

RatingsDirect®

Summary:

San Francisco Municipal Transportation Agency, California; Transit

Primary Credit Analyst:

Mary Ellen E Wriedt, San Francisco (1) 415-371-5027; maryellen.wriedt@standardandpoors.com

Secondary Contact:

Paul J Dyson, San Francisco (1) 415-371-5079; paul.dyson@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Disclaimer



This document provides general information about the San Francisco Municipal Transportation Agency (SFMTA) and its outstanding bonds, notes or other obligations. The information is provided for quick reference only. It is not a summary or a compilation of all information relevant to any particular financial transactions, bonds, notes or other obligations. It does not purport to include every item that may be relevant, nor does it purport to present full and fair disclosure with respect to any financial transactions, bonds, notes or other obligations related to the SFMTA within the meaning of applicable securities laws and regulations.

The information presented in this document speaks only as of the date it was posted or, if such information is dated, as of its dated date. The SFMTA does not undertake continuously to update materials posted in this document. Developments may occur after the dated date or posted date of such information that could render it inaccurate or unreliable.

Certain information has come from other sources that are not developed by the SFMTA, and the SFMTA presents that information for convenience only. The SFMTA does not guarantee the accuracy of any such information and undertakes no responsibility to verify any of that information. Links to other websites similarly are provided for convenience; the SFMTA takes no responsibility for the accuracy of such information.

THIS IS NOT AN OFFER TO SELL BONDS. Information in this document is not an offer to sell securities or the solicitation of an offer to buy securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Viewers acknowledge that: (1) the SFMTA is not now by this document and the information shown herein offering any bonds, notes or other obligations, nor soliciting an offer to buy any such securities; (2) this document and the information herein shall not be construed as any description of the SFMTA, any departments thereof or the programs of the SFMTA in conjunction with any offering of bonds, notes or other obligations; (3) the information in this document is subject to change without notice, and no one shall assume from the availability of this document and the information herein that the affairs of the SFMTA and/or the programs of the SFMTA have not changed since the date of this information; (4) no representation is made as to the propriety or legality of any secondary market trading of the bonds, notes or other obligations of the SFMTA by anyone in any jurisdiction, (5) the information in this document speaks as of its date, and the SFMTA does not hereby obligate itself in any manner to periodically or otherwise update this information or to maintain the availability of this information.

All information in this document has been obtained by the SFMTA from sources believed to be reliable but no representation or warranty is made by the SFMTA as to its accuracy or completeness. Neither the SFMTA, nor any of its agencies or departments nor any of its officers or employees, shall be held liable for any use of the information described and/or contained in this document. In no event shall the SFMTA or its agencies or departments, officers or employees be liable for any direct, indirect, incidental, special, exemplary or consequential damages however caused and on any theory of liability, whether in contract, strict liability or tort (including negligence or otherwise) arising in any way out of the use of this document, even if advised of the possibility of such damage. This disclaimer of liability applies to any and all damages and injuries, including, but not limited to those caused by any failure of performance, error, omission, interruption, deletion, defect, delay in operation or transmission, computer virus, communication line failure, theft or destruction or unauthorized access to, alteration of, or use of any record, whether for breach of contract, tortious behavior, negligence or under any other cause of action. This disclaimer applies to both isolated and aggregate uses of the information in this document.

Any addresses or links to other websites which may be contained in this document are given only for the convenience of the viewer. The SFMTA has not participated in the preparation, collection, compilation or selection of information on any such other website and assumes no responsibility or liability for the contents of such websites. Due to the dynamic nature of the internet, resources that are free and publicly available one day may require a fee or restricted access the next, and the location of items may change as menus, homepages and files are reorganized. If you obtain any information from this document from any source other than this document, please be aware that electronic data can be altered subsequent to original distribution. Data can also quickly become out of date. It is recommended that careful attention be paid to any data associated with a file, and that the originator of the data or information be contacted with any questions regarding appropriate use.

Choice of Law Construction of the disclaimers above and resolution of disputes regarding such disclaimers are governed by the laws of the State of California. The laws of the State of California shall apply to all uses of this document and the information contained in this document.

