S&P Global Ratings

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Summary:

San Francisco Bay Area Rapid Transit District, California; General Obligation

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Credit Profile		
US$309.275 mil GO bnds (Green) ser 2019 B-1 due 08/01/2049		
Long Term Rating	AAA/Stable	New
US$201.08 mil GO bnds (Green) ser 2019F-1 due 08/01/2038		
Long Term Rating	AAA/Stable	New
US$74.43 mil GO bnds (Green) ser 2019G due 08/01/2039		
Long Term Rating	AAA/Stable	New
US$50.725 mil GO bnds (Green) ser 2019B-2 due 09/01/2019		
Long Term Rating	AAA/Stable	New
US$38.92 mil GO bnds (Green) ser 2019F-2 due 09/01/2019		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' rating to the San Francisco Bay Area Rapid Transit (BART) District, Calif.'s:

- 2019 series F-1 (Green Bonds) general obligation (GO) bonds (Election of 2004),
- 2019 series F-2 GO bonds(Election of 2004) (Federally Taxable) (Green Bonds),
- 2019 series B-1 GO bonds (Election of 2016) (Green Bonds),
- 2019 series B-2 GO bonds (Election of 2016) (Federally Taxable) (Green Bonds), and
- Potential sale of 2019 refunding series G GO bonds (Election of 2004) (Federally Taxable) (Green Bonds).

At the same time, S&P Global Ratings affirmed its 'AAA' rating on BART's existing GO bonds. The outlook is stable.

Security and purpose

The bonds are secured by an unlimited ad valorem property tax levied on taxable property within BART's three-county service area. The Alameda, Contra Costa, and San Francisco County Boards of Supervisors have the power and obligation to levy these taxes at the district's request for the bonds' repayment. Under a trust agreement, proceeds of the tax are to be automatically transferred to the bond trustee, U.S. Bank National Assn., in advance of debt payment dates. Additionally, we understand that BART has obtained programmatic pre-issuance certification that the bonds comply with the Climate Bond Standards Board's Low Carbon Land Transport Standard.

The 2019 series B-1 and B-2 bonds will be issued in the par amount of approximately $360 million as the second installment of the Measure RR authorization, titled "BART Safety, Reliability and Traffic Relief," and proceeds will be used to finance various acquisition, construction, and improvement projects. The 2019 series F-1 and F-2 bonds will be issued in the par amount of approximately $240 million as the final installment of the Measure AA authorization, titled "BART Earthquake Safety Bond," and proceeds will finance specific earthquake safety improvements to district facilities. The potential 2019 refunding series G bonds would be issued in the par amount of approximately $74.4 million, and proceeds would be used to refund certain maturities of the district's series 2013C GO bonds outstanding.

Credit fundamentals

The rating reflects our view of the district's:

- Exceptionally deep and very diverse regional economic base that is home to 3.7 million residents, or nearly half of the San Francisco Bay Area population, with very strong incomes and extremely strong wealth indicators;
- Leading regional economy in terms of industrial diversity, job growth, and affluence;
- Prudent management, demonstrated by very strong formalized reserve policies and comprehensive capital planning, as well as its willingness and ability to adjust its budget; and
- Consistently positive operating performance, supporting its very strong reserve position.

The district benefits from its large service area and depends primarily on fare-based revenue for operations. Although ridership has been on a declining trend in recent years, resulting in reductions in correlated revenue, the district's tax revenue (property tax and sales tax) has been increasing steadily over the past five years. Proactive management of the district's budget and a positive overall revenue trend have supported stable operations, growing the available fund balance position to 71.3% of total system expenditures in fiscal 2018. While we believe BART faces challenges maintaining and improving its system, as evidenced by its large capital improvement plan, we expect that the district's long-term liabilities will remain manageable and that the key credit factors will remain stable throughout the foreseeable future.

BART's GO bonds are eligible to be rated above the sovereign because we believe the district can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, U.S. local governments are considered to have moderate sensitivity to country risk. Locally derived revenue is the primary revenue sources for BART, and the institutional framework in the U.S. is predictable with significant local government autonomy and flexibility is demonstrated by independent treasury management.

Economy

BART serves a substantial and very diverse service area, which spans three counties of the San Francisco Bay Area—Alameda County, Contra Costa County, and The City and County of San Francisco. The BART system consists of 121 miles of double track, 48 stations, approximately 700 cars, and more than 49,000 parking spaces across the three counties and northern San Mateo County. Reflective of the rebounding residential market and continuous growth in the greater Bay Area, assessed valuations (AV) within the district's boundaries have increased by over 50% since 2012. Over the last five years, the combined AV increased by an average annual rate of 7.4% to $751.5 billion in 2019, equating to what we consider an extremely strong $202,651 per capita. We anticipate continued growth over the near term, consistent with our expectation of real GDP growth in the Pacific U.S. states. Income levels for the three counties are what we consider very strong, with a weighted-average-by-population median household effective buying income

(EBI) at 149% of the national level and per capita EBI at 154% of the national average.

For more information on the underlying county economies within BART's service area, please see the following articles on RatingsDirect:

- Alameda County, Calif., published Feb. 28, 2018;
- Contra Costa County, Calif., published July 20, 2015; and
- San Francisco City and County, Calif., published Feb. 5, 2019.

