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CREDIT OPINION
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San Francisco Bay Area Rapid Transit District, CA

Update to credit analysis

Summary

San Francisco Bay Area Rapid Transit District (BART) (Aaa stable) benefits from an exceptionally large tax base that is poised for continued growth and the above average socioeconomic profile of the service area residents. BART has a healthy financial position, which should remain strong, while recognizing the inherent operating limitations and long term capital needs on the district's financial flexibility. The overall debt burden will remain low, even with future debt plans and the district's pension and OPEB burdens are moderate. Similar to national trends, ridership is slightly down, but management continues its practice of adopting regular fare increases. The district's credit profile also benefits from the above-average legal strength of the general obligation bonds.

Credit strengths

» Exceptionally large, diverse tax base poised for continued growth

» Healthy financial profile

» Above average socioeconomic profile of service area

Credit challenges

» Aging infrastructure and large capital improvement needs

» Slight declines in ridership

» Rising pension costs

Rating outlook

The stable outlook reflects our expectation for the service territory's continued economic stability and the continued financial and operating stability of the system.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Significant deterioration in the district's financial position

» Greater than expected rise in leverage position, including debt, pensions and OPEB

» Financial inflexibility resulting from long-term union contracts

Key indicators

Exhibit 1

San Francisco Bay Area Rapid Transit Dist, CA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$525,641,605	$560,708,076	$602,260,171	$646,060,069	$695,601,630
Population	3,469,612	3,521,814	3,563,424	3,617,556	3,800,000
Full Value Per Capita	$151,499	$159,210	$169,012	$178,590	$183,053
Median Family Income (% of US Median)	138.8%	139.9%	143.1%	146.2%	146.2%
Finances					
Operating Revenue ($000)	$941,409	$931,031	$926,026	$999,103	$990,539
Fund Balance ($000)	$281,855	$466,642	$608,410	$752,198	$890,602
Cash Balance ($000)	$1,005,034	$1,139,591	$1,246,252	$1,556,676	$1,370,206
Fund Balance as a % of Revenues	29.9%	50.1%	65.7%	75.3%	89.9%
Cash Balance as a % of Revenues	106.8%	122.4%	134.6%	155.8%	138.3%
Debt/Pensions					
Net Direct Debt ($000)	$1,367,170	$1,329,595	$1,233,115	$1,486,195	$1,366,630
3-Year Average of Moody's ANPL ($000)	$1,191,231	$1,299,943	$1,415,673	$1,640,380	$1,841,699
Net Direct Debt / Full Value (%)	0.3%	0.2%	0.2%	0.2%	0.2%
Net Direct Debt / Operating Revenues (x)	1.5x	1.4x	1.3x	1.5x	1.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.2%	0.2%	0.3%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.4x	1.5x	1.6x	1.9x

Source: BART's Audits and Moody's Investors Service

Profile

The district was created in 1957 to provide rapid transit service to the San Francisco Bay Area and is governed by an elected nine member Board of Directors. The district is composed of Alameda and Contra Costa Counties, as well as the City and County of San Francisco. System ridership totaled over 120 million passengers in 2018. The system has 121 miles of dual mainline track, 48 stations, and more than 49,000 parking spaces.

Detailed credit considerations

Tax Base and Economy; large and diverse tax base; robust regional economy

BART comprises one of the largest property tax base areas in the state, which will continue to benefit from solid growth. The exceptionally large tax base includes Alameda County ($275.6 billion 2019 AV, rated Aaa Stable), Contra Costa County ($198.9 billion 2019 AV, rated Aa2 Stable), and San Francisco City and County ($241.8 billion 2019 AV, rated Aaa Stable). The district's assessed value (AV) grew at a strong rate of 8.0% in fiscal year 2019 to $751.5 billion and will continue to increase in the near term given the healthy growth projections in the regional economy, ongoing housing value appreciation and home sales. The five year average annual increase in assessed value is also healthy at 7.0%. The top ten taxpayers comprise an exceptionally low 2.1% of AV.

We anticipate continued overall economic improvement in the near-term. The tech sector continues to propel the region's employment to new heights, though growth in more traditional industries such as advertising, retail, and construction has also supported the local economy. Demand for business infrastructure and healthy financial conditions fuel tech expansion. Residents continue to benefit from access to a robust regional employment base that includes leading operations in technology, education, and health care. The socioeconomic profile of the area residents continues to be strong. The median family income for each of the counties is above the US average at 135.3% (Alameda), 146.4% (Contra Costa), and 136.2% (San Francisco).

