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Ratings

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San Francisco Bay Area Rapid Transit District, California; Sales Tax

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Credit Highlights

- S&P Global Ratings affirmed its 'AA+' long-term rating on the San Francisco Bay Area Rapid Transit District (BART), Calif.'s sales tax revenue bonds.
- The outlook is negative.

Security

The bonds are secured by BART's sales tax revenue, consisting of 75% of revenue from a 0.5-cent sales tax collected within the district (the remaining 25% is distributed to the Metropolitan Transportation Commission).

As of January 2024, BART had about $590.8 million in sales tax revenue bonds outstanding.

Credit overview

BART's pledged sales tax revenues continue to perform relatively well, growing 27% from pandemic lows in fiscal 2021 to $327 in fiscal 2023, with a modest 2% decline to $320 million estimated for fiscal 2024 (ending June 30). In its preliminary budget, district management assumes sales taxes will remain relatively flat in fiscal 2025 at $320 million before growing 2.5% to $328 million in fiscal 2026, reflecting some softening in spending attributable to rising consumer debt and diminishing personal savings in the near term. Since 2008, sales taxes have increased at an average of 3.2% annually.

Overall, the rating reflects what we view as:

- The very strong economic fundamentals of BART's three-county district, which is in the heart of the large and prosperous San Francisco Bay Area economy;
- The historically low volatility of nationwide sales tax revenue, a view that extends to our opinion of BART's pledged sales tax revenue;
- Maximum annual debt service coverage (MADS) coverage that is consistently very strong at over 5x and that we expect will remain so given no near-term expected additional debt needs, despite an additional bonds test (ABT) that allows for MADS coverage of just 1.5x, which we consider somewhat low; and
- Operating risks associated with BART's enterprise that have increased due to depressed ridership revenue

producing a significant ongoing structural operating fund imbalances currently reliant on federal and state assistance expected to run out in April 2026. This financial pressure could negatively affect the credit quality of its sales tax bonds if sustained.

BART's priority-lien credit profile benefits from the large, prosperous, and diverse economy of its three-county district covering the City and County of San Francisco as well as Alameda and Contra Costa counties. An economic hub of national and international importance, the local economy thrives as a major center for technology and financial services firms, among many other industries. The strength of the district's economy continues to support a pledged revenue stream with low volatility, consistently producing very strong debt service coverage.

Nevertheless, credit pressure persists, given our view of the linkage of this sales tax rating to the district's general creditworthiness. For more information see our BART analysis, published June 25, 2024, on RatingsDirect). The sales tax rating is currently constrained at three notches above BART's general creditworthiness (A+/Negative). Consequently, if BART's general creditworthiness were to deteriorate further and the ICR rating was lowered, it would result in a corresponding downgrade on the sales tax bonds.

Environmental, social, and governance

Workforce management policies of regional employers that allow for fully remote and hybrid work schedules--combined with BART's profile as serving commuters and the high cost of housing in the Bay Area--have weakened ridership and fare revenue and negatively affected BART's general creditworthiness. Also, we consider BART exposed to elevated seismic risks, due to the multiple fault lines within its service territory. These physical exposures have been actively managed through risk assessments and infrastructure retrofits to bring rail lines and tunnels into compliance with evolving state codes. BART's geographically broad service area has a variety of other longer-term physical risks from coast flooding in the City and County of San Francisco as well as extreme heat by 2050. We consider BART's governance risks as neutral in our analysis.

Outlook

The negative outlook indicates that we believe there is at least a one-in-three likelihood we could lower the rating if BART's underlying credit fundamentals weaken, given the current sales tax rating is constrained at three notches above BART's general creditworthiness.

Downside scenario

We could lower the rating if our view of the district's underlying creditworthiness deteriorates further due to sustained, long-term structural imbalance. Although unlikely, MADS coverage decreasing to a level we no longer consider very strong could lead to a downgrade.

Upside scenario

We could revise the outlook to stable if our view of BART's general creditworthiness improves due to an enhanced financial outlook spurred by expenditure alignment with revenues, identification of new recurring nonoperating revenues, or if operating revenue rebounds to levels we believe are sustainable.

Credit Opinion

Economic fundamentals: Very strong

The district covers a three-county service area: San Francisco, Contra Costa, and Alameda, with a combined population of approximately 3.7 million, as well as northern San Mateo County and a portion of Santa Clara County, although sales tax revenues are levied only in its three primary counties. The broader metropolitan statistical area has a population of 4.5 million. According to the Home Value Index, the housing market in the BART district remains strong, with values well in excess of state and national averages. The local economy for the district remains very strong going into fiscal 2025, as evidenced by sustained income and wealth at extremely strong levels that reflect a steady recovery since the onset of the pandemic in fiscal 2020. The region benefits from a continued presence as a major national and international hub, particularly for the technology and financial services industries, along with various heavy industries.

