-term debt by more than \$200 million this year. This means it will have increased by more than \$1.1 billion - a near doubling - in the space of five years. Longterm debt is projected to hit \$2.38 billion this year, up from \$1.22 billion in 2006.

TransLink recently raised \$300 million by issuing 10-year bonds with an annual yield of 3.8 per cent, a move it says is necessary to increase flexibility in managing finances and cash flow. Further \$200-million bond issues are planned both for this year and next.

TransLink chief financial officer Cathy McLay said she's confident the agency can meet its debt service and interest payments. TransLink regularly reviews and adjusts its 10-year plan, and the growing debt has been accompanied by an increase in assets -including the Canada Line, expanded bus network and Golden Ears Bridge -to \$5.4 billion.

"Our debt actually increases over the next two years, and then it starts to decline as we start paying off some of these assets," said McLay.

While TransLink's top financial managers are confident the agency can meet its bond obligations, in a worst-case scenario it would cut service levels to match revenue streams with debt servicing costs, said McLay, who is also vice-president, finance and corporate service for TransLink.

The agency's governing legislation also allows it to unilaterally hike property taxes or increase transit fares -bypassing the mayors' council -if a financial crisis hits.

"If all the wheels fell off the wagon, we could go and apply property taxes," McLay said.

That would be done in consultation with other levels of government, and would only occur in a "calamitous" situation, said TransLink spokesman Ken Hardie.

Provincial Finance Minister Colin Hansen, said in an email that the provincial government should not be expected to bail TransLink out of future financial emergencies.

"TransLink is independent and totally responsible for its own debt and should have no expectation that there is a provincial backstop. TransLink is accountable to its board of directors, which is ultimately responsible for its decisions and financial affairs."

In the U.S., the risks of municipal bond defaults in several large cities have increased dramatically as property tax revenues dry up in the midst of the real estate collapse and foreclosure fiasco.

But while U.S. cities are heavily reliant on property taxes, TransLink's revenues are much more diversified, McLay noted. Roughly 38 per cent of revenues come from transit fares, about 28 per cent are from property taxes and fuel taxes make up about 22 per cent.

Moody's rated TransLink bonds as "high-investment grade" -two notches below the AAA rating given B.C. government bonds, according to Moody's Canada analyst Jennifer Wong. The 3.8-per-cent yield on TransLink's 10-year bonds is 23 basis points higher than bonds issued by Victoria.

That means TransLink is paying slightly higher interest costs than it did when it raised money through the Municipal Financing Authority, although the difference is recovered through administrative savings and efficiencies, said Trans-Link treasury manager Derek Bacchioni.

"If we were in financial crisis, the rating agencies wouldn't give us a double-A rating," he said. "And the investors wouldn't have bought the bonds."

The bond issue was oversubscribed with about 32 per cent of bond buyers being B.C.-based, including Vancouver investment firms Phillips, Hager & North, Central 1 Credit Union and Connor, Clark & Lunn.

The finance minister said he wouldn't speculate about what the government might do in the event of a bond default, adding that TransLink has "access to diverse revenue sources and the flexibility to manage expenses."

Hansen added that Moody's report confirms that TransLink is in "good financial shape."

The bond issue and rising debt levels do not concern North Vancouver District Mayor Richard Walton, chairman of the mayors' council, who said he is "comfortable" with Trans-Link's business plan.

"I think TransLink is being extremely well-run," he said. "It's an extremely capable board of directors that is in place now."

However, he is "very concerned" about future property tax hikes to pay for expansion of the transit system. "We have huge infrastructure issues coming down the pike related to liquid and solid waste and the sewage treatment plant."

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