MOODY'S RATINGS

CREDIT OPINION
16 April 2025

Update

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RATINGS

Vancouver, City of

Domicile	Vancouver, British Columbia, Canada
Long Term Rating	Aaa
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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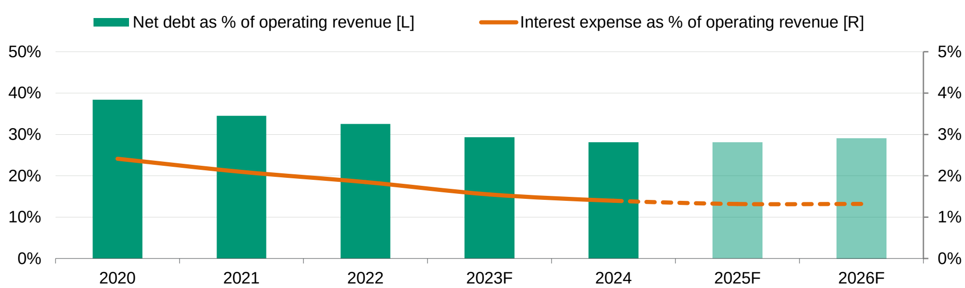
Vancouver, City of (Canada)

Update following rating affirmation

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. Solid operating results benefit from largely stable revenue sources strong credit fundamentals which we expect will remain unchanged despite the pressures facing the province. We view the city's governance and management to be very strong. The credit profile is challenged by rising infrastructure spending which is needed to address new capital infrastructure and capital maintenance. In addition, social pressures relating to housing affordability concerns given very high real estate prices and mental health and addition challenges will require continued spending by the city.

Exhibit 1
Debt levels remain low along with high debt affordability



Fiscal year ending Dec 31
Sources: City of Vancouver and Moody's Ratings

Credit strengths

» Exceptional liquidity and low debt burden

» Consistent operating surpluses supported by stable revenues and operational flexibility

» Large and diverse economy which underpins long-term growth

» Strong governance and fiscal management within a supportive institutional framework

Credit challenges

» Social challenges including housing affordability concerns weigh on city spending

» Large-scale capital plan requires significant annual spending

Rating outlook

The stable outlook reflects our view that the city will continue to generate strong fiscal performance over the next 18-24 months, which will allow the city to adequately address infrastructure and social needs, along with maintaining outstanding liquidity and low debt levels. At the same time, the city's credit profile is insulated from provincial credit pressures due to low levels of provincial funding and stable revenue sources.

Factors that could lead to a downgrade

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 decline in the city's liquidity levels would also result in downward pressure on the rating.

Key indicators

Exhibit 2

City of Vancouver

Year ending 12/31	2021	2022	2023	2024	2025F	2026F
Net Direct and Indirect Debt/Operating Revenue (%)	34.5	32.5	29.2	28.0	28.1	29.1
Primary Operating Balance/Operating Revenue (%)	20.2	23.0	24.9	23.4	22.7	22.8
Cash Financing Surplus (Requirement)/Total Revenue (%)	(4.8)	19.8	14.9	5.8	10.0	7.9
Interest Payments/Operating Revenue (%)	1.8	1.5	1.4	1.3	1.3	1.4
Debt Service/Total Revenue (%)	7.7	1.3	5.4	4.5	3.6	3.4
Capital Spending/Total Expenditures (%)	20.6	16.8	21.3	29.5	30.5	33.9

Sources: City of Vancouver and Moody's Ratings

Detailed credit considerations

On 9 April we affirmed Vancouver's aaa baseline credit assessment (BCA) and Aaa debt ratings with a stable outlook. The rating action follows the downgrade in the Province of British Columbia's rating to Aa1 from Aaa, with a negative outlook, on 2 April 2025.

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

Baseline credit assessment

Exceptional liquidity and low debt burden

Vancouver maintains exceptional levels of liquidity with continued improvement in metrics over the last decade. We estimate that cash and investments (net of sinking funds, and including discretionary and non-discretionary reserves) covered approximately 5.8x total outstanding net direct and indirect debt and 2.1x operating expense in 2024, levels which are at the high end of Aaa-rated peers. In our view the city can sustain similarly strong metrics over the next few years given our projection of operating surpluses and continued prudent debt and expense management. These liquidity levels provide the city with a significant net cash position and cushion against liquidity pressures and operating and capital spending challenges in an inflationary environment.