Viewer Acknowledgement and Agreement. The viewer acknowledges and agrees that the information provided in this document is provided by the SFMTA for convenience. By viewing this document and the information contained herein, the viewer acknowledges and agrees that any use of the document and information contained herein shall conform to all applicable laws and regulations and that the viewer shall not violate the rights of any third parties and agrees to all of the terms, conditions and provisions set forth above under "Notice to Readers," "THIS IS NOT AN OFFER TO SELL BONDS" and "Choice of Law."

Summary:

San Francisco Municipal Transportation Agency, California; Transit

Credit Profile

US\$0.0 mil ICR due 12/31/2099

Long Term Rating

AA-/Stable

New

San Francisco Municipal Transportation Agency rev rfdg bnds

Long Term Rating

AA-/Stable

Upgraded, Removed from CreditWatch

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'AA-' from 'A+' on San Francisco Municipal Transportation Agency (SFMTA), Calif.'s revenue bonds outstanding. The raised rating reflects the application of Standard & Poor's revised rating criteria, "Mass Transit Enterprise Ratings: Methodology And Assumptions," published on Dec. 18, 2013. Also, in accordance with the revised criteria, we assigned SFMTA a stand-alone credit profile (SACP) of 'aa-' and an issuer credit rating (ICR) of 'AA-'. At the same time, Standard & Poor's has removed the long-term ratings from CreditWatch, where they had been placed with developing implications on Dec. 18, 2013. The outlook on all ratings is stable.

The ratings reflect our view of SFMTA's:

- Very low industry risk, with low cyclicality and volatility of earnings during economic cycles, and very low competition;
- Extremely strong economic fundamentals, with extremely strong per capita income and no significant employment concentration;
- Strong management and governance policies and practices, with very strong financial policies;
- Very strong debt service coverage (DSC) and liquidity; and
- Low debt burden.

Partly offsetting the above strengths, in our view, are SFMTA's relatively large \$3 billion capital improvement plan that calls for a planned \$225 million in additional debt, which will increase system leverage and reduce DSC, and relatively mild ridership growth from 2008 to 2013. The bonds are secured by a gross pledge of certain revenues received by the SFMTA, including passenger fares, parking and traffic revenues, state sales tax (Assembly Bill 1107), and Transportation Development Act sales tax revenues. The bonds are additionally secured by fully funded, stand-alone debt service reserves.

The SFMTA is an enterprise department of the City and County of San Francisco (the city). The agency was created in 1999, consolidating the San Francisco Municipal Railway (MUNI, the transit provider for the City of San Francisco) and the Department of Parking & Traffic. SFMTA is a comprehensive transportation agency, responsible for transit,

parking meters, parking garages and lots, traffic, taxi regulation, accessible services, bicycles, and pedestrian accessibility programs.

Throughout the city, the agency manages 19 public parking garages and 21 surface, metered parking lots (totaling 15,000 off-street parking spaces), and approximately 25,000 single-space parking meters and 470 multispace pay stations covering approximately 3,200 spaces (28,000 total on-street metered and off-street surface lot spaces) in four rate areas throughout the city (a fifth rate area is part of a pilot program and overlaps portions of rate areas 1-4). Management has indicated that the garage facilities require significant rehabilitation and equipment upgrades. We consider this extensive parking system to have a solid competitive position. The facilities have high utilization rates during peak hours, allowing the agency to charge the third-highest monthly parking pricing in the U.S. The agency owns and manages 30% of all downtown and 15% of all citywide spaces in garages and lots. The agency also issues parking citations and enforces parking regulations.

We believe that the SFMTA provides an essential service to the city and operates as a virtual monopoly. It serves a 49-square-mile service area composed of San Francisco. The agency is the seventh-largest transit operator in the country and the largest in the region. MUNI carries 43% of all transit passengers in the Bay Area, approximately twice the number of passengers of the second-largest transit operator in the area (Bay Area Rapid Transit). MUNI's infrastructure includes cable cars, light-rail trains, and buses, covering 75 routes throughout San Francisco, and there is a transit stop within a quarter mile of everyone who lives in, works in, and visits the city.

