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New Issue

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San Francisco Bay Area Rapid Transit District, CA

New Issue - Moody's assigns Aaa to San Francisco Bay Area Rapid Transit District, CA's GO Bonds; Outlook is Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the San Francisco Bay Area Rapid Transit District, CA's (BART) $280.9 million General Obligation Bonds (Election of 2016), 2017 Series A-1 (Green Bonds), $19.1 million General Obligation Bonds (Election of 2016), 2017 Series A-2 (Federally Taxable Green Bonds), and $88.9 million General Obligation Bonds (Election of 2004) 2017 Refunding Series E (Green Bonds). The district has approximately $600.2 million in outstanding GO debt that is rated Aaa. The outlook is stable.

The Aaa rating incorporates the district's exceptionally large tax base that is poised for continued growth in the near-term and the above average socioeconomic profile of the service area residents. The rating additionally reflects the healthy financial metrics of the district, which should remain strong, while recognizing the inherent operating limitations and long term capital needs on the district's financial flexibility. The rating also incorporates the low overall debt burden that should remain low, even with the recent 2016 GO bond authorization. The district's pension and OPEB burdens are manageable.

Credit Strengths

- Exceptionally large, diverse tax base poised for continued growth
- Healthy financial profile
- Above average socioeconomic profile of service area

Credit Challenges

- Ongoing challenges with labor negotiations
- Aging infrastructure and large capital improvement needs

Rating Outlook

The outlook on the district's ratings is stable, reflecting our expectation for the continued economic, 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
- Protracted decline in area assessed value
- Significant increase in debt burden
- Changes in management opinion and priorities on system viability
- Financial inflexibility resulting from long-term union contracts

Key Indicators

San Francisco Bay Area Rapid Transit District	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 490,653,184	$ 502,633,746	$ 525,641,605	$ 560,708,076	$ 602,260,170
Full Value Per Capita	$ 135,619	$ 138,931	$ 145,290	$ 154,983	$ 166,468
Median Family Income (% of US Median)	139.0%	139.0%	139.0%	139.0%	139.0%
Finances					
Gross Revenue ($000)	$ 67,835	$ 75,084	$ 77,149	$ 81,561	$ 97,138
Unrestricted Cash Balance as a % of Revenues	19.3%	22.5%	40.6%	59.9%	74.5%
Debt/Pensions					
Net Direct Debt ($000)	$ 412,540	$ 410,690	$ 648,245	$ 630,795	$ 603,495
Net Direct Debt / Gross Revenues (x)	6.08x	5.47x	8.40x	7.73x	6.21x
Net Direct Debt / Full Value (%)	0.6%	0.6%	0.6%	0.6%	0.6%

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

Detailed Rating Considerations

Economy and Tax Base: Very Large, Three County Tax Base Poised for Ongoing Growth

The San Francisco Bay Area Rapid Transit District (BART) comprises one of the largest property tax base areas in the state, which should continue to grow in the near term. In the long term, we do not anticipate that there would be any significant declines to the exceptionally strong tax base outside of routine cyclical economic downturns. The BART Counties assessed value (AV) grew at a strong rate of 7.3% in fiscal year 2017 to $646.1 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 exceptionally large tax base includes Alameda County ($254.1 billion 2017 AV, rated Aaa Stable), Contra Costa County ($182.7 billion 2017 AV, rated Aa2 Stable), and San Francisco City and County ($209.3 billion 2017 AV, rated Aa1 Stable).

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 healthcare.

Taxpayer concentration is not a risk. The largest taxpayer (Chevron USA) represents a minimal 0.6% of the total 2017 AV. The 20 largest taxpayers are highly diverse and makeup 2.9% of the total 2017 AV. The district's overall the tax base is largely residential, with residential property making up 75% of secured AV, and commercial making up 16% and industrial property at 6.5% of AV. Home values are very high and should remain high in the near term. The median home sale prices for Contra Costa, Alameda and San Francisco Counties are $509,000, $652,600 and $1.17 million, respectively.

The socioeconomic profile of the area residents continues to be strong and above average. 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: Sound Financial Operations; Significant Capital Improvements Needed

The district reports solid financial metrics that should continue with the improved local economy and increasing transit ridership. The system has significant capital improvement needs that will require reinvestment into the existing system. System capacity must increase to meet the growing demand for transit. Significant portions of funding for the necessary capital improvements will be funded from the 2016 GO bond authorization as well as capital grants. We do not anticipate that any sources coming from the system would significantly alter the district's financial profile.

The system has an extensive capital improvement program that will be costly, but should improve the overall viability of the system. Management has identified capital improvements needs through fiscal 2031 requiring $16.5 billion in funding, of which the system has identified a total funding gap of $6 billion. The system's big three capital projects include a train control system which will increase train capacity from 24 trains per hour through the Transbay Tube to 30 trains per hour at an expected cost of $1 billion. The district also has a Hayward Rail Maintenance Facility to be constructed to store up to 250 cars and accommodate rail cars which will be used in the future. The third of the system's big three capital projects is the system's need to replace 669 train cars that will be funded by the district and Federal and State grants. BART plans to fund its share by allocating $45.0 million annually over a 12 year period ending in fiscal 2025.

