

**CREDIT OPINION**

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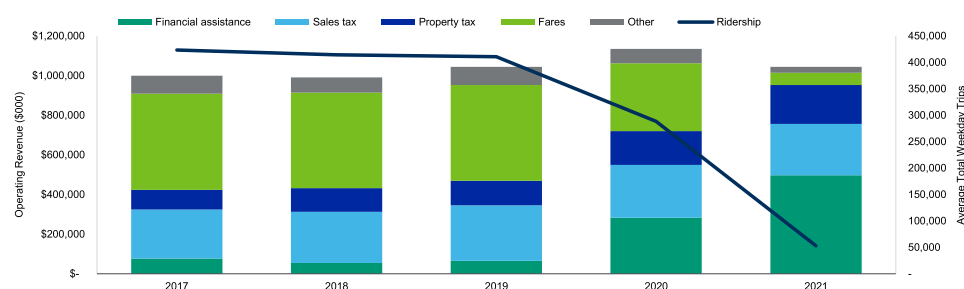
# San Francisco Bay Area Rapid Transit Dist, CA

Update to credit analysis

**Summary**

[San Francisco Bay Area Rapid Transit District](#), CA (BART) (Aaa Stable) benefits from an exceptionally large and diverse tax base that encompasses a major component of the Bay Area economy. The favorable wealth profile of service area residents also supports BART's strong credit profile. The District's healthy financial metrics, strong liquidity and additional federal aid that position the District well to manage through current declines in ridership due to the coronavirus pandemic and the longer term shift to remote work that it has spurred. The District's large capital needs as well as its moderate pension and OPEB burdens are also 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.

Exhibit 1

**Financial assistance offsets reductions in fare revenue as BART ridership declined through fiscal 2021**


Source: San Francisco Bay Area Rapid Transit District's financial statements and Moody's Investors Service

## 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

- » Ridership remains well below pre-pandemic levels
- » Reliance on one-time federal funding to balance fiscal 2022 and out-year budgets
- » Aging infrastructure and large capital improvement needs

## Rating outlook

The stable outlook reflects our expectation that the District's resources, including substantial federal aid, will be sufficient to weather ongoing, coronavirus-induced reductions in ridership in the near-term. Over the next several years, however, significant changes in ridership expectations and the federal funding environment are possible, either of which could affect the stable outlook.

## Factors that could lead to an upgrade

- » Not applicable

## Factors that could lead to a downgrade

- » Failure to adjust operating expenses if farebox revenue does not recover as federal aid tapers off through fiscal 2026
- » Significant deterioration in the District's financial position
- » Greater than expected rise in leverage position, including debt, pensions and OPEB

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## Key indicators

Exhibit 2

### San Francisco Bay Area Rapid Transit Dist, CA

San Francisco Bay Area Rapid Transit Dist, CA	2017	2018	2019	2020	2021
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$646,060,069	\$695,601,630	\$751,515,830	\$804,668,122	\$856,520,759
Population	3,617,556	3,800,000	N/A	N/A	N/A
Full Value Per Capita	\$178,590	\$183,053	\$197,767	\$211,755	\$225,400
Median Family Income (% of US Median)	146.2%	150.4%	N/A	N/A	N/A
<b>Finances</b>					
Operating Revenue (\$000)	\$999,103	\$990,539	\$1,043,776	\$1,135,002	\$1,044,029
Fund Balance (\$000)	\$752,198	\$890,602	\$793,708	\$838,092	\$794,792
Cash Balance (\$000)	\$1,556,676	\$1,370,206	\$1,093,196	\$1,187,305	\$703,899
Fund Balance as a % of Revenues	75.3%	89.9%	76.0%	73.8%	76.1%
Cash Balance as a % of Revenues	155.8%	138.3%	104.7%	104.6%	67.4%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$1,486,195	\$1,366,630	\$1,315,795	\$1,995,195	\$2,558,185
3-Year Average of Moody's ANPL (\$000)	\$1,640,380	\$1,841,699	\$2,010,349	\$2,091,904	\$2,398,910
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.3%
Net Direct Debt / Operating Revenues (x)	1.5x	1.4x	1.3x	1.8x	2.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.3%	0.3%	0.3%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.6x	1.9x	1.9x	1.8x	2.3x

Metrics represented as N/A indicate the data were not available at the time of publication.

Source: US Census Bureau, San Francisco Bay Area Rapid Transit District's financial statements 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](#) (Aa1 Stable) Counties, as well as the City and County of [San Francisco](#) (Aaa Negative). System ridership totaled over 16 million passengers in 2021, down from 118 million in 2019. The system has 131 miles of dual mainline track, 50 stations and more than 48,100 parking spaces.

## Detailed credit considerations

### Economy and tax base: exceptionally large, diverse tax base that encompasses a major component of the San Francisco 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 assessed value (AV) for a single-family home within the District of \$481,308 falls well below the average median sale price of \$1.24 million. This represents significant stored value within the District and helps to ensure future AV growth under Proposition 13 as properties exchange ownership. The District's AV reached \$889.8 billion in fiscal 2022 and includes Alameda County (39% of AV), San Francisco City and County (35% of AV) and Contra Costa County (26% of AV). The five year average annual increase in assessed value is strong at 6.6%. and the top ten largest taxpayers comprise an exceptionally low 1.92% of AV.

