

San Francisco Bay Area Rapid Transit District, California



Ratings

Long-Term Issuer Default Rating	AA
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New Issues

\$664,330,000 General Obligation Bonds, 2022 Series D-1 (Green Bonds)	AAA
\$35,670,000 General Obligation Bonds, 2022 Series D-2 (Federally Taxable) (Green Bonds)	AAA
\$57,410,000 General Obligation Refunding Bonds, 2022 Series H (Federally Taxable) (Green Bonds)	AAA

Outstanding Debt

Sales Tax Revenue Bonds	AA
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Rating Outlooks

Long-Term Issuer Default Rating	Negative
General Obligation Bonds	Stable
Sales Tax Revenue Bonds	Negative

Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(May 2021\)](#)

Related Research

[Fitch Rates San Francisco BART's \\$757 MM GO Bonds 'AAA'; Stable Outlook \(April 2022\)](#)

New Issue Summary

Sale Date: The week of May 9, 2022, via negotiation

Series: \$664,330,000 General Obligation Bonds, 2022 Series D-1; \$35,670,000 General Obligation Bonds, 2022 Series D-2; and \$57,410,000 General Obligation Refunding Bonds, 2022 Series H

Purpose: Proceeds of the series 2022D bonds will be utilized for track replacement, tunnel repairs and electrical system upgrades involving the San Francisco Bay Area Rapid Transit District (BART, or the district). Series 2022H bond proceeds will be utilized to refund certain GO maturities for debt service savings.

Security: The GO bonds are secured by a voter-approved unlimited ad valorem property tax levied on all taxable properties within Alameda and Contra Costa counties and the City and County of San Francisco (collectively, the BART counties).

The 'AA' Long-Term Issuer Default Rating (IDR) reflects BART's superior gap-closing capacity, low long-term liabilities and manageable capital spending pressures in the context of an unusually broad and deep economic resource base. The Negative Rating Outlook reflects uncertainty surrounding future ridership and BART's ability to close resulting outyear budget gaps.

Fitch Ratings believes BART, which has traditionally relied heavily on fares to support its operations, will need additional revenues that would require outside approval or budget reductions on a scale that may be impractical to restore its historically strong underlying operating margins after the expiration of federal stimulus measures.

The 'AAA' rating and Stable Rating Outlook on the 2022 GO bonds is based on a dedicated tax analysis and reflects Fitch's assessment that the pledged revenues for repayment of the GO bonds meet the definition of "pledged special revenues" under the U.S. Bankruptcy Code. Fitch has been provided with legal opinions by district counsel that provide a reasonable basis for concluding that the tax revenues levied to repay the bonds would be considered "pledged special revenues" in the event of a district bankruptcy.

Together with strong statutory and constitutional provisions, the pledged special revenue status provides both the ability and incentive to continue paying debt service during the pendency of a bankruptcy. Therefore, pursuant to Fitch's Tax-Supported Rating Criteria, the GO bonds may be rated up to five notches above the district's IDR. The 'AAA' unlimited tax GO bond rating is based on a dedicated tax analysis that considers the strength and growth prospects of the tax base.

The 'AA' sales tax revenue bond rating reflects the system's operating risk, which caps the revenue bond rating at BART's IDR. The structure would be rated higher if not for the IDR cap, reflecting both solid growth prospects for pledged revenues and very strong resilience to cyclical sales tax declines.

Economic Resource Base: BART provides essential public transportation services to the San Francisco Bay Area and benefits from one of the strongest economic resource bases in the U.S. The region is home to the world's largest IT industry cluster, which has driven extraordinary wealth creation and sustained population growth for many years. The Bay Area also has large healthcare, biotechnology, higher education, retail, professional services, finance, tourism and governmental sectors. Incomes and educational attainment are far above national averages, while poverty rates are well below average.

Fitch expects BART to continue to play a key role in connecting the region's workers to employment centers and in meeting the region's environmental and congestion management goals notwithstanding the prospect of fundamental changes in commuting patterns and ridership demand.

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Key Rating Drivers

Revenue Framework: 'a': Fitch expects the district to experience an extended period of revenue weakness due to reduced ridership. The assessment reflects both a significant, long-lasting downward adjustment in ridership demand that is counterbalanced by Fitch's expectation that the district's other revenues (primarily sales tax) will grow above inflation from its reduced baseline given the resilience of the regional economy. BART's independent legal ability to raise revenues is primarily driven by its control over fares, which remains impaired due to low ridership but is expected to recover to satisfactory levels over time. The district's board does not have the authority to raise taxes without outside approval.

