MOODY'S
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New Issue

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San Francisco Municipal Transportation Agency, CA

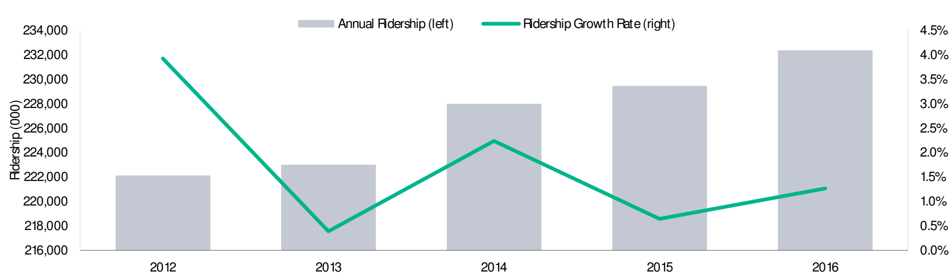
New Issue - Moody's assigns Aa2 to San Francisco MTA's (CA) Ser. 2017 revenue bonds; outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the San Francisco Municipal Transportation Agency's $172 million Revenue Bonds, Series 2017. Following the issuance of the Series 2017 bonds, the agency will have approximately $350 million revenue bonds outstanding, all rated Aa2. The outlook on these ratings is stable.

The SFMTA is an enterprise department of the City and County of San Francisco (Aa1 stable), responsible for a diverse range of transportation functions including public transit, traffic management, on-street and off-street parking, and parking and traffic enforcement. The agency's revenue bonds are secured by a gross pledge of the agency's operating and non-operating revenues, excluding city General Fund transfers and certain restricted revenues. The Aa2 rating reflects a steady trend of positive financial operations, strong liquidity, limited plans for the issuance of new parity debt, and the strength of the city and regional economies. The rating also incorporates the agency's positive underlying fundamentals including an unusually diverse revenue base, strong revenue raising flexibility, high demand for the essential services it provides, and very low debt levels.

Exhibit 1
Strong Economy Drives Growth in SFMTA's Transit Ridership



Source: San Francisco Municipal Transportation Agency.

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Credit Strengths

» Large service area with high utilization and essentiality.

» Very low debt levels with strong coverage by both pledged revenues and net revenues.

» Diverse revenue stream including dedicated taxes, fares, parking revenue, and fines.

» Rate-setting autonomy and automatic indexing policy that applies to fares, fees and charges.

» Demonstrated sound financial management.

Credit Challenges

» Relatively high fixed costs attributable to pensions and OPEB.

» Significant capital needs for a complex multimodal system.

Rating Outlook

The outlook on the rating is stable, recognizing the agency's positive governance structure, its limited borrowing plans, and the strength of the city and regional economies.

Factors that Could Lead to an Upgrade

» Sustained growth in revenues at a rate higher than past growth leading to significantly increased coverage and reserves.

Factors that Could Lead to a Downgrade

» Stagnation or decline in revenues resulting in decreased coverage and reserves.

» Unanticipated weakening of the city and regional economies.

» Issuance of additional parity debt in amounts greater than planned.

Key Indicators

Exhibit 2

Fiscal Year	2012	2013	2014	2015	2016
Annual Ridership (000)	222,126	222,991	227,977	229,443	232,349
Utilization (Trips/Population)	267	264	267	266	267
Farebox Recovery Ratio	28.9%	30.4%	28.2%	29.4%	25.8%
3-Year Average Fixed Costs as a % of Operating Expenditures	9.8%	10.6%	11.4%	12.6%	13.1%
Net Debt/Revenues	0.04	0.06	0.13	0.19	0.16
3-Year Average Annual Debt Service Coverage by Net Revenues (GAAP)	8.9	13.5	10.6	8.5	9.6
Days Cash on Hand	187	271	286	364	310

Sources: SFMTA annual disclosures; SFMTA audited financial statements with Moody's Investors Service adjustments.

Recent Developments

Recent developments are included in the Detailed Rating Considerations below.

Detailed Rating Considerations

Size and Market Position

Located in San Francisco, the agency benefits from the economy of the Bay Area which includes retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology and higher education. San Francisco's population and employment have grown strongly in recent years, with both reaching all-time high levels. Unemployment has declined to 3.0%. There are some indications, however, that growth may be slowing, particularly in the high-profile tech sector.

Transit ridership and revenues have grown along with the economy. Ridership grew at a compound annual rate of 1.7% from fiscal year 2011 to 2016, reaching 232 million in 2016. Total revenues grew at a compound annual rate of 6.9% during this same period, reflecting the underlying economic trends, increases in transit fares and parking fees and fines, and a voter-approved increase in city General Fund transfers. Pledged revenues, which exclude General Fund transfers, grew at a compound annual rate of 3.4% over the same period.

Financial Flexibility and Metrics

Pledged revenues consist of an extremely diverse mix of farebox revenues, parking fees, parking fines, and sales taxes allocated to the agency on a formula basis. The agency has autonomy to set transit fares, parking fees and parking fines. In April 2009, it adopted an Automatic Indexing Implementation Plan applicable to fares, parking citations and garage parking rates, fines, fees and other charges. The plan, through use of a formula, allows SFMTA to adjust the aforementioned charges by a rate equal to one-half of any change in the Bay Area Consumer Price Index, plus one-half of the annual percentage increase or decrease in the SFMTA's labor costs. In addition to the pledged revenues, agency revenues also include transfers from city's General Fund. These transfers are made by formula, pursuant to the city's charter. Therefore, they are not subject to annual appropriation and provide an additional highly reliable source of funding for the agency.