Finances

The system's operations are reliant on fare revenue, with revenue from passenger ticket purchases representing about 62.3% of operating expenses in fiscal 2018. BART's ridership levels followed a similar trend to its service area's economic activity in the years following the Great Recession and peaked in 2016 at 433,400 average weekday trips. Average weekday ridership has declined over the past two years, to 414,200 average weekday trips in fiscal 2018. Overall, the past five-year trend of 5.6% total growth is more positive than that for many transit systems across the country. Management anticipates ridership to increase in coming years following the completion of its capital improvements, but has budgeted for ridership to decline slightly in the next year. Sales tax revenue accounts for approximately 28% of district revenue, net of capital contributions. 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.

Inclusive of all operating and nonoperating revenues and expenditures, the district has reported positive changes in net position in each of the past five audited years, including its fiscal 2018 surplus of $177.2 million, which is 17% of expenditures. In fiscal 2017, the system adopted GASB 75, which requires full recognition of the net liability for other postemployment benefits (OPEBs) per actuarial calculations, and resulted in a $336 million increase in liabilities due to the recognition of the liability and related deferred inflows and outflows. After adjusting for deficits introduced because of GASB 75 and similarly for the pension liability in accordance with GASB 68, the unrestricted net position for fiscal 2018 is about $731.8 million, or 71.3% of total system expenditures, which we consider very strong. Additionally, the board has adopted a policy of maintaining operating reserves equal to at least 15% of operating expenses, a level we consider very strong. The system's unrestricted ending cash balances were $414.1 million in fiscal 2018, or 40.3% of total system expenditures.

BART adopted a balanced operating budget for fiscal 2019, and management indicated that it estimates a surplus at year-end, despite an additional decline in ridership, which was offset by ongoing growth in both sales tax and property tax revenue. Looking ahead, the district has budgeted for balanced operations in fiscal 2020, with the adopted budget assuming a conservative decline in ridership and an increase in nonfare revenue, such as advertising, taxes, and grant funding. The fiscal 2020 budget also includes the last increase in fares based on an automatic fare increase by the Consumer Price Index (CPI) of 5.4%, which was approved in 2013 to occur every other year through 2020. In 2019, the governing board approved a series of CPI-based fare increases for 2022, 2024, and 2026.

Finally, the district's 2016 labor negotiations resulted in labor agreements with several unions through 2021. We understand that management will continue proactively meeting with union representatives on a regular basis to facilitate future negotiations and avoid future negotiation conflicts, following contentious negotiations that resulted in multiple strikes in fiscal 2013.

Debt

Capital plans for BART include a full fleet replacement, a new maintenance facility, and an updated train control system, as the district works to address its aging facilities and equipment. The current 15-year capital plan identifies BART's total capital investment need as $22.4 billion, with $12.4 billion of identified funding sources, including the Measure RR authorization, various federal, state and regional grants, and the system's operating allocations.

Inclusive of the current issuances, BART has approximately $1.9 billion in direct debt outstanding, including $1.3 billion in GO bonds and $481.5 million in sales tax revenue bonds. The district's overall net debt, 91% of which is made up of overlapping obligations, equates to $5,823 per capita, which we consider high, and 2.9% of market value, which we consider low. In fiscal 2018, debt service carrying charges were moderate, in our opinion, at nearly 11% of total district expenditures. We consider amortization to be slower than average, with only 38% of the total debt due to be retired within the next 10 years. While the district does not have established additional debt plans at this time, we understand it continues to evaluate the need for additional GO and sales tax debt.

Pensions and OPEBs

The district contributes to the California Public Employees' Retirement System under the Miscellaneous Plan and the Safety Plan, funding its annual required contribution (ARC) in each of the last three fiscal years. In fiscal 2018, the district's combined contribution totaled $68.2 million, or 6.9% of operating expenditures. As of June 2017, the Miscellaneous Plan was 76.0% funded while the Safety Plan was 60.9% funded, and the overall unfunded liability was $682.1 million. In fiscal 2018, the district approved a Section 115 trust for its pension obligations, to which the district intends to contribute $10 million annually until the balance reaches $100 million.

The district offers OPEBs, and it has been increasing its contributions toward its ARC in recent years, including its 2018 contribution of $35.6 million, which was 99.1% of its ARC. As of June 2016, the district's actuarial accrued liability was $376.4 million. The district established an OPEB trust in 2004, which currently maintains a balance of $306 million, and management expects the plan to be fully funded by 2034. The district's combined pension and OPEB contributions totaled 9.9% of total governmental funds expenditures in fiscal 2018, which we consider moderately high.

Outlook

The stable outlook reflects our view of BART's large and very diverse tax base, which we expect will continue to grow in coming years at similar rates, supporting growth in the primary revenue streams and offsetting declines in ridership. The outlook further reflects our expectation that the district will maintain its very strong financial position, supported by proactive management of its budget. We do not anticipate changing the rating within the two-year outlook horizon.

Downside scenario

We could lower the rating if BART were to underperform its current projections, resulting in sustained operational imbalance and a significant reduction in its cash position to levels no longer commensurate with those of similarly rated peers.

Ratings Detail (As Of July 10, 2019)		
San Francisco Bay Area Rapid Transit District GO bnds		
Long Term Rating	AAA/Stable	Affirmed