Expenditure Framework: 'a': Fitch expects spending growth to be above revenues at least over the medium term, reflecting weakened long-term revenue trends and pre-existing wage and capital pressures. Expenditure flexibility is solid with moderate fixed costs, strong control over service levels and significant pay-as-you-go capital spending offsetting a restrictive labor environment.

Long-Term Liability Burden: 'aaa': Combined debt and pension liabilities are low at 8.4% of personal income. Although debt is expected to rise as the district uses voter-approved GO bonds to address its backlog of capital spending needs, the liability burden is expected to remain within the 'aaa' range (below 10% of personal income).

Operating Performance: 'aaa': The district's healthy reserves and budgetary tools position it to withstand typical cyclical revenue variability. Budget management in times of recovery is somewhat mixed, with healthy funding of retirement liabilities and conservative, thorough financial planning offset by some historical deferrals of needed capital spending.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A robust ridership recovery or shift in the revenue structure that provides the district a broader revenue base and returns growth to its prior solid levels.
- Spending adjustments that support long-term structural budgetary balance in the face of lower revenues and ridership.
- For the sales tax revenue bonds, positive rating action on the IDR.
- For the GO bonds, an upgrade is not applicable for a 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A failure to make progress in aligning expenses with existing revenues and/or an inability to secure new ongoing revenue sources well ahead of the expiration of extraordinary federal stimulus measures, leading to structural imbalances that decrease financial resilience.
- Lack of progress toward meeting the district's baseline ridership recovery trends that exacerbates forecast outyear deficits.
- For the sales tax revenue bonds, additional parity debt issuance beyond Fitch's expectations that reduces the structure's level of resilience.
- For the GO bonds, a decrease in the district's IDR below the 'A' level.

Current Developments

BART entered the coronavirus pandemic with strong liquidity and healthy financial margins, and federal aid coupled with BART spending adjustments have allowed the transit district to maintain a strong financial position through the pandemic. Fiscal 2021 (ended June 30) unrestricted cash and investments increased to a strong \$663 million, 306 days' cash or 84% of spending. Overall fiscal 2021 revenues, including federal aid, were just over \$1 billion, with passenger fare revenues declining to about \$63 million, down 87% from \$483 million in fiscal 2019. Fare revenue declines were mostly offset by just over \$400 million in federal relief funds that were recognized in fiscal 2021.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Negative	4/14/22
AA	Downgraded	Negative	8/19/21
AA+	Affirmed	Negative	8/31/20
AA+	Affirmed	Negative ^a	3/20/20
AA+	Downgraded	Stable	1/19/12
AAA	Upgraded	Stable	7/11/07
AA+	Assigned	Stable	5/9/05

^aRating Watch.

Fitch expects fiscal 2022 and fiscal 2023 results to look similar on net, with diminished fare revenues continuing to be offset by federal aid. Over \$1.6 billion in federal aid has been allocated to the district since the onset of the pandemic, with BART most recently receiving \$271 million in supplemental American Rescue Plan Act aid in March 2022. Federal aid appears sufficient to support revenues near pre-pandemic levels through fiscal YE25, assuming continued ridership in line with BART's base case assumptions of 52% pre-pandemic ridership at fiscal YE23, 59% at fiscal YE24 and a gradual recovery toward a long-term ridership recovery of 70%.

Following the recent surge of Omicron variant cases and subsequent decline, weekly ridership has begun to resume its growth, albeit to very weak levels, with recent weekly ridership at about 32% of pre-pandemic levels. BART ridership remains well below the 70% recovery by fiscal 2027 assumed in its multiyear base case, and its recovery has lagged other large urban transit agencies. This reflects its dependence on commuters, a more cautious return to offices by regional employers and public health officials and a shift to private vehicle usage.

Absent a material improvement in ridership recovery that exceeds the district's base case assumptions, structural changes in travel patterns will require fundamental changes in the district's revenue or expenditure structures. Given policymakers' desire to expand transit usage, Fitch believes deep reductions in service levels to fully match reduced revenues are unlikely. Fitch expects the district to reduce spending where possible but to seek new revenues to resolve outyear budget gaps. A failure to secure sustainable long-term funding to support BART could lead to erosion in its historically strong financial margins and negatively pressure the ratings.

Credit Profile

The district includes Alameda, Contra Costa and San Francisco counties, home to 3.7 million residents and 1.8 million jobs. BART also serves portions of San Mateo County, Santa Clara County and the City of San Jose. The San Francisco Bay Area economy is broad, diverse and wealthy. BART's service area includes many of the nation's most valuable technology companies, and the economy's long-term, post-pandemic growth prospects are supported by its highly educated workforce and growing population. BART services are essential to the region's commuters and employers.