SFMTA's transit system, and, more generally, the mass transit industry as a whole, is mature and has historically demonstrated only minor cyclicity (including ridership trends), and therefore we characterize the cyclicity and volatility of operating earnings as low risk. We also characterize competition and the threat of substitute products or services as very low risk. Barriers to entry are very high given the size of the system and its large infrastructure. Given the above, we characterize SFMTA's industry risk as 'very low'.

In our view, the underlying strength of SFMTA's catchment area -- with steady population and employment growth and high wealth levels -- help provide stable demand for transit services. Gross population growth for San Francisco from 2007 to 2013 was 6%, and employment growth over the same period was 4%. Projections from Global Insight indicate population and employment growth will continue. San Francisco's per capita income level is 184% of the national average. We consider SFMTA's economic fundamentals as 'extremely strong'.

SFMTA's ridership has been relatively stable, despite fare increases, service reductions, and the economic recession. Passengers totaled more than 223 million in fiscal 2013, down from 226 million in fiscal 2009, and up from 206 million in fiscal 2007. During the five-year period of fiscal 2008 to fiscal 2013, gross ridership growth was 1.34%. We consider SFMTA's market position as 'strong', as some ridership fluctuations are mitigated by SFMTA's status as a virtual monopoly for public transit in San Francisco.

In terms of management and governance, SFMTA has detailed strategic initiatives and examples of market leadership and innovation, including technology improvements providing real-time information to users. SFMTA uses several key performance indicators typical to the industry, and management has demonstrated a strong track record of meeting benchmarks while addressing operating risks. We view senior management as experienced and broad, and SFMTA's

board of directors' experience in the fields of government, finance, labor relations, and public transportation provides strategic direction. Given these key factors, we view SFMTA's management and governance as 'very strong'.

In summary, our analysis of the four factors that comprise SFMTA's enterprise risk profile results in an enterprise risk profile score of 'very strong'.

SFMTA maintains prudent financial policies when it comes to transparency and disclosure, liquidity, long-term financial planning, and debt management. SFMTA produces and publishes monthly operational and financial reports, and financial audits are clean. SFMTA has formal reserve and liquidity policies to maintain financial stability and ensure adequate funds to cover various risks of losses. Debt is managed consistent with SFMTA's debt policy, and maintains a five-year detailed capital plan that identifies sources and uses of funding. Given these key factors, we view SFMTA's financial policies as 'strong'.

The SFMTA receives funds from a diverse set of sources. The bulk of total revenues comes from operations, including parking/traffic (26%) and farebox (25%) revenues; in our opinion, this combined percentage representing a significant portion of revenue, or 50%, over which the agency has direct control. City general fund contributions comprise 31% of total revenues, and 16% of revenues are from operating grants. The remainder is derived from rent, advertising, and interest. Total fiscal 2013 revenues were \$915 million. The pledged revenues totaled \$561 million in fiscal 2013. In our opinion, the agency has proactively managed its expenses. While facing significant labor costs, management has worked to reduce burdens. Total expenses, including transfers, were \$871 million in fiscal 2013.

Although a gross pledge of certain revenues legally secures the bonds, we consider the finances and operations of the agency as a whole when evaluating the credit and DSC according to our criteria. The agency benefits from the strength of the revenue supplied by the parking operations, while the transit operations ultimately generally lead to break-even results. DSC coverage on a net revenue basis was 8.4x in fiscal 2013 and is projected at 4.9x in fiscal 2014. These figures include transfers to capital as well as appropriated fund balances. We view SFMTA's DSC as 'very strong'.

SFMTA's unrestricted cash and investments totaled \$769 million, or 324 days' cash, in fiscal 2013, including the \$100 million available commercial paper capacity. Cash balances have been growing over the past five years, and management does not project significant changes in cash balances for fiscal years 2014 and 2015. Cash (including cash in reserve funds) to debt service was 131x in fiscal 2013 and is projected to decline to 67.6x by fiscal 2015 with the issuance of additional debt. In our view, SFMTA has exceptional access to external liquidity, with a track record of access to capital markets and banks. Based on these factors, we view SFMTA's liquidity as 'very strong'.

