FitchRatings

Public Finance
Tax-Supported
U.S.A

San Francisco Bay Area Rapid Transit District, California

Ratings

Long Term Issuer Default Rating	AA+

New Issues

$220,800,000 Sales Tax Revenue Bonds, 2019 Series A	AA+
$80,000,000 Sales Tax Revenue Bonds, 2019 Refunding Series B (Federally Taxable Green Bonds)	AA+

Outstanding Debt

(Taxable) Sales Tax Revenue Bonds	AA+
Sales Tax Revenue Bonds	AA+
Sales Tax Revenue Refunding Bonds	AA+
Sales Tax Revenue Refunding Bonds (Taxable)	AA+

Rating Outlook

Stable

Related Research and Criteria

Fitch Rates San Francisco Bay Area Rapid Transit District, CA's Sales Tax Revs 'AA+'; Outlook Stable (October 2019)

U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

New Issue Summary

Sale Date: Week of Oct. 21, 2019

Series: $220,880,000 Sales Tax Revenue Bonds, 2019 Series A, and $80,000,000 Sales Tax Revenue Bonds, 2019 Refunding Series B (Federally Taxable Green Bonds).

Purpose: To refund portions of series 2012A, to fund the purchase and renovation of a new headquarters building and to pay cost of issuance.

Security: The sales tax revenue bonds are payable from a first lien on 75% of the 1/2 cent Bay Area Rapid Transit District (BART) sales and use tax (sales tax) levied in Alameda and Contra Costa counties and the City and County of San Francisco (collectively, the BART counties).

The 'AA+' Issuer Default Rating (IDR) reflects BART's healthy financial performance, low-to-moderate long-term liabilities, strong revenue growth prospects and manageable capital spending pressures in the context of an unusually vibrant economic base.

The 'AA+' sales tax revenue bond rating reflects both solid growth prospects for pledged revenues and very strong financial resilience, as well as the system's operating risk, which caps the revenue bond rating at BART's IDR.

Economic Resource Base: BART provides essential public transportation services to a wealthy, diverse and growing San Francisco Bay Area economy. The district includes Alameda, Contra Costa and San Francisco counties, home to 3.7 million residents and 1.9 million jobs. The service area extends to San Mateo County and will soon also include an extension to Santa Clara County and the city of San Jose.

Key Rating Drivers

Revenue Framework: 'aa': The district's sales tax- and passenger fare-dominated revenue structure provides strong revenue growth at above both the level of inflation and overall economic growth, though fare revenue growth has slowed in recent years with modest declines in ridership. The independent legal ability to raise revenues is satisfactory due to the system's control over fares. The district's board does not have the authority to raise taxes without outside approval.

Expenditure Framework: 'aa': The district faces significant capital spending pressures, but Fitch Ratings expects the increases to track revenues over time. Expenditure flexibility is solid, with moderate fixed costs and significant pay-go capital spending offsetting a somewhat restrictive labor environment.

Long-Term Liability Burden: 'aa': Combined debt and pension liabilities are low relative to personal income and moderate relative to cash flow available for debt service (CFADS). Debt is expected to rise significantly as the district addresses a significant backlog of capital spending needs, but the liability burden is expected to remain below 10% of personal income.

Operating Performance: 'aa': The district is well-positioned to withstand cyclical revenue variability due to healthy reserves, consistently positive margins and the ability to offset revenue losses with either spending cuts or fare increases. Budget management in times of recovery is somewhat mixed, with healthy funding of retirement liabilities and conservative, thorough financial planning offset by some deferrals of needed capital spending.

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Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	10/02/19
AA+	Downgraded	Stable	1/19/12
AAA	Upgraded	Stable	7/11/07
AA+	Assigned	Stable	5/09/05

Rating Sensitivities

Capital Funding Risks: The IDR could come under downward pressure if the district fails to continue to make progress in addressing its significant backlog of deferred capital needs or if the district's plan to address the capital backlog pushes leverage significantly higher. A decrease in the IDR or significant additional leveraging of the sales tax revenues could put downward pressure on the sales tax revenue bond ratings.

Weakening in Financial Performance: A sustained and unexpected weakening of financial performance could pressure the IDR, particularly if driven by continued erosion in ridership and fare revenues.

