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CREDIT OPINION
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San Francisco Bay Area Rapid Transit Dist, CA

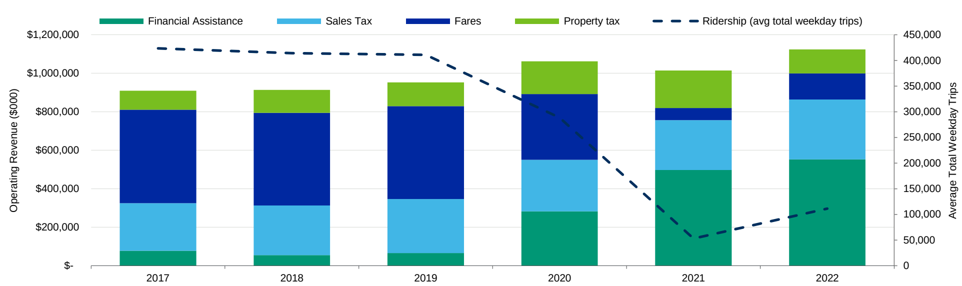
Update to credit analysis following revision of outlook to negative

Summary

The San Francisco Bay Area Rapid Transit District, CA (BART, Aaa negative) 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 supports BART's strong credit profile. The District's current healthy financial metrics, strong liquidity, conservative management and ample federal aid position the District well to manage suppressed ridership due to the coronavirus pandemic and the longer term shift to remote work in the near term, however projected outyear deficits represent a significant risk. 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.

On July 24, 2023 Moody's revised the District's outlook to negative from stable and affirmed the outstanding Aaa GO ratings.

Exhibit 1
Federal assistance continues to offset reduced fare revenue as ridership remains suppressed



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 supported by a strong, fiscally conservative management team

» 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 current and out-year budgets

» Aging infrastructure and large capital improvement needs

Rating outlook

The revision of the outlook to negative reflects the expectation that ridership levels will not recover in the near term and that management remains challenged to close out year budget gaps with recurring revenue. A meaningful reduction in outyear deficits and a return to structurally balanced operations, ridership rebounds more in line with national averages, and the receipt of sizeable new funding could lead to the removal of the negative outlook.

Factors that could lead to an upgrade (or removal of negative outlook)

» Meaningful reduction in out-year deficits and a return to structurally balanced operations

» Improved and sustained ridership levels supporting structurally balanced operations

» The receipt of significant additional funds

Factors that could lead to a downgrade

» Inability to reduce outyear deficits resulting in a significant deterioration in the District's financial position

» Continued suppressed ridership that negatively impacts operations and is not met with alternative revenue measures

» Greater than expected rise in leverage position, including debt, pensions and OPEB

» Loss of public and political support to support transit operations, as evidenced by failed future voter measures

Key indicators

Exhibit 2

San Francisco Bay Area Rapid Transit District, CA

San Francisco Bay Area Rapid Transit Dist	2018	2019	2020	2021	2022
Economy/Tax Base					
Total Full Value ($000)	$695,601,630	$751,515,830	$804,668,122	$856,520,759	$889,781,583
Population	3,800,000	3,800,000	3,800,000	3,800,000	3,800,000
Full Value Per Capita	$183,053	$197,767	$211,755	$225,400	$234,153
Median Family Income (% of US Median)	150.40%	150.40%	150.40%	150.40%	150.40%
Finances					
Operating Revenue ($000)	$990,539	$1,043,776	$1,135,002	$1,044,029	$1,155,179
Fund Balance ($000)	$890,602	$793,708	$838,092	$794,792	$854,883
Cash Balance ($000)	$1,370,206	$1,093,196	$1,187,305	$703,899	$1,979,246
Fund Balance as a % of Revenues	89.90%	76.00%	73.80%	76.10%	74.00%
Cash Balance as a % of Revenues	138.30%	104.70%	104.60%	67.40%	171.30%
Debt/Pensions					
Net Direct Debt ($000)	$1,366,630	$1,315,795	$1,995,195	$2,558,185	$3,248,791
3-Year Average of Moody's ANPL ($000)	$1,841,699	$2,010,349	$2,091,904	$2,398,910	$2,599,503
Net Direct Debt / Full Value (%)	0.20%	0.20%	0.20%	0.30%	0.40%
Net Direct Debt / Operating Revenues (x)	1.4x	1.3x	1.8x	2.5x	2.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.30%	0.30%	0.30%	0.30%	0.30%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.9x	1.9x	1.8x	2.3x	2.3x

Source: SF BART audited 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 45 million passengers in fiscal 2023. 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 near-term suppressed ridership given current strong financial position with outyear deficits projected

We expect the District's financial position to remain stable through fiscal 2024 supported by the receipt of federal assistance to offset projected operating deficits. Projected outyear deficits beginning in fiscal 2025 will pressure operations absent the receipt of significant state support and additional revenue measures.

