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CREDIT OPINION
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San Francisco Bay Area Rapid Transit Dist, CA

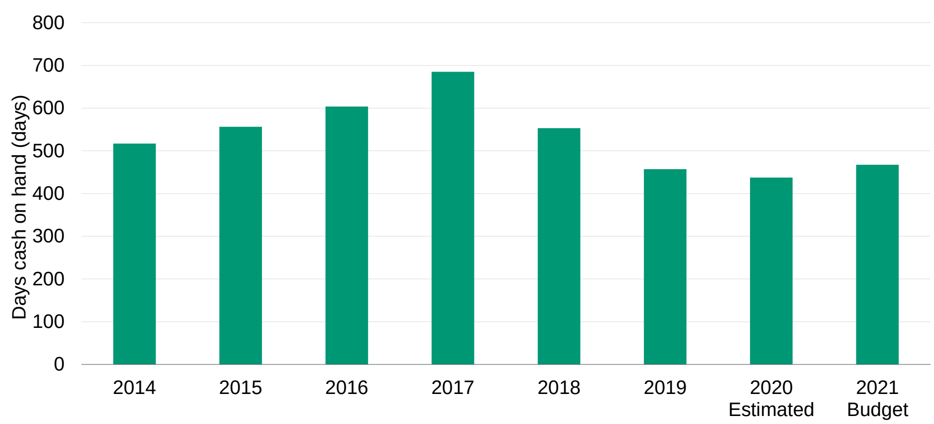
Update to credit analysis

Summary

San Francisco Bay Area Rapid Transit District's (BART) (Aaa, stable) exceptionally large and diverse tax base that encompasses a major component of the Bay Area economy and favorable wealth profile of service area residents support its strong credit profile. Additionally, its healthy financial metrics, including six years of consecutive operating surpluses and strong liquidity, position the district well to manage through the current economic challenges because of the coronavirus pandemic. The district's large capital needs as well as its moderate pension and OPEB burdens have also been factored into its credit profile. The above average legal strength of the general obligation bonds, including a statutory lien and "lock box," is credit positive.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Given BART's currently strong reserves and receipt of federal aid, the district is not susceptible to immediate material credit risks related to coronavirus. However, the situation surrounding coronavirus is rapidly evolving and the longer-term impact will depend on both the severity and duration of the crisis.

Exhibit 1
BART's Strong Liquidity Position Will Help Offset Current Fiscal Challenges Related to the Pandemic



Source: BART's Audits, Projected Cash Flow Statements and Fiscal 2021 Budget

Credit strengths

- Highly essential transportation system in the Bay Area
- Exceptionally large, diverse tax base poised for continued growth
- Healthy financial profile
- Above average wealth profile of service area residents

Credit challenges

- Significant decline in ridership because of coronavirus
- Reliance on one-time federal funding to balance fiscal 2021 budget
- Aging infrastructure and large capital improvement needs

Rating outlook

The outlook on BART's bonds is stable based on the expectation that the district's resources, including supplemental federal aid will be sufficient to weather the coronavirus-induced economic downturn.

Factors that could lead to an upgrade

- Not applicable

Factors that could lead to a downgrade

- Decrease in federal support for local transit operations
- Significant deterioration in the district's financial position
- Greater than expected rise in leverage position, including debt, pensions and OPEB

Key indicators

Exhibit 2

San Francisco Bay Area Rapid Transit Dist, CA	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$560,708,076	$602,260,171	$646,060,069	$695,601,630	$751,515,830
Population	3,521,814	3,563,424	3,617,556	3,800,000	3,800,000
Full Value Per Capita	$159,210	$169,012	$178,590	$183,053	$197,767
Median Family Income (% of US Median)	139.9%	143.1%	146.2%	150.4%	150.4%
Finances					
Operating Revenue ($000)	$931,031	$926,026	$999,103	$990,539	$1,043,776
Fund Balance ($000)	$466,642	$608,410	$752,198	$890,602	$793,708
Cash Balance ($000)	$1,139,591	$1,246,252	$1,556,676	$1,370,206	$1,093,196
Fund Balance as a % of Revenues	50.1%	65.7%	75.3%	89.9%	76.0%
Cash Balance as a % of Revenues	122.4%	134.6%	155.8%	138.3%	104.7%
Debt/Pensions					
Net Direct Debt ($000)	$1,329,595	$1,233,115	$1,486,195	$1,366,630	$1,315,795
3-Year Average of Moody's ANPL ($000)	$1,299,943	$1,415,673	$1,640,380	$1,841,699	$2,010,349
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.2%
Net Direct Debt / Operating Revenues (x)	1.4x	1.3x	1.5x	1.4x	1.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.2%	0.3%	0.3%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.4x	1.5x	1.6x	1.9x	1.9x