The high level of wealth coincides with low debt levels and favourable debt metrics. The debt burden (net direct and indirect debt as a % of operating revenue) at 28.0% in 2024 is at the low end of Aaa-rated peers. Under provincial legislation, the city can issue debt only for capital projects. Although the city expects to debt finance approximately 25% of its four-year capital plan, significant sinking funds put aside to fund maturing debentures will ensure that the debt burden will rise only modestly. We project that net debt will remain near 30% of revenue in 2025 and 2026. At the same time, the city will maintain very strong debt affordability, with interest expense remaining below 2% of operating revenues over this period.

The city also includes safeguards against incurring excessive debt, including setting an internal limit on its annual tax-supported debt servicing payments to 10% of operating revenue. The city expects to remain below this limit over the next five years.

Adjusted net direct and indirect debt includes debentures net of sinking funds (CAD645 million in 2024) issued directly by the city and excludes the debt of Metro Vancouver (estimated at CAD3 billion). The city is a member of, but does not borrow through, Metro Vancouver and has a 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.

Consistent operating surpluses supported by stable revenues and operational flexibility

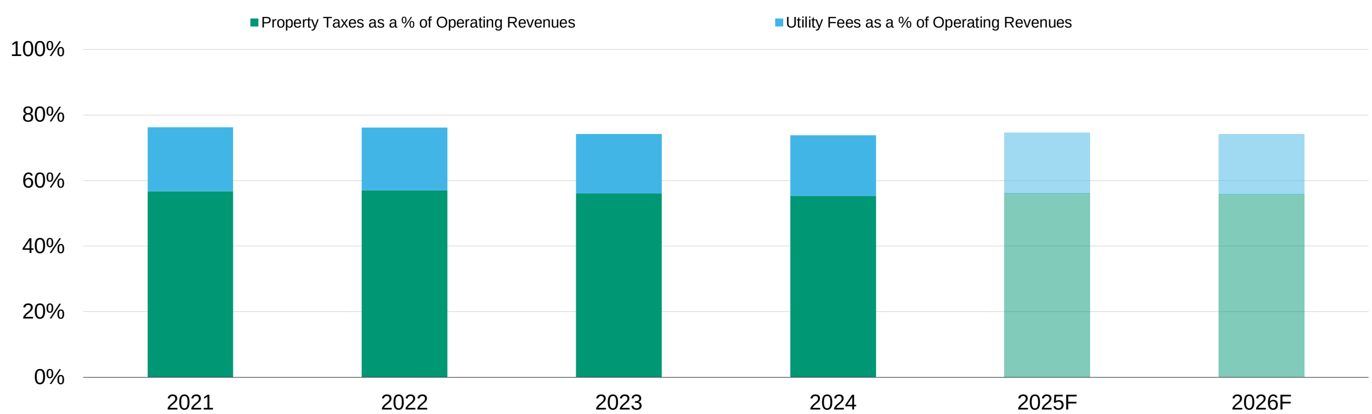
The city generates between 70% and 80% of its operating revenues from own source revenues including property tax and user fees (water, wastewater and sewer) and benefits from the stability and predictability offered by these sources. The revenue structure and its stability largely shelter Vancouver from adverse macroeconomic factors that impact the province, including trade uncertainty and tariffs. Further, the city only receives low levels of provincial funding (around 2% of operating revenues), further helping to isolate its credit profile from that of the province.

Provincial regulation requires that the city budgets on a balanced basis. The city approved a property tax increase of 3.61% in the 2025 budget, well above inflation, and the city expects to maintain annual increases over the next three years. The significant increase in property taxes has positive credit implications since it will help balance rising inflationary and interest costs and higher social spending. We project that operating surpluses over the next few years will be in line with recent levels which averaged 22.6% of operating revenues over the past 5 years.

The consistently strong levels of operating surpluses also reflect the city's prudent and forward-looking fiscal policies and multi-year capital plans, which are updated annually. These allow the city to identify anticipated challenges early and adjust budget projections for revenues and operations.

Exhibit 3

Operating surpluses are supported by stable property tax and utility fee revenues



Fiscal year ending Dec 31

Sources: City of Vancouver and Moody's Ratings

The city needs 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), and regional authorities of Metro Vancouver. Nevertheless it maintains strong budget flexibility including adjusting some of its operating and capital expenses in the face of pressures including departmental cost cutting and adjusting the scope and phasing of capital projects.

