S&P Global
Ratings

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Summary:

Bay Area Rapid Transit, California; Sales Tax

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Credit Profile		
US$121.030 mil sales tax rev bnds 2017 rfdg (Green Bnds) ser A dtd 12/28/2017 due 06/30/2035		
Long Term Rating	AA+/Stable	New
US$67.405 mil sales tax rev bnds 2017 rfdg (Green Bnds) ser B due 06/30/2024		
Long Term Rating	AA+/Stable	New
Bay Area Rapid Transit Sales Tax Rev Bnds		
Long Term Rating	AA+/Stable	Affirmed
Bay Area Rapid Transit sales tax rev rfdg bnds ser 2016A due 07/01/2036		
Long Term Rating	AA+/Stable	Affirmed
Bay Area Rapid Transit SALESTAX		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to the San Francisco Bay Area Rapid Transit (BART) District, Calif.'s sales tax revenue bonds, 2017 refunding series A (green bonds) and refunding series B (federally taxable) (green bonds). At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the district's sales tax revenue bonds outstanding. The outlook is stable.

The bonds are secured by BART's sales tax revenue, consisting of 75% of revenue from a 0.5-cent sales tax collected in the three-county service area, with the remaining 25% distributed to the Metropolitan Transportation Commission (MTC). The California Department of Tax and Fee Administration collects the district's sales tax along with the state and other local sales taxes, and distributes the sales tax to the bond trustee prior to releasing it for BART's operating and capital funds. Additionally, we understand that BART has obtained third-party green bond verification that the bonds comply with the Climate Bond Standards Board's Low Carbon Land Transport Standard. The 2017 refunding series A and 2017 refunding series B bonds will not have a debt service reserve fund. Proceeds will be used to advance refund all or a portion of BART's series 2010, series 2012A, and series 2012B sales tax revenue bonds for debt service savings.

The rating reflects our view of BART's:

- Exceptionally deep and diverse three-county service area that is home to 3.6 million residents, or nearly half of the San Francisco Bay Area population;
- Leading regional economy in terms of industrial diversity, job growth, and affluence; and
- Very strong maximum annual debt service (MADS) coverage of about 4.78x based on 2017 actual revenues and the refunding debt service schedule.

Economy

The BART service area spans three counties of the San Francisco Bay Area -- San Francisco County, Contra Costa County, and Alameda County -- and therefore is supported by a very substantial and diverse service area. The BART system consists of 109 miles of double track, 46 stations, and more than 49,000 parking spaces across the three counties and portions of San Mateo County. On a per capita basis, market value is extremely strong, in our view, at $166,462. Income levels for the three counties are also high, with median household effective buying income (EBI) at 134% to 147% of the national level, which we consider very strong, and per capita EBI at 129% to 185% of the national level. The district's retail sales activity is also strong, in our opinion, at 72% to 131% of the national level.

Pledged revenues and coverage

The single largest source of the system's revenue is passenger ticket purchases, which represented about 54% of total revenue in fiscal 2016. BART's average weekday ridership has grown year-over-year following the recent recession, increasing by an aggregate 18% in the last five audited fiscal years; however, management reports that ridership trended down in fiscal 2017, with average total weekday trips decreasing 2.3% from the same period in fiscal 2016, which management attributes to congestion, lower gas prices, and the increased use of transportation alternatives such as app-based services. Management anticipates ridership to increase in coming years following the completion of its capital improvements, but has budgeted for ridership to remain stable. Sales tax revenues account for approximately 27% of total system revenues. We note that the sales tax is included in the overall sales tax rate on transactions within the three counties and is comparable to total tax rates within other counties in the state. BART includes sales tax bond debt service as part of its annual operating budget and relies on surplus revenue to help subsidize capital projects.

The BART sales tax revenue does not sunset. The taxable transactions within the three counties span several categories and are not heavily concentrated within a single category. The largest single category is motor vehicle and parts dealers, making up 12% of taxable sales, followed by food services and drinking places at 11%, gasoline stations at 10%, and general merchandise stores at 9%. Sales taxes within BARTs' tax base represent roughly 10% of taxable sales in California.

Pledged revenue (BART sales tax) has been on an increasing trend since 2010, following two years of decline during the recent recession and since surpassing its pre-recessionary peak. Most recently, pledged revenues grew by 2.3% in fiscal 2017 to $247.2 million, according to unaudited actuals. Unaudited pledged revenues and the updated refunding debt service schedule provides coverage of MADS, which occurs in fiscal 2025, of 4.78x, which we consider very strong. Looking ahead, the district has budgeted for additional 2% growth in pledged revenue to about $252.5 million in fiscal 2018, which would provide, in our view, very strong MADS coverage of 4.88x.

Debt profile and capital needs

Outstanding sales tax revenue bonds total $571 million, including the bonds to be refunded. We note that all of the district's sales tax revenue debt is fixed rate. Additional sales tax revenue bonds may be issued in accordance with historical (12 consecutive months in any 18-month period) 1.5x MADS coverage and projected 1.5x MADS coverage for the four years following new debt issuance, a level we consider adequate. We believe the issuance of additional bonds secured by sales tax revenue presents BART with the challenge of replacing operating revenue that would be lost to debt service; therefore, we believe this reduces the likelihood that BART would issue debt in amounts that would substantially dilute debt service coverage down to the ABT level. We understand that management does not anticipate issuing additional sales tax revenue bonds in the near future due to this reliance on sales taxes for operations.

Capital plans for BART require an additional $15 billion during the next 10 years, and include a full fleet replacement, a new maintenance facility, and an updated train control system. We understand that BART officials have identified funding for about half of these capital needs, including state and federal grants and BART's own $45 million in operating set asides for 12 years. In order to help fund its considerable capital needs, BART received voter authorization in November 2016 to issue $3.5 billion in general obligation bonds under Measure RR, which was authorized for safety enhancements, overcrowding and traffic relief, and infrastructure replacement and upgrades. Although management has indicated that it is highly unlikely, we believe there is some possibility that the transit system may issue additional sales tax revenue bonds in the future under the ABT to partially fund its considerable capital needs.

Outlook

The stable outlook reflects our view of the district's stable pledged revenues, which we anticipate will continue to provide at least strong coverage on the bonds. Due to the district's large and diverse tax base and significant capital needs over the next several years, we do not expect to change the ratings within our two-year outlook horizon.

Upside scenario

A higher rating is possible if there were a strengthening of indenture provisions, or should the district secure sufficient funds to finance its future capital needs without diluting its very strong debt service coverage, we could raise the ratings.

Downside scenario

We could lower the ratings if the district's debt service coverage declined to levels no longer in line with similarly rated peers.

Related Research

Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.