BART's ridership has been significantly impacted by the coronavirus pandemic and subsequent increase in remote work throughout the San Francisco Bay Area. BART ridership reached a low of 7% of 2019 levels in April 2020 and has since improved to 41% as of June 2023. District operations have historically been heavily reliant on fare revenue, accounting for up to 51% of revenue in fiscal 2019 and have since declined to 12% of revenue in fiscal 2022. The District's receipt of over $1.6 billion in one-time federal and state funding has provided an offset for declined fare revenue.

The District's current projections assume ridership will stabilize to 52% off pre-pandemic levels over the next two years and that full service schedules are maintained[1]. Under this scenario the District will utilize its remaining federal aid to balance projected revenue shortfalls in fiscal 2023 through mid-fiscal 2025. The District is currently projecting a deficit of $93 million in fiscal 2025, followed by deficits of up to $342 million through fiscal 2028 absent new revenue measures. Should this occur, the District's reserve position would erode significantly from its current position of 74% of revenue in fiscal 2022 to 44% of revenue.

Notably, the California (Aa2 negative) state legislature announced $5.1 billion additional transit funding in State Budget Bill 102 that would be spilt between transit agencies statewide on a population basis. Additionally, State Bill 532 is under consideration to add $1.50 to existing tolls on the seven Bay Area bridges to support transit funding in the Bay Area. In addition to ongoing efforts to reduce expenditures and avoid potential service reductions, District management is actively considering additional revenue measures such as a regional or District voter-initiative, fare and fee increases, and land sales.

Liquidity

As of fiscal 2022 the District's liquidity is strong at $1.98 billion, or 778 days cash on hand.

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 2022 issuance, the District's direct debt is very low relative to AV at 0.421%. BART has $1.44 billion in authorized unissued debt under Measure RR. 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.

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 ($2.48 billion outstanding post-issuance) and sales tax revenue bonds (sales tax revenue bonds outstanding total $590.8 million unrated by Moody's).

The final maturity for the District's sales tax bonds and general obligation bonds 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 2.84% discount rate, was $2.6 billion in fiscal 2022. In comparison, BART reported a GASB net pension liability of $526.2 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 as has been done in fiscal 2023.

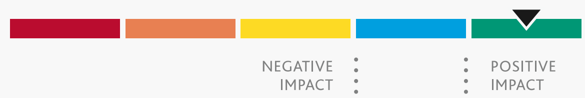
Management created an OPEB trust in 2004 which held assets with a fair market value of approximately $481.7 million as of March 31, 2023. Moody's adjusted net OPEB liability for the District, based on a 2.8% discount rate, was $404.7 million at the close of fiscal 2022 representing a moderate 0.49 times 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

San Francisco Bay Area Rapid Transit Dist, CA's ESG Credit Impact Score is Positive CIS-1

Exhibit 3
ESG Credit Impact Score

CIS-1
Positive



For an issuer scored CIS-1 (Positive), its ESG attributes are overall considered as having a positive impact on the rating. The overall positive influence from its ESG attributes on the rating is material.

Source: Moody's Investors Service

BART's ESG Credit Impact Score is positive (**CIS-1**), reflecting very strong governance and moderately negative exposure to environmental and social risks.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL
E-3
Moderately Negative

SOCIAL
S-3
Moderately Negative

GOVERNANCE
G-1
Positive

Source: Moody's Investors Service

Environmental
BART's overall environmental issuer profile score is moderately negative (**E-3**). This score is driven primarily by the long-term risks associated with physical climate risk, in particular water stress and wildfire stress. However, water stress exposure is largely offset by strong regional planning and conversation efforts and BART's strong liquidity and extremely large tax base help mitigate wildfire risk. BART has low environmental risks in other categories, including carbon transition, natural capital, and waste and pollution.

Social
BART's moderately negative **S-3** issuer profile score incorporates the demographic and societal trends of its service area, which has above average income inequality. BART will likely see above average permanent ridership loss driven by changing commuting patterns following the coronavirus pandemic. Nonetheless, permanent ridership decline and the potential for social resistance to fare increases are somewhat balanced by the area's strong wealth that make tax subsidies more affordable. Lastly, all of the three counties that BART serves have demonstrated the ability to raise discretionary revenue for social programs, as evident from voter authorization of specific tax and bond measures to fund homeless programs and affordable housing.

Governance
BART's positive **G-1** issuer profile score reflects its record of prudent fiscal management with conservative budgetary practices, long term financial and capital planning, and formal policies for financial stability, debt, capital improvements and investment. In addition,

BART has very strong organization structure as evident by a voter-approved property tax that funds capital projects and sales tax that supports both general operations and capital improvements.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Endnotes

1 BART's most recent published long-term projections assume ridership reaches 60-80% of pre-pandemic levels over the next ten years.

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