Large and diverse economy which underpins long-term growth

Vancouver's economic metrics are among the strongest within Canadian municipalities. Population, predominantly from immigration, has grown consistently in recent years, rising by 4.1% to 756,000 at year-end 2024 over 2023. We expect population growth to continue, albeit at a slower rate, given changes in federal immigration policy that reduce the growth of immigration to Canada.

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 with major sectors including finance, insurance, real estate, trade, technology, construction and film. Despite its high cost of living, Vancouver consistently ranks as one of the most liveable cities globally given its geographic advantages, easy access to Asian markets, and consistent environmentally-focused city planning.

Strong growth has been fuelled by real estate construction in support of increasing housing demand, which continues to exceed housing supply. Despite measures to curb speculative demand and some softening in the housing market, the construction sector remains strong with significant new development in the city.

Strong governance and fiscal management within a 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. Governance strength is also demonstrated through the city's environmental planning and initiatives through various green, climate and sustainability action plans and initiatives.

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.

Social challenges including housing affordability concerns weigh on city spending

Vancouver's limited land base, a strong regional economy and job growth, consistent demand from a rising population, and limited supply of housing stock have contributed to the city becoming one of the most densely populated major cities in Canada. Housing prices in Vancouver have seen significant historical increases, and housing affordability remains a significant challenge for the city. New transit infrastructure also continues to create housing demand along transit routes.

A shortage of affordable housing units has led to a rise in homelessness which, along with mental health issues and substance abuse cases in the city, place greater demands on city services, including public safety and community programs, thereby raising the city's spending. Ongoing measures include increased staffing, and strategic partnerships with the provincial and federal governments for enhanced mental health services across the city.

Additional measures targeted to ease housing affordability concerns include facilitating purpose-built rental housing and social housing, and introducing regulations to speed up permitting and reduce red tape. Further, the city maintains empty homes tax alongside similar measures maintained at the federal (mortgage rules) and provincial (housing supply act, speculation and vacancy tax, and foreign buyers tax) levels.

Large-scale capital plan requires significant annual spending

2025 is the third year in the implementation of the city's four-year capital plan (2023-2026) totalling CAD3.7 billion. The majority of the plan supports renewing and maintaining the city's ageing infrastructure, and new capital projects to support population growth, which requires significant annual capital outlay. The city expects to fund the capital plan primarily from property taxes, utility fees and development contributions, which will be covered from a mix of pay-as-you-go financing including reserves and debt. Provincial funding for capital remains very small (under 5% of Vancouver's revenues), further evidencing the city's low reliance on the province for operations and capital.

Although we expect that the pace of population and job growth will slow due to recent federal immigration caps, the city will need to expand its capital infrastructure including housing, public amenities and utility projects. In addition, considerable expenses are required to maintaining its existing transportation and utilities infrastructure in good order. Capital expenses represent costs for the city's own capital programs, as well contributing to the capital infrastructure needs of the Metro Vancouver region. However, it is the city's longstanding practice to only proceed with capital projects that are fully funded, while budgets are based on fixed price contracts ensuring predictability and easing future costs pressures.

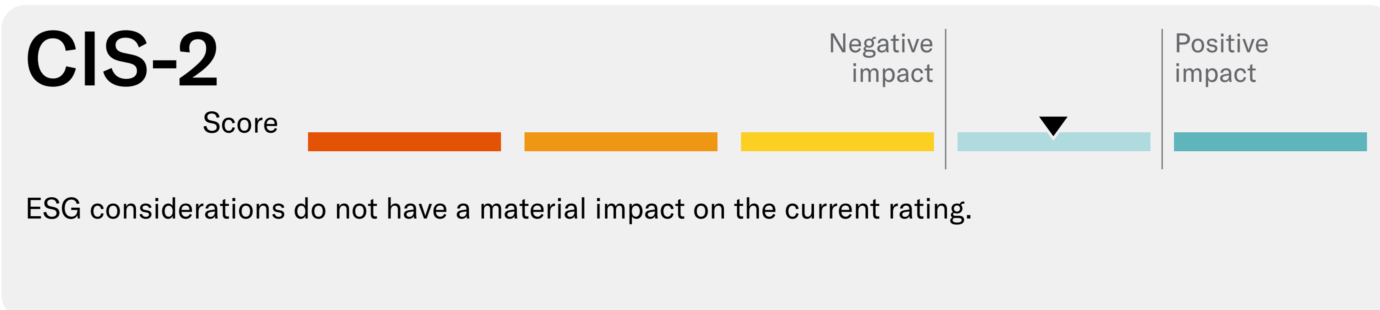
Extraordinary support considerations

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.