Credit Profile

The San Francisco Bay Area economy has experienced very strong economic growth in recent years. The city and county of San Francisco, with per capita personal income that is more than twice the national average, has experienced particularly strong growth in the current economic expansion as technology sector employment surged in the city and nearby Silicon Valley. Alameda County, with per capita personal income at 149% of the national average, has also experienced strong growth, including gentrification in the city of Oakland, which has experienced significant residential and office development near BART stations. Contra Costa County, with per capita personal income at 153% of the national level, also has solid growth across its suburban bedroom communities. Poverty and unemployment rates are below state and national averages across the BART service area, while population growth rates and educational attainment are stronger than the nation as a whole.

BART services are essential to the region's commuters and employers. Average weekday ridership was 414,166, or about 20% of local payroll employment, in fiscal 2018, and the system plays a crucial role in transporting workers across the bay from residential communities in Alameda and Contra Costa counties to San Francisco's central business district.

Revenue Framework

The district benefits from a diverse mix of sales taxes, property taxes, fare revenues and intergovernmental aid. Natural revenue volatility is somewhat higher than the typical U.S. local government because of dependence on cyclical sales taxes and ridership. Ridership is cyclical, with decreases tracking changes in payroll employment; however, the district's board has generally adjusted fares to recover lost fare revenues, creating much lower volatility of fare revenues than ridership. Revenue downturns tend to be short-lived and followed by periods of very strong growth.

The natural pace of revenue growth is quite strong, with revenue gains generally outpacing both inflation and economic growth. The 10-year compound annual growth rate of revenues (excluding capital grants and the general obligation [GO] bond levy) is anticipated to be above GDP growth in 2019 and beyond. Growth in sales taxes (about a quarter of revenues available for operations) tracks inflation fairly well on average over time. Rapid increases in fare revenues (about half of revenues available for operations) push overall revenue gains above the rate of economic growth as ridership has benefited from the region's fast growing job market. The district's board has also approved multi-year fare increases (2014 to 2020) that are tied to the consumer price index.

After several years of very strong gains earlier in the expansion, fare revenues declined slightly over the past three years as the system faced both service disruptions and increased competition from ride-hailing apps that have reduced off-peak ridership. Average weekday ridership declined 0.8% in 2019, the third consecutive year of declines. BART enjoys a particularly strong comparative advantage over car travel in pricing and speed during peak commute hours across the bay, and management believes ridership is likely to resume growth over time as the region's employment and population bases continue to expand. The district is investing heavily in cross bay capacity and believes that investments in new railcars and new train control systems will increase both capacity and reliability of service on key routes. The expansion of service to San Jose also has the potential to boost ridership. However, continued declines in ridership could reduce the rate of ongoing revenue growth and could put downward pressure on the rating.

The district has satisfactory revenue raising flexibility due to strong fare box recoveries that offset a lack of independent legal ability to raise taxes. BART is unusual among U.S. public transit agencies in that fares cover a high proportion of operating expenses (about three-quarters in recent years). The district's elected board has the authority to increase fares without outside approval and has regularly offset revenue losses through fare adjustments. A 10% increase in fares would fully offset the revenue loss generated by the Fitch Analytical Sensitivity Tool (FAST) in a 1% decline in U.S. gross domestic product, a moderate U.S. recession scenario.

The district has significant exposure to outside funding that is beyond its control, including funding for capital from local transit funding agencies, the state of California and the federal government. This is not unusual for transit agencies, but Fitch's assessment of the revenue framework could be reduced if the district's access to intergovernmental aid declines on a sustained basis.

Expenditure Framework

The primary drivers of BART's spending are capex and labor costs.

Fitch expects spending to keep pace with above-average revenue growth due to significant capital spending pressures. Other components of spending, particularly labor, are likely to track inflation more closely, though rising benefit costs could add further to cost pressures.

Expenditure flexibility appears solid. The fixed carrying costs of debt service and retiree liabilities are very manageable at 16% of spending in fiscal 2018. Fitch expects carrying costs to rise as additional debt is issued but to remain moderate (below 20%) as a percentage of expenditures. The district also benefits from significant spending flexibility due to the ability to temporarily defer pay-go capital spending during downturns or to shift funding strategies from pay-go to debt financing during periods of stress.

The district also has solid control over service levels with the ability to adjust hours of operation and frequency of service on train lines, as well as related staffing. The district has some (but not complete) control of labor costs. It must negotiate pay and benefits levels with its unionized workforce. While management ultimately controls headcount and may impose terms after an impasse, the labor environment can be contentious and limits expenditure flexibility somewhat. District employees retain the ability to strike and have in recent years, forcing management to ultimately offer more favorable terms.