The farebox recovery ratio for the system -- farebox revenue (plus parking revenue in the case of SFMTA) divided by operating costs -- in fiscal 2013 was, in our view, strong, at 38%. In our view, this indicates strong financial flexibility, in that SFMTA is more in control of its revenue than are other agencies that receive a lower share of total revenue from fares. Farebox and parking/traffic revenues provided 51% of total revenues in fiscal 2013. Effective fiscal 2011, the SFMTA has adopted an "Automatic Indexing Implementation Plan." Under this plan, transit fares, parking citations, garage parking rates, and other charges not governed by law are increased periodically according to a set formula as part of the agency's budget. The formula adjusts charges by a rate equal to one-half of any change in the Consumer Price Index for the Bay Area, plus one-half of the annual percentage increase or decrease in the agency's

labor costs included in the budget. The increase is then rounded up to the nearest 25 cents, 50 cents, or \$1.00 depending upon the base charges as long as the rounding does not result in more than a 10% increase in the charge. The board may increase or decrease charges by more or less than those derived from the formula. Revenues not automatically indexed are calculated at cost recovery. We consider the plan to be favorable for the agency. Currently the basic adult cash fare for transit is \$2.00. The last fare increase was effective July 1, 2009; prior to that time, the fare was \$1.50. We view SFMTA's financial flexibility as 'strong'.

The SFMTA has a substantial \$3 billion five-year capital program. The agency, like most transit and transportation agencies, faces challenges in maintaining infrastructure in a state of good repair. Of the \$3 billion, 49% is for transit infrastructure needs and fleet replacement, 33% is for the Central Subway Project (an extension of the Third Street light rail line into Chinatown), and 18% is for other major capital projects. The revenue sources for the capital program are 46% federal grants (primarily for the Central Subway), 11% state, and 43% local. Of the local funds, 19% is from capital funds on hand, 8% is from Proposition K sales tax, 5% (or \$154 million) is from bond proceeds, and 10% is from other local sources. SFMTA expects to issue parity bonds totaling \$75 million in 2014 and \$150 million in 2016. Debt to total revenues in fiscal 2013 was very low, in our opinion, at 0.07, with debt to net revenues at 1.34, but these ratios are set to rise to 0.14 and 11.12 by fiscal 2015, respectively. We view SFMTA's debt burden as low.

In summary, our analysis of the five factors that comprise SFMTA's financial risk profile results in a financial risk profile score of 'very strong'.

Given our view of both the enterprise and financial risk profile scores of 'very strong', this results in a final SACP of 'aa/aa-', per our criteria (see criteria, Table 1). We are assigning the 'aa-' SACP rather than the 'aa' due to the increasing debt burden and the uncertainty of the effect this will have on DSC. Based on peer comparisons, we did not apply one notch of flexibility in the process of arriving at the final SACP of 'aa-', and no rating caps applied. Given our view that SFMTA is not a government-related entity (GRE) under Standard & Poor's GRE criteria, SFMTA's ICR is also 'AA-'.

Given our analysis of SFMTA's bond provisions, the issue rating for the revenue bonds is also 'AA-'. Bond provisions include an additional bonds test (ABT) of 3x pledged revenues. While industry standard, an ABT based on a gross pledge is, in our opinion, weak. The fully funded debt service reserves are, in our opinion, a credit strength.

Outlook

The stable outlook reflects our expectation that the SFMTA's market position will remain no worse than strong, especially given projected ridership growth, and that it will continue to produce very strong financial metrics, including very strong DSC. The outlook also reflects our expectations that SFMTA's capital needs will receive adequate funding to ensure continued system preservation and that it will continue receiving support from federal, state, and local governments so that its debt burden does not materially escalate beyond projected levels. We don't expect to raise the ratings within the next two years due to our expectation of lower future DSC levels as a result of additional planned debt. We don't expect to lower the rating given SFMTA's very strong financial metrics and strong economic fundamentals.

Related Criteria And Research

Related Criteria

- General Criteria: Mass Transit Enterprise Ratings: Methodology And Assumptions, Dec. 18, 2013
- General Criteria: Methodology: Industry Risk, Nov . 20, 2013
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.