Financial Operations and Reserves: financial position expected to remain strong; benefits from management's prudent fiscal practices

BART's financial position will remain strong and will continue to benefit from management's conservative budgetary practices. The board has approved fare increases through fiscal 2026, which further supports the district's strong financial position.

The district's strong financial performance in recent years is largely due to revenues coming in above budget, in particular sales and property taxes, coupled with tight expenditure controls. Fares are the largest component of revenues (48.6% of fiscal 2018 total operating revenues) followed by sales taxes (26% of fiscal 2018 total operating revenues). Similar to national trends for public transit, ridership has slightly declined since 2016 and management expects that trend to continue in the near-term. This has translated to small declines in fare revenue, which has been offset with growth in other operating revenues, primarily sales taxes. Management works together with a sales tax consultant on revenue projections and given the strong regional economy, sales tax revenue growth is expected to continue, although at a slower rate.

The adopted fiscal 2020 budget increased 2.7% over the prior year and is balanced with projected increases in sales and property tax revenues. Labor and benefits comprise 62.5% of the fiscal 2020 budget and should come within current appropriations since contracts with bargaining units are settled through June 30, 2021.

The system has an extensive capital improvement program that should improve the overall viability of the system. The fiscal 2020 capital budget is $1.4 billion (4.7% increase over the prior year) and is largely funded with general obligation bonds (53.2% of capital budget). While the capital budget includes contributions from operations, we do not anticipate that any sources coming from the system would significantly alter the district's financial profile.

LIQUIDITY

BART's liquidity will remain strong and further supports the district's healthy financial position. Its fiscal 2018 unrestricted cash and investment balance was $720.0 million or a robust 72.7% of gross operating revenues. Total operating cash and investments was a robust $1.4 billion or 138.3% of total operating revenues.

Debt and Pensions: debt burden remains low; moderate pension burden

The district's general obligation debt burden remains very low given the size of the district's total tax base. After the district's upcoming issuance, which includes General Obligation Bonds (Election of 2004) 2019 Series F-1 (Green Bonds), General Obligation Bonds (Election of 2004) 2019 Series F-2 (Federally Taxable) (Green Bonds), General Obligation Bonds (Election of 2016) 2019 Series B-1 (Green Bonds), General Obligation Bonds (Election of 2016) 2019 Series B-2 (Federally Taxable) (Green Bonds), and a potential issuance of General Obligation Bonds (Election of 2004) 2019 Refunding Series G (Federally Taxable) (Green Bonds), the district's direct debt will still be very low at 0.2% of total AV.

The district will have $2.8 billion in authorized unissued debt under Measure RR , and no authorized unissued debt under Measure AA after the upcoming issuance. We do not anticipate future debt issuance to significantly alter the district's direct debt burden given ongoing tax base growth on the already very large tax base. The tax rate to make debt service on the upcoming bond sale authorized under Measure RR is projected to be under $5.00 per $100,000 AV. The district has ample tax rate capacity for new debt, since the maximum tax rate indicated to voters was $17.49 per $100,000 AV.

DEBT STRUCTURE

The district's outstanding debt includes both general obligation bonds and sales tax revenue bonds ($481.5 million outstanding, unrated by Moody's).

The final maturity for the district's sales tax bonds and general obligation bonds is fiscal 2037 and fiscal 2048, respectively.

DEBT-RELATED DERIVATIVES

BART has no debt-related derivatives.

PENSIONS AND OPEB

BART is a member of CalPERS. Its adjusted net pension liability, based on a 3.87% discount rate, was $1.9 billion in fiscal 2018. In comparison, BART reported a GASB net pension liability of $705.5 million, based on a 7.15% discount rate. While pension costs will continue to increase and remain a budgetary pressure, the district is well positioned to address this challenge given its strong financial position. Management is in the process of establishing a Section 115 trust to help offset rising pension costs. The board approved a $10 million contribution to the Section 115 trust each year over the next 10 years, although the board could vote to withhold the contribution to provide budgetary relief, if needed.

Management created and OPEB trust in 2004, and the fair market value of assets is approximately $305.9 million. The district's adjusted net OPEB liability (adjusted NOL), based on a 4.14% discount rate, was $588.8 million in fiscal 2018 or an above-average 0.59 times operating revenues. The district's fixed costs, including debt service, pension and OPEB contributions, amounted to 25.2% of total operating revenues. This is manageable in relation to BART's overall operations.

Management and Governance

Management continues to operate the system effectively and its prudent fiscal practices support the district's healthy financial position. The Measure AA and Measure RR GO bond authorizations and funding of long term capital plans should help to maintain the viability of the system in the long term.

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