Average weekday ridership was about 410,000 in 2019, equal to about 21% of payroll employment in the three BART counties. The system plays a crucial role in transporting workers across the bay from residential communities in Alameda and Contra Costa counties to San Francisco's central business district and has just begun service to San Jose, the region's largest city.

Revenue Framework

The district benefits from a diverse mix of sales taxes, property taxes, fare revenues and intergovernmental aid.

Fitch expects revenue growth prospects to be significantly diminished for the foreseeable future. Pre-pandemic, rapid increases in fare revenues (about half of fiscal 2019 revenues available for operations) historically pushed overall revenue gains above the rate of economic growth, as ridership has benefited from the region's fast-growing job market.

The district's board has also generally approved fare increases that are tied to the CPI, maintaining the real price of its services over time. Growth in sales taxes (about 30% of fiscal 2019 revenues available for operations) had exceeded inflation over time, reflecting the region's rising incomes and expanding population.

Fitch expects BART's ridership recovery to continue despite temporary setbacks due to periodic surges in coronavirus cases. However, Fitch believes BART's substantial customer base of white collar and high technology workers is particularly prone to more permanent changes in commuting patterns that reduce the district's ridership and fare revenue base.

The district has historically had satisfactory revenue-raising flexibility due to strong farebox recoveries that offset a lack of independent legal ability to raise taxes. BART is unusual among U.S. public transit agencies in that fares have typically covered a high proportion of operating expenses. The district's elected board has the authority to increase fares without outside approval and has regularly offset revenue losses through fare adjustments.

Fitch's assessment of the district's revenue framework could be lowered to reflect diminished independent revenue-raising ability if ridership recovery does not materialize as expected.

The district has significant exposure to outside funding that is beyond its control, including funding for capital from local transit funding agencies, the State of California and the federal government. This is not unusual for transit agencies, but Fitch's assessment of the revenue framework could be reduced if the district's access to intergovernmental aid declines on a sustained basis.

Expenditure Framework

The primary drivers of BART's spending are capex (including debt service) and labor costs.

Fitch expects spending to be above the pace of slow underlying revenue growth trends due to capital spending pressures. Other components of spending, particularly labor, are likely to track inflation more closely, though rising benefit costs could add further to cost pressures.

Expenditure flexibility is solid. The fixed carrying costs of debt service and retiree liabilities are moderate and expected to remain so. A significant amount of BART's debt is supported by a dedicated unlimited property tax levy for its GO bonds, which are now its primary source of capital funding. The district also benefits from significant spending flexibility due to the ability to temporarily defer pay-as-you-go capital spending during downturns or to shift from pay-as-you-go funding to debt financing during periods of stress.

The district also has solid control over service levels with the ability to adjust hours of operation and frequency of service on train lines, as well as related staffing. The district has some (but not complete) control of labor costs. It must negotiate pay and benefits levels with its unionized workforce. While management ultimately controls headcount and may impose terms after an impasse, the labor environment can be contentious and somewhat limits expenditure flexibility. District employees retain the ability to strike and have in recent years, forcing management to ultimately offer more favorable terms.

Long-Term Liability Burden

The district's long-term liability burden is low at about 8% of personal income and composed primarily of overlapping debt. Direct debt consists of GO bonds, sales tax revenue bonds and a moderate unfunded pension liability. The direct liability burden (including about \$3.2 billion in bonds following the new issuance and estimated unfunded pension liabilities of about \$1.3 billion based on Fitch's standard 6% rate of return assumption) equals about 1% of personal income.

Direct debt is likely to increase over the next decade as the district addresses a backlog of deferred capital needs. District voters approved a \$3.5 billion unlimited tax GO bond authorization (Measure RR) in November 2016. Following this issuance, there will be about \$1.4 billion in remaining authorization. Measure RR projects include expansion of Transbay corridor capacity and renewing track and power infrastructure.

Aside from projects authorized by Measure RR, the district's overall capital plan also focuses on replacement of its railcar fleet and expanding the system to Silicon Valley (which is being funded by the Santa Clara Valley Transportation Authority, rated 'AA' by Fitch, and the federal government). While the district has substantial additional capital needs, Fitch expects overall liabilities to remain low relative to the size of the regional personal income base. However, material additional issuance that outpaces growth in the resource base could weaken this metric over time.

Operating Performance

The receipt of federal relief funding has alleviated near-term pressures stemming from reduced ridership and fare revenue. Fitch expects the district to adjust service levels, fares and capital spending to maintain healthy cash balances over the next several years.