Long-Term Liability Burden

The district's long-term liability burden is low to moderate and composed primarily of overlapping debt. Direct debt consists of GO bonds, sales tax revenue bonds and a moderate unfunded pension liability. The overall long-term liability burden is low at about 8% of personal income while net debt is higher but still moderate given stronger revenue defensibility and operating risk at 8x CFADS in fiscal 2018.

The direct liability burden (including about $2 billion in outstanding bonds and estimated unfunded pension liabilities of about $1.1 billion based on Fitch's standard 6% rate of return assumption) equals about 1% of personal income, with the lion's share of total liabilities made up of overlapping debt.

Direct debt is likely to increase over the next decade as the district addresses a backlog of deferred capital needs. District voters approved a $3.5 billion unlimited tax GO bond authorization (Measure RR) in November 2016. The district has issued $660 million of the bonds and plans to use the remaining $2.84 billion of authorization over two decades. The district has significant additional capital needs. BART's FY 2019 Short Range Transit Plan and Capital Improvement Program identifies $22.4 billion of capital needs over 15 years through 2033 and $12.4 billion of available funding. The district is actively pursuing alternate funding sources to fill the $10 billion gap. Fitch does not expect the district to leverage existing revenue streams to raise the additional funds, but if the district were to issue bonds to meet a significant part of the need, the long-term liability burden assessment could weaken. The capital plan is largely focused on capital renewal as well as three key areas, replacement of its railcar fleet, increasing transbay core capacity, and expanding the system to Silicon Valley (which is being funded primarily by the Santa Clara Valley Transportation Authority and the federal government).

Operating Performance

The district is well-positioned to withstand typical cyclical revenue variability. Fitch believes BART's margins would decline from the very robust levels of recent years in a downturn, providing less pay-go funding for capital spending but remaining positive and healthy. The district also maintains a strong reserve position to offset short-term cyclical revenue shortfalls. Unrestricted cash and investments equaled 93% of expenses, excluding depreciation, at the end of fiscal 2018. For details, see Scenario Analysis, page 7.

The district's budget management in times of economic recovery is mixed, with strengths somewhat offset by a track record of deferral of needed capital spending. The district engages in thorough and conservative budgeting, with long-term forecasting that keeps management and policymakers focused on long-term budget balance. It consistently makes full actuarially determined contributions to pensions and has begun to prefund other post-employment benefit liabilities. It also quickly rebuilds financial flexibility and reserves after periods of stress. While historical deferrals of needed capital spending continue to limit Fitch's assessment of operating performance somewhat, the district made progress in addressing this concern with the 2016 bond election, which was passed with strong support on the first attempt. Management now believes it has the resources necessary to address the core capital needs that partly led to degradation in service in recent years. On-time performance has improved slightly after a period of high-profile system disruptions and sustained declines in on-time performance. Continued progress in securing capital funding and sustained improvement in system performance could lead to an increase in the operating performance assessment.

Dedicated Tax Key Rating Drivers

Very Strong Resilience: The sales tax revenue bonds have the highest level of resilience at expected leverage levels. Fitch's rating assumes that the district does not significantly further leverage the sales tax revenue stream, reflecting both management plans and the issuer's need for residual sales tax revenues to support operations.

Solid Growth Prospects: The pledged sales tax revenues are expected to continue to grow at a pace that exceeds inflation. The sales tax payer base is broad and diverse, and the district's economic resource base has very strong growth prospects.

Dedicated Tax Credit Profile

The sales tax revenue bonds are payable from a first lien on 75% of the 1/2 cent BART sales and use tax (sales tax) levied in Alameda and Contra Costa counties, and the City and County of San Francisco (collectively, the BART counties).

Pledged revenue growth prospects are solid. Sales tax revenues are expected to grow above the level of inflation but below the level of U.S. economic growth over time. Sales taxes have risen at a compound annual growth rate of 2.4% over the past decade.

Pledged revenue coverage is very strong (5x MADS in 2018) and expected to remain strong throughout a typical, moderate U.S. recession. To evaluate the sensitivity of the dedicated tax revenue stream to cyclical decline, Fitch considers both a revenue sensitivity scenario (using a 1% decline in national GDP scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Based on the district's sales tax revenue history, Fitch's analytical sensitivity tool (FAST) generates a 5.9% decline in pledged revenues during the first year of a moderate recession. The largest cumulative revenue decline historically was 17.8% over two years in the aftermath of the Great Recession in 2009 and 2010.