Financial performance has been strong reflecting sound management and the SFMTA's budgeting and rate-setting autonomy. The agency has demonstrated consistent positive financial performance. Operating margin (net revenues before debt service and depreciation, divided by total operating revenues) exceeded 13.0% in every fiscal year from 2014 through 2016. Reserves have increased; budget-basis undesignated fund balance equaled $179.8 million at the end of fiscal 2016, $80 million above the board's policy level of at least 10% of budgeted O&M costs.

Pledged revenues for fiscal 2016 totaled $619.7 million, providing 36.4 times coverage of fiscal 2016 debt service and 23.6 times maximum annual debt service following the issuance of the Series 2017 bonds ($26.3 million in 2020). Although the bonds are secured by a gross pledge, coverage is also extremely strong on a net basis. Net revenues (before debt service and depreciation) for fiscal 2016 equaled $198.4 million, providing 11.7 times coverage of fiscal 2016 debt service and 7.5 times coverage of maximum annual debt service. Coverage levels should remain strong given the diverse revenue pledge, management's flexibility to increase revenues and implement any necessary budgetary adjustments, and very limited future borrowing plans.

The agency has significant capital needs, in part due to the age of its facilities and rolling stock. The current five-year (2017-2021) capital program totals $3.4 billion. Approximately $403 million of the program is related construction of new Central Subway project. The balance of the program is focused on improving system reliability and addressing deferred maintenance. The five-year capital program is fully funded, almost entirely from sources other than the agency's revenue bonds, primarily federal grants, state grants, and general obligation bonds approved by the city's voters in 2014.

LIQUIDITY

Liquidity levels have increased and are particularly strong. Liquid assets totaled $906.6 million at the end of fiscal 2016, equal to almost one year's of expenditures. In addition, the agency has access to additional liquidity through the city's pooled investment fund.

Debt and Legal Covenants

DEBT STRUCTURE

Following the issuance of the Series 2017 bonds, the agency will have approximately $350 million revenue bonds outstanding. The revenue bonds are conservatively structured; annual debt service is declining. The agency also has a $100 million commercial paper program which is available to provide interim financing for capital projects, but no commercial paper is currently outstanding. Debt levels are relatively low; at the end fiscal 2016 debt equaled 16% of total revenues.

The additional bonds test is 3 times maximum annual debt service, but the rating assumes that the agency will not leverage pledged revenues to this extent. The board's policy is that debt service cannot exceed 5% of the operating budget and, as noted, additional borrowing plans are very limited.

DEBT-RELATED DERIVATIVES

Other than the subordinate commercial paper program, the agency has no variable rate debt. The agency has no swaps.

PENSIONS AND OPEB

Healthcare, pensions and other post-employment benefits for SFMTA employees are provided through the city's plans. Although the city's pension plan is relatively well-funded and the city has enacted some reforms, pension and OPEB costs contribute to relatively high fixed costs. The SFMTA's required pension contribution for fiscal 2016 was $73.7 million. OPEB is funded on a pay-go basis; actual OPEB contributions equaled $29.3 million in fiscal 2016. For fiscal 2016 total fixed costs, including the required pension contributions, OPEB contributions and debt service, equaled 12.7% of operating expenses excluding depreciation.

Operating Environment and Governance

The SFMTA was established in 2002 through consolidation, by a city charter amendment, of the San Francisco Municipal Railway (Muni), and the Department of Parking and Traffic. The agency is an enterprise department of San Francisco governed by a seven-member board of directors, appointed by the San Francisco mayor and confirmed by the city's Board of Supervisors.

Legal Security

The agency's revenue bonds are secured by a gross pledge on diverse mix of operating and non-operating revenues including transit fares, parking revenues, parking and traffic fines, and dedicated taxes, but excluding transfers from the city's General Fund and certain other restricted revenues.

Use of Proceeds

The Series 2017 bonds will fund elements of the SFMTA's capital program, in particular light rail vehicle replacement, improvements in the Van Ness Avenue bus corridor, and improvements in the Mission Bay area associated with the development of a new arena by the Golden State Warriors.

Obligor Profile

The SFMTA is a multi-modal transportation authority responsible for planning, designing, constructing, managing, operating and maintaining public transit, paratransit, street and traffic management and improvements, bicycle and pedestrian safety and enhancement programs, on and off-street parking improvements and programs, and the regulation of taxis and commercial vehicles.

Based on transit ridership, SFMTA is the eighth largest system in the country and the Bay Area's largest. It transports close to 44% of all transit passengers in the region and carried 232 million passengers in fiscal 2016. The agency operates 50 motor coach lines, 14 electric trolley bus lines, six light rail lines, three cable car lines, and an historic street car line. The agency manages 28,000 on-street parking spaces and 15,000 parking spaces in 19 garages and 19 surface lots. The garage and surface lots represent approximately 30% of downtown and 15% of citywide parking spaces.

Methodology

The principal methodology used in this rating was Global Mass Transit Enterprises Methodology published in February 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

San Francisco Muni.Transp. Agcy., CA

Issue	Rating
Revenue Bonds, Series 2017	Aa2
Rating Type	Underlying LT
Sale Amount	$171,625,000
Expected Sale Date	05/24/2017

Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

REPORT NUMBER 1072363

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