

Morningstar DBRS Confirms British Columbia at AA (high) with a Stable Trend

UTILITIES & INDEPENDENT POWER, SUB-SOVEREIGN GOVERNMENTS

DBRS Limited (Morningstar DBRS) confirmed the Issuer Rating and Long-Term Debt credit rating on the Province of British Columbia (B.C. or the Province) at AA (high) and its Short-Term Debt credit rating at R-1 (high). Morningstar DBRS also confirmed British Columbia Hydro and Power Authority's Long-Term Obligations credit rating at AA (high) and its Short-Term Obligations credit rating at R-1 (high). All trends are Stable.

KEY CREDIT RATING CONSIDERATIONS

The credit rating confirmations reflect the underlying strength and diversity of the Province's economy, its disciplined management practices, and its strong balance sheet. With elections approaching in October, the New Democratic Party government is prioritizing public investments over austerity in response to economic challenges that households are facing. The Province's 2024 budget focuses on improving affordability for people and strengthening public services. The budget plans for substantial increases in spending on priority areas, higher deficits, and a larger borrowing program, all of which Morningstar DBRS expects to result in reduced flexibility in the years to come. However, the Province's historically prudent fiscal approach and track record of outperformance continue to lend stability to its credit profile.

The Province's 2024 budget forecasts a deficit of \$7.9 billion in 2024-25 compared with a deficit of \$5.9 billion now anticipated in 2023-24. On a Morningstar DBRS-adjusted basis, this equates to a shortfall of \$16.9 billion, or 4.0% of GDP. Over the medium term, the Province projects deficits of 4.0% to 3.2% of GDP on a Morningstar DBRS-adjusted basis. In line with the past two budgets, B.C.'s 2024 budget does not present any plan for a return to balance; however, it continues to advocate for modest year-over-year declining deficits. Morningstar DBRS notes that the Province has historically incorporated prudent budget assumptions, which leaves room for some outperformance.

Contrary to prior expectations at the time of Morningstar DBRS' last review in May 2023, B.C.'s debt outlook has deteriorated. Based on budget estimates, debt-to-GDP will increase to roughly 20% in 2024-25 and will likely continue to trend upward to 26% of GDP by 2026-27 compared with Morningstar DBRS' previous expectation that debt-to-GDP would hover around 22% over the medium term. Given the higher deficit projections and no plan to return to balance, Morningstar DBRS expects debt to gradually rise over the medium term.

CREDIT RATING DRIVERS

A negative credit rating action could result from a sustained deterioration in operating results and a material increase in the debt-to-GDP ratio beyond current expectations. A positive credit rating action, while unlikely in the near term, would require the Province to maintain a sustainable budget position and for its Morningstar DBRS-adjusted debt-to-GDP ratio to fall well below 15.0% on a sustainable basis.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental, Social, or Governance factors that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 23, 2024), <https://dbrs.morningstar.com/research/427030>.

BUSINESS RISK ASSESSMENT (BRA) AND FINANCIAL RISK ASSESSMENT (FRA)

(A) Weighting of BRA Factors

In the analysis of B.C., the BRA factors are considered in the order of importance contemplated in the methodology.

(B) Weighting of FRA Factors

In the analysis of B.C., the FRA factors are considered in the order of importance contemplated in the methodology.

(C) Weighting of the BRA and the FRA

In the analysis of B.C., the BRA carries greater weight than the FRA.

Notes:

All figures are in Canadian dollars unless otherwise noted.

Morningstar DBRS applied the following principal methodology:

-- Rating Canadian Provincial and Territorial Governments (April 15, 2024),

<https://dbrs.morningstar.com/research/431208>

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

A description of how Morningstar DBRS analyzes corporate finance transactions and how the methodologies are collectively applied can be found at: <https://dbrs.morningstar.com/research/431153>.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info-DBRS@morningstar.com.

The credit rating was initiated at the request of the rated entity.

The rated entity or its related entities did participate in the credit rating process for this credit rating action.

Morningstar DBRS had access to the accounts, management and other relevant internal documents of the rated entity or its related entities in connection with this credit rating action.

This is a solicited credit rating.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS trends and credit ratings are under regular surveillance.

Information regarding Morningstar DBRS credit ratings, including definitions, policies, and methodologies, is available on dbrs.morningstar.com or contact us at info-DBRS@morningstar.com.

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Ratings

British Columbia Hydro and Power Authority

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
30-Apr-24	Long-Term Obligations (bsd on Prov of BC)	Confirmed	AA (high)	Stb	CA
30-Apr-24	Short-Term Obligations (bsd on Prov of BC)	Confirmed	R-1 (high)	Stb	CA

British Columbia, Province of

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
30-Apr-24	Issuer Rating	Confirmed	AA (high)	Stb	CA
30-Apr-24	Long-Term Debt	Confirmed	AA (high)	Stb	CA
30-Apr-24	Short-Term Debt	Confirmed	R-1 (high)	Stb	CA

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