The district's budget management in times of economic recovery is mixed. The district engages in thorough and conservative budgeting with detailed, long-term forecasting and it has quickly rebuilt financial flexibility and reserves after periods of stress. While historical deferrals of needed capital spending continue to somewhat limit Fitch's assessment of operating performance, the district has made progress in addressing this concern with the 2016 bond election, which was passed with strong support on the first attempt.

The district has thus far reacted promptly and reasonably to maintain financial stability during the pandemic, reducing staffing and spending where allowed under the terms of federal aid packages that sought to avoid layoffs, but it has not made wholesale reductions in costs on a scale that would address expected fare revenue losses. The district would need to make more politically difficult cuts (possibly including significant layoffs and service cuts) absent an unexpected ridership recovery or approval of new revenues.

Dedicated Tax Key Rating Drivers

Special Revenue Analysis: The 'AAA' unlimited tax GO bond rating is based on a dedicated tax analysis that considers the strength and growth prospects of the tax base, as well as the legal structure of the GO bonds. The GO bonds' structural elements and security features are sufficiently strong enough to warrant a rating of up to five notches above the district's IDR.

Strong Resilience: The sales tax revenue bonds exhibit the highest 'aaa' level of resilience at expected leverage levels. Fitch's rating assumes that the district does not significantly further leverage the sales tax revenue stream, reflecting both management plans and the issuer's need for residual sales tax revenues to support operations.

Solid Growth Prospects: The pledged sales tax revenues are expected to return to a pace of growth that exceeds inflation, consistent with a 'aa' growth prospect assessment. The sales tax payer base is broad and diverse, and the district's economic resource base has solid growth prospects.

Dedicated Tax Credit Profile

Sales Tax Revenue Bonds

Sales taxes grew at CAGR of 3.6% for the 10-year period ended in fiscal 2021. Fitch expects that revenue performance will continue to trend above long-term U.S. inflation but below national GDP growth, consistent with historical performance, given solid economic and demographic growth within the BART counties.

Fiscal 2021 pledged revenues provided 4.4x coverage of maximum annual debt service (MADS) of \$59.3 million. To evaluate the sensitivity of the dedicated tax revenue stream to cyclical decline, Fitch considers both a revenue sensitivity scenario and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Based on the district's sales tax revenue history, the Fitch Analytical Stress Test (FAST) generates a 5.7% decline in pledged revenues under the standard 1% U.S. GDP decline scenario. The largest cumulative revenue decline historically was 17.8% over two years following the Great Recession (fiscal years 2009–2010).

Assuming issuance up to the 1.5x additional bonds test (ABT), the structure could tolerate a 33% drop in revenues. However, Fitch does not expect material additional parity debt issuance. Given that the district currently has no plans to further leverage the revenue stream and needs the excess cash flows to fund its ongoing operating and pay-as-you-go capital budget, Fitch assumes leverage will be limited to 4.0x MADS. At that leverage level, sales tax revenues could fall 75% before reaching 1.0x debt service coverage. The coverage cushion is 13.2x the recessionary decline scenario produced by the FAST model and 4.2x the decline of the Great Recession, which Fitch views as consistent with a 'aaa' level of financial resilience.

General Obligation Bonds

Pledged revenues enjoy strong growth prospects that track changes in taxable values in the district. The tax base has expanded at a CAGR of 6.1% for the 10-year period ended in fiscal 2022.

The ability to make debt service payments is unlikely to be reduced by expected cyclical variations in the tax base and economy. There is no taxpayer concentration, with the fiscal 2022 top 10 taxpayers accounting for less than 2% of secured assessed valuation (AV).

Tax rates are low and unlikely to rise to a level that pressures the rating even under relatively severe stress scenarios. Fitch believes the tax base is very unlikely to suffer losses that would meaningfully erode payment capacity.

Exposure to Issuer Operations

The specific features of the series 2022D and 2022H GO bonds meet Fitch's criteria for rating special revenue obligation debt. Fitch believes bonds that are "pledged special revenue" provide

bondholders with some additional protections from the operating risk of the district, as expressed in its IDR.

Fitch sets a high bar for considering local government tax-supported debt to be secured by special revenues, which provide security that survives the filing of a municipal bankruptcy (in preservation of the lien) and benefit from relief from the automatic stay provision of the bankruptcy code. Fitch gives credit to special revenue status only if, in its view, the overall legal framework renders remote a successful challenge to the status of the debt as secured by special revenues under Section 902(2)(e) of the U.S. Bankruptcy Code.

Fitch has identified a number of elements that it considers sufficient to reduce the incentive to challenge the special revenue status given the definitions outlined in the bankruptcy code. These include clear restrictions on the use of pledged revenues for identified projects and clear separation from the entity's operations. Fitch has undertaken a review of the statutory provisions that govern the use of the pledged property tax revenues. These provisions, along with the legal documents governing the bond issuance, provide sufficient strength for Fitch to rate the district's GO bonds at up to five rating notches above the district's IDR.