Operating revenue includes Financial Assistance funds
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 (Aaa, stable) and Contra Costa (Aa2, stable) Counties, as well as the City and County of San Francisco (Aaa, negative). System ridership totaled over 83 million passengers in 2020. The system has 131 miles of dual mainline track, 50 stations and more than 47,200 parking spaces.

Detailed credit considerations

Tax base and economy: exceptionally large and diverse tax base that encompasses a major component of the Bay Area

BART comprises one of the largest property tax base areas in the state, which will continue to benefit from solid growth largely because of housing turnover and ongoing residential and commercial development. The median AV for a single family home within the district falls well below the average sale prices of homes within district boundaries that range from $715,000 to $1.4 million. This helps to ensure future AV growth under Prop. 13 as properties exchange ownership, although the pace of tax base growth is likely to slow over the near term because of the coronavirus recession. The district's assessed value (AV) reached $804.7 billion in fiscal 2020 and includes Alameda County (38.6% of AV), San Francisco City and County (34.6% of AV) and Contra Costa County (26.8% of AV). The five year average annual increase in assessed value is strong at 7.5%. and the Top 10 taxpayers comprise an exceptionally low 2.01% of AV.

Residents benefit from access to a robust regional employment base that includes leading operations in technology, education and healthcare. However, the coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to the tourism, healthcare, retail, oil and gas and international trade sectors could suffer particularly severe impacts. As of June 2020, the unemployment rates for Alameda County (13.4%), Contra Costa County (13.4%) and San Francisco City and County (12.5%) have risen because of the coronavirus recession and are below the State and slightly above the US rates at 15.1% and 11.2%, respectively.

The socioeconomic profile of the area residents continues to be strong. The median family income for each of the counties are favorable when compared to the US average at 150.4% (Alameda), 145.9% (Contra Costa), and 166.2% (San Francisco).

Financial operations and reserves: currently well positioned to manage through sharp decline in ridership given its strong financial position supported by healthy liquidity

Heading into fiscal 2020, BART had a very strong financial position with fiscal 2019 marking its sixth consecutive operating surplus and liquidity remained healthy, both of which position the district well to manage through the current economic challenges because of the coronavirus pandemic. The Bay Area Shelter-In-Place order went into effect on March 17 and shortly thereafter, BART implemented service reductions. Ridership reached its lowest point at 6% of expected volumes in mid-April and ridership has slowly improved since then yet is still remains low at approximately 12% of expected volumes. The impact of coronavirus on the district's operations has been manageable largely because of the receipt of federal funds under the CARES Act which totaled $377.0 million. This funding will be used to offset the projected revenue shortfall in fiscal 2020 ($126.0 million) and the balance ($251.0 million) will be used in BART's fiscal 2021 budget.

The district's fiscal 2021 operating budget resources primarily include "Emergency Funding, which consists of moneys from the CARES Act and FEMA (29.6%), sales tax (26.1%) and passenger and parking revenue (17.7%). Labor and benefits comprise 65.7% of the fiscal 2021 budget and should come within current appropriations since contracts with bargaining units are settled through June 30, 2021. Should revenue fall below budget, management is evaluating a number of cost reduction options to maintain a sound financial position.

The fiscal 2021 budget assumes passenger and parking revenue at 70% below expected volumes and sale tax revenue will be 16% lower than typical levels. Deeper losses or a slower recovery of these revenue sources than assumed could materially impact the current and out-year budgets. A prolonged change in commuting patterns because of social distancing and working from home arrangements are material downside risks to the district's longer-term credit profile.