Residents benefit from access to a robust regional employment base that includes leading operations in technology, education and healthcare. The socioeconomic profile of the area residents is strong. The median family income for each of the counties is favorable when compared to the US average at 154.8% (Alameda), 148.2% (Contra Costa), and 170.3% (San Francisco).

### Financial operations and reserves: well positioned to manage ongoing ridership declines given strong financial position and additional federal funding

We expect the District's financial position to remain stable following the receipt of additional federal assistance to offset projected operating deficits. BART's ridership has been significantly impacted by the coronavirus pandemic. The Bay Area Shelter-In-Place order went into effect on March 17, 2020 and shortly thereafter BART implemented service reductions. Ridership reached its lowest point at

7% of expected ridership volumes in April 2020 and has since improved to 30% in March 2022, following restoration to full service in February 2022.

Heading into fiscal 2021, BART had a very strong financial position with healthy liquidity resulting from the receipt of federal funds under the CARES Act with totaled \$377 million. In fiscal 2021 the District received \$378 million in Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act funding, which the District used to offset an 87% reduction in fare revenue compared to fiscal 2019. In fiscal 2022 BART was allocated \$582 million of American Rescue Plan (ARP) Act funding and was rewarded an additional \$271 million in ARP Additional Assistance Grant Program funding as of March 3, 2022.

The District's base case financial planning scenario assumes ridership will stabilize to 70% off pre-pandemic levels over the next ten years and that full service schedules are maintained. Under this scenario the District will utilize its remaining federal aid to balance projected revenue shortfalls in fiscal 2022 through 2026. The District anticipates to end fiscal 2022 with a \$367 million operating deficit, which will be offset with federal funding. Positively, BART has labor contracts with three of its unions that extend through fiscal 2024 which include pay increases dependent on average weekday ridership thereby reducing operating expenses if ridership remains low.

### Liquidity

Through the coronavirus pandemic BART had healthy liquidity with 454 days of cash on hand at the close of fiscal 2020 including \$377 million in CARES Act funding. Liquidity narrowed somewhat in fiscal 2021 to 258 days including an additional \$378 million in funding from the CRRSA Act.

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

The District's general obligation debt burden remains very low relative to its total tax base. After BART's upcoming issuance, which includes General Obligation Bonds (Election of 2016) 2022 Series D-1 (Green Bonds), (Election of 2016) 2022 Series D-2 (Federally Taxable, Green Bonds) and (Election of 2004) 2022 Refunding Series H (Federally Taxable, Green Bonds), the District's direct debt will still be very low relative to AV at 0.421%.

BART will have \$1.44 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 all Measure RR issuances, based 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 (\$2.5 billion outstanding post-issuance) and sales tax revenue bonds (sales tax revenue bonds outstanding total \$657.5 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 2052, 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 2.70% discount rate, was \$2.8 billion in fiscal 2021. In comparison, BART reported a GASB net pension liability of \$827.7 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 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. The District contributed \$10.0 million to the trust in both fiscal 2020 and fiscal 2021.

Management created an OPEB trust in 2004 which held assets with a fair market value of approximately \$512.0 million as of June 30, 2021. Moody's adjusted net OPEB liability for the District, based on a 2.8% discount rate, was \$562.1 million at the close of fiscal 2021 representing a moderate 0.52 times operating revenue. Failure to earn the assumed return on pension assets and rising OPEB expense as the number of retirees increases and they age could result in higher fixed costs for the District in the future.

## 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. According to Moody's ESG Solutions, BART is at high environmental risk exposure for sea level rise because a high percentage of its service area is located in counties that are in coastal areas, as well as near proximity to the San Andreas 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 ongoing coronavirus pandemic, deteriorating global economic outlook, volatile 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, maintaining a reserve policy to build an operating reserve of at least 15% of annual operating expenses and amid pandemic uncertainty and management is shifting to a two-year budgetary cycle to align with ongoing economic uncertainties.

## Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

### San Francisco Bay Area Rapid Transit Dist, CA

Scorecard Factors and Subfactors	Measure	Score
<b>Economy/Tax Base (30%)</b> [1]		
Tax Base Size: Full Value (in 000s)	\$889,781,583	Aaa
Full Value Per Capita	\$234,153	Aaa
Median Family Income (% of US Median)	150.4%	Aaa
<b>Finances (30%)</b>		
Fund Balance as a % of Revenues	76.1%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	17.9%	Aa
Cash Balance as a % of Revenues	67.4%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-51.9%	B & Below
<b>Management (20%)</b>		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.1x	Aaa
<b>Debt and Pensions (20%)</b>		
Net Direct Debt / Full Value (%)	0.4%	Aaa
Net Direct Debt / Operating Revenues (x)	3.1x	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.3%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	2.3x	A

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, {OrgName}'s financial statements and Moody's Investors Service



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