BART is carrying more riders than ever and strong ridership should continue in the near term, particularly on transbay service. Average ridership was 433,000 weekday trips in fiscal 2016, up a healthy 2.4% over 2015. Average weekday trips have increased from 334,984 in fiscal 2010 to current levels. Ridership in fiscal year 2017 is slightly down year to date, however is projected to remain stable and grow over the longer term given the overall growth and demand for transbay ridership. The farebox recovery ratio has averaged 74% for each of the past five years and reached 77% in fiscal 2016, a ratio significantly higher than other US transit systems. The system should continue to have a high farebox recovery ratio given the annual CPI-based fare increases established through calendar year 2020 and near monopoly position of the system in providing transbay transit service throughout the region. We view management's willingness to increase fares as a credit positive.

Increased usage of the system resulted in favorable operating results in fiscal 2016, which should continue. Unrestricted net assets were $78.1 million (14% of operating revenues) in fiscal 2016, up from $6.5 million in fiscal year 2015. System net revenues continue to increase. Net revenues of $265.9 million in fiscal 2015 were more than two times net revenues in fiscal 2010. Helping to fuel these positive results are increased sales tax and property tax revenues. Sales tax revenues increased to $241.5 million in fiscal 2016, up from $195.2 million in fiscal 2012. Property tax revenues increased to $55.8 million in fiscal 2016, up from $49.9 million in fiscal 2012.

Labor negotiations concluded in 2016 and resulted in labor agreements with all unions through 2021. The labor agreements included pay raises of 2.5% in FY 2018, 2019 and 2.75% increases in FY 2020 and 2021. Management holds monthly meetings with unions to proactively facilitate future negotiations.

LIQUIDITY

System liquidity is strong and should remain strong in the near term. BART has a very positive ending unrestricted cash and investment balance of $652 million (74.5% of gross operating revenues) in fiscal year 2016.

Debt and Pensions: Large GO Bond Offering Approved by Voters in 2016, Debt and Pensions Remain Manageable

The district's general obligation debt burden remains largely inconsequential given the size of the district's total tax base. After the district's new money issuance, we expect the district's direct debt will still be a very low at 0.1% of total AV. In November of 2016, district voters authorized Measure RR for $3.5 billion for BART system infrastructure improvements. We do not anticipate this bond authorization to significantly alter the district's direct debt burden given ongoing tax base growth on the already very large tax base. The initial tax rate to make debt service on the proposed bonds is projected to be under the estimated $2.02 per $100,000 AV pledged to voters.

DEBT STRUCTURE

All of the district's outstanding debt are fixed-rate obligations. Property tax delinquency rates have been declining and have remained less than 1.5% annually.

The district has sales tax revenue bonds outstanding which totaled $595 million.

DEBT-RELATED DERIVATIVES

The district has no debt-related derivatives.

PENSIONS AND OPEB

Pension-driven budgetary pressures for the district are stable, though expected pension rate increases could prove to be a budgetary burden. The district's contribution to the state's CalPERS retirement system is reasonable relative to the district's overall expenditures.

Annual pension costs totaled $50.4 million (5.75% of gross revenues) in fiscal 2016, an average annual pension cost for systems of this size. Annual pension costs have grown since fiscal year 2014. The district has a $371.4 million unfunded pension liability in its Miscellaneous Plan and an $95.8 million unfunded pension liability in its Safety Plan.

The district has an average $233 million unfunded liability in its OPEB plan. Management contributed a high 92% of its annual OPEB cost in fiscal 2016 for its Retiree Medical Benefits and has maintained a high contribution percentage since fiscal 2012. Additionally, the district has a health benefits trust established since 2004.

Management and Governance

Management continues to operate the system effectively. The recent GO bond authorization and funding of long term capital plans should help to maintain the viability of the system in the long term.

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 revenues levied for general obligation bond debt service is delivered directly to the Trustee in the case of all three BART Counties.

Use of Proceeds

Proceeds from the (Election of 2016) 2017 Series A Bonds will fund the district's long term capital plan for system infrastructure improvement. Proceeds from the (Election of 2004) 2017 Refunding Series E Bonds will refund a portion of the 2007 Series B Bonds.

Obligor Profile

The district was created in 1957 to provide rapid transit service to the San Francisco Bay Area. The district is composed of Alameda and Contra Costa Counties, as well as the City and County of San Francisco. System ridership is approximately 126 million passengers annually. The system has 109 miles of double track, 46 stations, and more than 49,000 parking spaces. The district is governed by an elected nine member Board of Directors.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

San Francisco Bay Area Rapid Transit Dist, CA

Issue	Rating
General Obligation Bonds (Election of 2016), 2017 Series A-1 (Green Bonds)	Aaa
Rating Type	Underlying LT
Sale Amount	$280,890,000
Expected Sale Date	05/09/2017
Rating Description	General Obligation
General Obligation Bonds (Election of 2016), 2017 Series A-2 (Federally Taxable, Green Bonds)	Aaa
Rating Type	Underlying LT
Sale Amount	$19,110,000
Expected Sale Date	05/09/2017
Rating Description	General Obligation
General Obligation Bonds (Election of 2004) 2017 Refunding Series E (Green Bonds)	Aaa
Rating Type	Underlying LT
Sale Amount	$88,850,000
Expected Sale Date	05/09/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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