ESG considerations

Vancouver, City of's ESG credit impact score is CIS-2

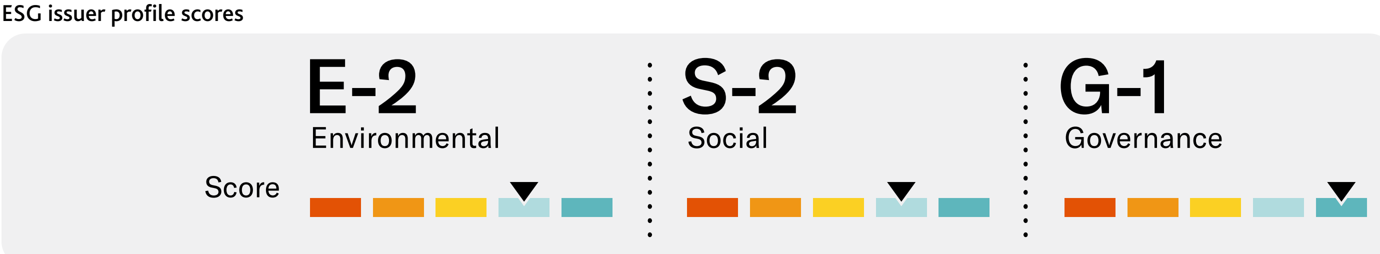
Exhibit 4
ESG credit impact score



Source: Moody's Ratings

The **CIS-2** Credit Impact Score reflects a low impact of ESG considerations on the rating.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The **E-2** issuer profile score (IPS) reflects the city's strong environmental protections as 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 Climate Change Adaptation Strategy and also addresses other climate-related risks through its climate task force, with published and transparent metrics.

Social

The **S-2** IPS reflects the city's very high livability 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.

Governance

The **G-1** IPS reflects transparent, timely financial reporting including forward-looking fiscal policies through its 10-year Capital Strategic Outlook, 4-year capital plan, and 5-year balanced financial plan, and adherence to strict policies on debt and investment management.

The city utilizes long-term financing planning 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 in line with the BCA scorecard-indicated outcome of aaa. For details about our rating approach, please refer to Rating Methodology: Regional and Local Governments.

Exhibit 6

Vancouver, City of

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					**25%**	**0.76**
Regional Income [1]	1.75	63575.33	15%	0.26		
Economic Growth	9.00	baa	5%	0.45		
Economic Diversification	1.00	aaa	5%	0.05		
Factor 2: Institutional Framework and Governance					**30%**	**0.30**
Institutional Framework	1.00	aaa	15%	0.15		
Governance	1.00	aaa	15%	0.15		
Factor 3: Financial Performance					**20%**	**0.30**
Operating Margin [2]	2.17	23.43%	10%	0.22		
Liquidity Ratio [3]	0.75	28.74%	5%	0.04		
Ease of Access to Funding	1.00	aaa	5%	0.05		
Factor 4: Leverage					**25%**	**0.71**
Debt Burden [4]	2.10	28.03%	15%	0.32		
Interest Burden [5]	3.96	1.32%	10%	0.40		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						**(2.08) aa1**
Idiosyncratic Notching						**1.0**
Preliminary BCA SIO After Idiosyncratic Notching						**(1.08) aaa**
Sovereign Rating Threshold						**Aaa**
Operating Environment Notching						**1.5**
BCA Scorecard-Indicated Outcome						**(1.00) aaa**
Assigned BCA						**aaa**

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars
[2] Primary Operating Balance / Operating Revenue
[3] Cash and Cash Equivalents / Operating Revenue
[4] Net Direct and Indirect Debt / Operating Revenue
[5] Interest Payments / Operating Revenue
Source: Moody's Ratings; Fiscal 2024.

Ratings

Exhibit 7

Category	Moody's Rating
VANCOUVER, CITY OF	
Outlook	Stable
Baseline Credit Assessment	aaa
Senior Unsecured -Dom Curr	Aaa

Source: Moody's Ratings

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454