MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A1 to San Francisco Municipal Transportation Agency's Subordinate Commercial Paper Notes, Series A-1 & A-2 (Bank Bonds)

Global Credit Research - 06 Sep 2013

Commercial paper program has maximum of $100M

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY, CA
Mass Transit
CA

Moody's Rating

ISSUE	RATING
Commercial Paper Notes, Serires A-1 & A-2 (Bank Bonds)	A1

Sale Amount	$100,000,000
Expected Sale Date	09/10/13
Rating Description	Revenue: Government Enterprise

Moody's Outlook

Opinion

NEW YORK, September 06, 2013 --Moody's Investors Service has assigned a bank bond rating of A1 to the San Francisco Municipal Transportation Agency's Subordinate Commercial Paper Notes, Series A-1 and A-2 (Bank Bonds). The rating is on review for downgrade because the ratings of all rated California transit agencies were placed under review for downgrade on August 14th as we assess the possibility that the agencies will lose federal operating and capital grants.

SUMMARY RATING RATIONALE

The one notch rating differential between the commercial paper bank bond rating and the senior lien revenue bonds reflects subordination of pledged gross revenues that secure the Subordinate Commercial Paper Notes, Series A-1 & A-2 (Bank Bonds). The Aa3 rating on the senior lien bonds reflects the SFMTA's diversified revenue base; sound financial management with strong revenue raising flexibility; and strong demand for the essential services it provides in San Francisco. The rating also incorporates SFMTA's low debt burden and satisfactory legal provisions.

STRENGTHS

-Large service area with high essentiality

-Strong Additional Bonds Test (3 times)

-Diverse revenue stream including dedicated taxes, fares, parking revenues, fines, and governmental subsidies

-Automatic Indexing Policy that applies to fares, fees, and charges

CHALLENGES

-Rising fixed costs attributed to healthcare and pension liability

-Deferred capital needs for a complex multimodal system

DETAILED CREDIT DISCUSSION

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COMMERCIAL PAPER NOTES SECURED BY A SUBORDINATE PLEDGE OF DIVERSE REVENUE STREAM

The bonds are secured by a subordinate lien on the agency's gross revenue pledge (not including City General Fund revenues), a diverse revenue stream including dedicated taxes, fares, parking revenues, fines, and governmental subsidies.

Established in 2002 through consolidation of the San Francisco Municipal Railway (Muni), and the Department of Parking and Traffic, SFMTA is the seventh largest transit system in the country and the region's largest and most heavily utilized. SFMTA transports close to 43% of all transit passengers in the region and carries more than 213 million passengers per year. SFMTA is governed by a seven-member board of directors, which is appointed by the city's mayor and confirmed by the city's board of supervisors. The agency operates 80 bus routes, 50 motor coaches, 14 electric trolley bus lines, 6 light rail lines, three cable car lines, and a historic street car line and manages 27,000 on-street parking spaces and 15,000 parking spaces in 20 garages and 21 surface lots (15% of all citywide parking spaces).

The agency is an enterprise department of San Francisco (G.O. rated Aa1/Stable) and 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. 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.

Outlook

Our rating for the agency was placed under review on August 14th as we assess the possibility that the SFMTA and 14 other California transits will lose federal operating and capital grants. We plan to conclude our review within 90 days.

WHAT COULD MAKE THE RATING GO UP

Sustained growth in pledge revenues combined with ridership growth leading to significantly increased reserves

WHAT COULD MAKE THE RATING GO DOWN

Significant increase in fixed costs that pressure financial operations

Sustained declines in ridership and revenues leading to depleted reserves and reduced debt service coverage

Decertification of federal capital grants leading to operational stress

The principal methodology used in this rating was Mass Transit published in June 2000. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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