The system has an extensive capital improvement program that should improve the overall viability of the system. The fiscal 2021 capital budget is $1.5 billion (6.1% increase over the prior year) and is largely funded with general obligation bonds (40.0% of capital budget). While the capital improvement plan includes contributions from operations, we do not anticipate that any sources coming from the system would significantly alter the district's financial profile.

Liquidity

Before the advent of the crisis, BART had healthy liquidity with 457 days of cash on hand (fiscal 2019). With the receipt of $377.0 million in funding from the CARES Act, liquidity is projected to remain stable at 467 days cash on hand in fiscal 2021.

Debt, pension and OPEB: debt burden remains low; moderate pension and OPEB burdens

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 2016) 2020 Series C-1 (Green Bonds) and (Election of 2016) 2020 Series C-2 (Green Bonds), the district's direct debt will still be very low at 0.3% of total AV.

The district will have $2.14 billion in authorized unissued debt under Measure RR 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 $8.00 per $100,000 AV. The district has ample tax rate capacity for new debt, since the maximum tax rate projected to voters was $17.49 per $100,000 AV.

Legal security

The general obligation bonds are secured by a voter-approved unlimited property tax pledge encompassing the three district counties. The City and County of San Francisco and Contra Costa County have adopted the Teeter Plan, which ensures that BART will receive 100% of the debt service proceeds required to make debt service on the general obligation bonds. While Alameda County has adopted the Teeter Plan, its Teeter Plan does not apply to general obligation bond collections. Property tax revenue levied for general obligation bond debt service are delivered directly to the GO bond's trustee in the case of all three BART Counties.

Debt structure

The district's outstanding debt includes both general obligation bonds ($1.2 billion outstanding) and sales tax revenue bonds (sales tax revenue bonds outstanding total $686.3 million unrated by Moody's).

The final maturity for the district's sales tax bonds and general obligation bonds (including its upcoming bond offerings) is fiscal 2045 and fiscal 2051, respectively.

Debt-related derivatives

The district does not have any debt-related derivatives.

Pensions and OPEB

BART is a member of CalPERS. Its adjusted net pension liability, based on a 4.14% discount rate, was $2.0 billion in fiscal 2019. In comparison, BART reported a GASB net pension liability of $698.9 million, based on a 7.5% discount rate. While pension costs will continue to increase and remain a budgetary pressure, the district is well positioned to address this long-term challenge given its strong financial position. In addition, management recently established 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, which it has for fiscal 2021. Contributions of $10.0 million were made in both fiscal 2019 and fiscal 2020.

Management created and OPEB trust in 2004, and the fair market value of assets is approximately $340.5 million as of June 30, 2019. Moody's adjusted net OPEB liability for the district is based on a 3.5% discount rate, and was $650.3 million in fiscal 2019 or a moderate 0.62 times operating revenue. The district's fixed costs, including debt service, pension and OPEB contributions, amounted to 19.1% of total operating revenue. This is manageable in relation to BART's overall operations.

ESG considerations

Environmental

The US mass transit sector overall has low exposure to environmental risks because mass transit is an energy-efficient mode of transportation that will see increased ridership as governmental policies and public preference shift from carbon inefficient travel. However, exposure to natural disasters and climate change is somewhat more elevated as mass transit and commuter rail issuers rely on infrastructure that is susceptible to earthquakes and wind and water damage. BART's environmental risk exposure is above average because of the high percentage of its service area is located in counties that are in coastal areas, which are exposed to rising sea levels and near proximity to the San Andres fault line. However, BART continues to make significant investments to mitigate this risk.

Social

The mass transit sector is moderately exposed to social risk given its labor intensive and customer-oriented operations. BART is also exposed to rising income inequality, which could make future fare increases more difficult, as well as strong collective bargaining units, which can drive spending pressures.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Governance

Management demonstrates good governance including adopting multiyear rate increases, having a reserve policy to build an operating reserve of at least 15% of annual operating expenses and amid pandemic uncertainty, management is shifting to a more frequent budgetary cycle to align with the current evolving situation.

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