Assuming issuance up to the 1.5x additional bonds test (ABT), the structure could tolerate a 33% drop in revenues. Fitch does not expect the district to issue additional parity debt after the current transaction. The district currently has no plans to further leverage the revenue stream and needs the excess cash flows to fund its ongoing operating and pay-go capital budget. MADS coverage will equal at least 4x after the current transaction. At that leverage level, sales tax revenues could fall 78% before reaching 1x debt service coverage. The 80% coverage cushion is 12.7x the recessionary decline scenario produced by the FAST model and 4.2x the decline of the Great Recession, which Fitch views as consistent with a 'aaa' level of financial resilience.

Exposure to Issuer Operations

The dedicated taxes pledged to the bonds do not meet the requirements set out in Fitch criteria for treatment as “pledged special revenue” under section 902(2) of the bankruptcy code and are not otherwise insulated from the BART's operating risk. Therefore, the rating of the debt is capped at the IDR.

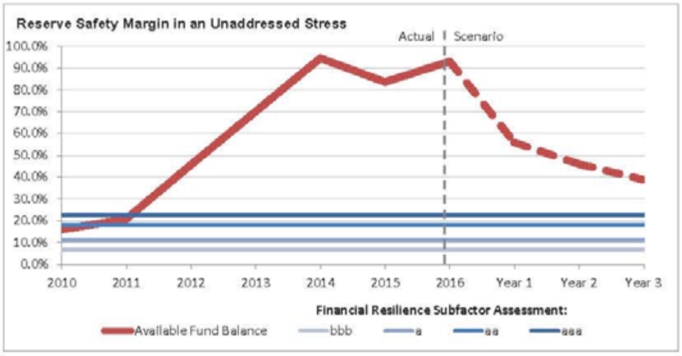
ESG Considerations

BART has exposure to the impact of labor negotiations and employee dissatisfaction, which impacts the rating in combination with other factors.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

San Francisco Bay Area Rapid Transit District (CA)

Scenario Analysis



Analyst Interpretation of Scenario Results:

The FAST model estimates that the district may experience a decrease in revenues of 4.5% in a moderate recession. The FAST estimate is based on an analysis of the district's long-term revenue performance across economic cycles. Fitch expects the district to adjust service levels, fares and capital spending to maintain healthy cash balances through a downturn. The district may also increase debt funding of capital for a period in downturns, which is typical for capital intensive enterprises. The ability to shift among capital funding sources (locally generated pay-go, grants from higher levels of government and use of debt) is a key source of financial flexibility

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(4.5%)	0.3%	5.1%
Inherent Budget Flexibility	Midrange		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2012	2013	2014	2015	2016	2017	2018	Year 1	Year 2	Year 3
Stressed Revenues	689,009	734,305	813,926	901,676	892,250	970,853	928,811	886,870	889,260	934,210
% Change in Revenues		6.6%	10.8%	10.8%	(1.0%)	8.8%	(4.3%)	(4.5%)	0.3%	5.1%
Expenses (Excluding Depreciation & Interest)	559,096	594,971	643,952	671,304	689,717	773,806	773,940	789,419	805,207	821,311
% Change in Expenses		6.4%	8.2%	4.2%	2.7%	12.2%	0.0%	2.0%	2.0%	2.0%
General Obligation Bond Levy	19,908	20,767	38,983	29,355	33,776	28,250	61,728	65,643	65,472	65,348
Cash Flow Available For Debt Service	149,821	160,101	208,957	259,727	236,309	225,297	216,599	163,094	149,525	178,246
Debt Service	66,216	78,049	58,733	74,092	74,838	68,090	121,938	110,774	111,658	112,110
Debt Service Coverage	2.3	2.1	3.6	3.5	3.2	3.3	1.8	1.5	1.3	1.6
Pay-Go Capital Expenditures								331,000	109,000	118,000
Unrestricted Cash & Investments	89,492	124,251	294,071	470,478	652,273	646,480	720,013	441,333	370,200	318,337
Unrestricted Cash & Investments (% of Expense)	16.0%	20.9%	45.7%	70.1%	94.6%	83.5%	93.0%	55.9%	46.0%	38.8%
Days Cash	58	76	167	256	345	305	340	204	168	141

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	72.2%	36.1%	22.6%	13.5%	9.0%
Reserve Safety Margin (aa)	54.2%	27.1%	18.1%	11.3%	6.8%
Reserve Safety Margin (a)	36.1%	18.1%	11.3%	6.8%	4.5%
Reserve Safety Margin (bbb)	13.5%	9.0%	6.8%	4.5%	2.3%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.