Revenue volatility: Low

BART's source of pledged revenue consists of 75% of revenue from a 0.5-cent sales tax collected within the district (the remaining 25% is distributed to the Metropolitan Transportation Commission). We assess the volatility of pledged revenue to evaluate the likely availability of revenue across different economic cycles.

We assess the volatility of BART's pledged revenue as low, as pledged revenue has exhibited great resilience through different economic cycles. While BART's pledged revenue has historically been influenced by recessionary pressures, it has rebounded relatively quickly, as evidenced by its three-year recovery from the almost 18% cumulative decline during the Great Recession. BART's sales tax revenues have performed well, increasing at a strong rate over an extended period, and grew by an annual average of 3.2% in fiscal years 2008-2023 and at 4% in fiscal years 2019-2023. Pledged revenue has decreased on only five occasions since 2008; the most was a 9.4% decline in 2009 and the least is the 2.8% decline forecast for 2024.

The BART sales tax revenue does not sunset. The taxable transactions within the three counties span several categories and are not heavily concentrated within a single category. Motor vehicle and parts dealers, food services and drinking places, and gasoline stations typically represent the largest categories, each at less than 15% of total taxable transactions. In fiscal 2023, Alameda County generated 50% of the total taxable transactions of $82.4 billion; Contra Costa County 26%; and San Francisco 23%.

Coverage and liquidity: Very strong

Based on fiscal 2023 collections, the district's pledged revenue of $327.1 million provides 5.5x MADS coverage, which we consider very strong, with similar coverage anticipated for fiscal 2024. This is well above what we consider to be very strong coverage. Notably, annual sales tax debt service drops by $20 million in 2029 to about $40 million annually through 2034 assuming no additional issuances.

Despite a somewhat weaker ABT, several factors inform our view that coverage will likely remain very strong. After the trustee funds annual debt service requirements from pledged revenue, it releases the remainder to BART to support operating and capital needs. In fiscal 2023, 44% of total revenue is derived from sales taxes and BART's reliance on this source to cover a significant portion of its expenses, after debt service, reduces the incentive to issue

debt down to the level of the ABT.

BART's sales tax bonds do not benefit from the additional security offered by debt service reserve funds. However, given the very strong coverage and a low revenue volatility assessment, there is no downward adjustment to the very strong coverage score that would indicate potential liquidity pressures.

Obligor linkage: Limited relationship

The California Department of Tax and Fee Administration (CDTFA) administers the collection and disbursement of the pledged sales tax revenue. Per the indenture, the CDTFA collects the pledged revenue and remits it directly to the trustee, after deducting its administrative fee. Each month, the trustee deposits one-sixth of semiannual interest requirements into an interest fund, and one-12th of annual principal requirements into a principal fund, before remitting surplus pledged revenue to BART.

At the outset of the pandemic, BART demonstrated a willingness and ability to adjust operating expenses with no impact on pledged sale tax revenues. Compared with other issuers of priority-lien debt, mass transit operating entities generally have more flexibility to adjust operating expenses in times of budgetary and/or economic stress. However, given BART's operating profile and largely fixed cost structure, there are practical limitations to significantly reducing expenses without negatively affecting fare revenue given the current composition of financial resources.

Rating linkage to BART's general creditworthiness

We assess BART's general creditworthiness using our criteria "Global Not-For-Profit Transportation Infrastructure Enterprises," published Nov. 2, 2020.

In our analysis of the district as an operating entity, we consider its creditworthiness as pressured due to materially depressed ridership activity and fare revenues resulting in a structural imbalance when excluding nonrecurring federal and state aid and which is currently expected to run out in April 2026. Year to date, systemwide ridership has recovered to only about 40%-45% of 2019 levels. Before the pandemic, BART was heavily reliant on fares to fund a significant portion of operations (farebox recovery ratio of 64% in fiscal 2019). In our view, these operational and financial pressures have eroded BART's general creditworthiness, which will likely be further negatively affected absent action taken to address the mismatch in resources and fixed costs.

San Francisco Bay Area Rapid Transit District, California--Key credit metrics	
Economic data	
Economy	Very strong
EBI level per capita % of U.S.	165
Population (obligor)	3,722,324
Broad and diverse MSA	Yes
Population (MSA)	4,579,599
Financial data	
Revenue volatility	Low
Coverage and liquidity	Very strong
Baseline coverage assessment	MADS
MADS coverage (x)	5.52

San Francisco Bay Area Rapid Transit District, California--Key credit metrics (cont.)	
MADS year	2024
Annual debt service coverage (x)	5.46
3-year pledged revenue change (%)	26.54
Bond provisions	
ABT (x)	1.50
ABT type	MADS
ABT period	Historical
DSRF type	None
Obligor relationship	
Obligor linkage	Limited
PL rating limit (number of notches above OC)	3

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. MSA--Metropolitan statistical area. MADS-Maximum annual debt service. ABT--Additional bonds test. DSRF--Debt service reserve fund. PL--Priority lien. OC--Obligor creditworthiness.N/A--Not available. 3-pronged test--MADS, 10% of principal, or 125% of average annual debt service.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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