As a result, Fitch analyzes these bonds as dedicated tax bonds. This analysis focuses on the district's economy, tax base and debt burden. Fitch typically calculates the ratio of available revenues to debt service for dedicated tax bonds, but the unlimited nature of the tax rate pledge on the district's bonds eliminates the need for such calculations.

For the sales tax revenue bonds, the dedicated taxes pledged to the bonds do not meet the requirements set out in Fitch criteria for treatment as "pledged special revenue" under section 902(2) of the bankruptcy code and are not otherwise insulated from BART's operating risk. Therefore, the rating of the debt is capped at the IDR.

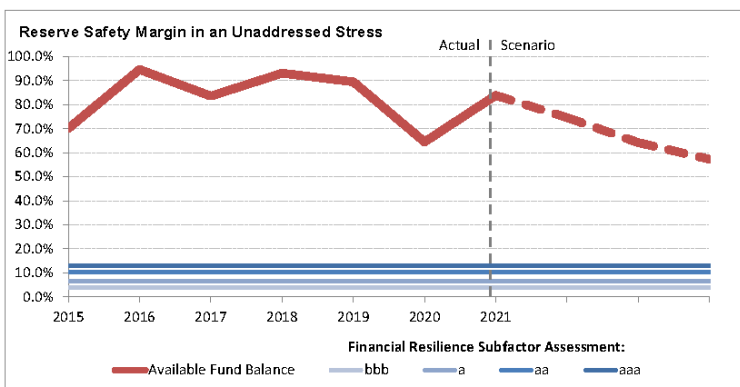
ESG Considerations

The San Francisco Bay Area Rapid Transit District (BART) has an ESG Relevance Score of '4' for Labor Relations and Practices due to its complex labor negotiating environment and history of labor impasses, which has a negative impact on the credit profile and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

San Francisco Bay Area Rapid Transit District (CA)

Scenario Analysis



Analyst Interpretation of Scenario Results:
The receipt of federal relief funding has alleviated near-term pressures stemming from reduced ridership and fare revenue. Fitch expects the district to adjust service levels, fares and capital spending to maintain healthy cash balances over the next several years.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(2.6%)	1.2%	5.0%
Inherent Budget Flexibility	Midrange		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2015	2016	2017	2018	2019	2020	2021	Year 1	Year 2	Year 3
Stressed Revenues	902,962	908,263	941,562	917,022	970,303	1,016,602	901,055	877,628	888,159	932,567
% Change in Revenues		0.6%	3.7%	(2.6%)	5.8%	4.8%	(11.4%)	(2.6%)	1.2%	5.0%
Expenses (Excluding Depreciation & Interest)	671,304	689,717	773,806	773,940	791,157	840,892	791,688	807,522	823,672	840,146
% Change in Expenses		2.7%	12.2%	0.0%	2.2%	6.3%	(5.9%)	2.0%	2.0%	2.0%
General Obligation Bond Levy	28,069	17,763	57,541	73,517	73,473	118,400	142,974	171,695	184,091	109,282
Cash Flow Available For Debt Service	259,727	236,309	225,297	216,599	252,619	294,110	252,341	241,801	248,578	201,704
Debt Service	74,092	74,838	68,090	121,938	97,517	121,701	155,617	217,788	237,357	164,231
Debt Service Coverage	3.5	3.2	3.3	1.8	2.6	2.4	1.6	1.1	1.0	1.2
Pay-Go Capital Expenditures								85,000	85,000	85,000
Unrestricted Cash & Investments	470,478	652,273	646,480	720,013	707,724	541,684	663,362	602,375	528,596	481,068
Unrestricted Cash & Investments (% of Expense)	70.1%	94.6%	83.5%	93.0%	89.5%	64.4%	83.8%	74.6%	64.2%	57.3%
Days Cash	256	345	305	340	327	235	306	272	234	209
Reserve Safety Margins	Inherent Budget Flexibility					High	Superior			
Reserve Safety Margin (aaa)	Minimal					Limited	Midrange	High	Superior	
Reserve Safety Margin (aa)	41.6%					20.8%	13.0%	7.8%	5.2%	
Reserve Safety Margin (a)	31.2%					15.6%	10.4%	6.5%	3.9%	
Reserve Safety Margin (a)	20.8%					10.4%	6.5%	3.9%	2.6%	
Reserve Safety Margin (bbb)	7.8%					5.2%	3.9%	2.6%	2.0%	

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

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