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Summary:

San Francisco Municipal Transportation Agency; Transit

Primary Credit Analyst:

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

Secondary Contact:

Andrew Bredeson, Centennial 303-721-4825; andrew.bredeson@spglobal.com

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Summary:

San Francisco Municipal Transportation Agency; Transit

Credit Profile

US\$171.625 mil rev bnds ser 2017 due 03/01/2047

<i>Long Term Rating</i>	AA/Stable	New
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San Francisco Municipal Transportation Agency rev rfdg bnds

<i>Long Term Rating</i>	AA/Stable	Affirmed
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San Francisco Municipal Transportation Agency ICR

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA' long-term rating to the San Francisco Municipal Transportation Agency's (SFMTA) \$171.6 million series 2017 revenue bonds. At the same time, we affirmed our 'AA' long-term rating on SFMTA's revenue bonds outstanding and our 'aa' stand-alone credit profile (SACP) and 'AA' issuer credit rating (ICR) on the agency. The outlook, where applicable, is stable.

The 'AA' rating is currently the highest rating on revenue bonds or certificates of participation issued by a transit agency in the U.S. The strength of the local market and strong management practices and policies, combined with both the parking and transit revenue of the SFMTA's operations, results in an extremely strong enterprise risk profile and a very strong financial risk profile.

The ratings reflect our view of the SFMTA's:

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

Partly offsetting the above strengths, in our view, is SFMTA's relatively large, \$3.4 billion capital improvement plan (CIP), which will likely increase system leverage and reduce DSC.

Securing the bonds is certain gross revenue before the payment of SFMTA expenses. The pledged revenue consists of passenger fares; traffic fines, fees, permits, and taxi medallion fees; parking meter revenue and parking citations;

parking garage and surface parking lot revenues; Assembly Bill 1107 revenue; rent and advertising revenue; State Transit Assistance revenue; and Transportation Development Act (TDA) sales tax revenue. The transfers from the general fund, including the baseline and the "in lieu of parking" tax, are not pledged to the bonds. All pledged revenue is set aside, deposited into the SFMTA enterprise account, and then transferred to the trustee for the debt service fund. The bonds, other than the series 2017 bonds, are additionally secured by fully funded, stand-alone debt service reserve funds.

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 and Traffic. The 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 19 surface parking lots (totaling 15,000 off-street parking spaces) as well as approximately 28,000 on-street parking meters. As a result of significant deferred maintenance, the garage facilities require significant rehabilitation and equipment upgrades to bring them up to modern standards and for environmental reasons. However, all SFMTA meters now accept payment by phone, credit card, debit card, coins, and prepaid SFMTA parking cards. The extensive parking system has a solid competitive position, in our opinion. The facilities have high utilization rates during peak hours. The agency owns and manages 30% of all downtown spaces 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 within most of its service area. It serves a 49-square-mile service area composed of San Francisco. According to the agency, it is the eighth-largest transit operator in the country and the largest in the region. MUNI carries almost 45% of all transit passengers in the Bay Area, almost twice the number of passengers of the second-largest transit operator in the area (Bay Area Rapid Transit). MUNI's infrastructure includes 604 motor buses, 262 trolley buses, 149 light rail vehicles, 42 historic streetcars and 28 cable cars, covering approximately 74 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.

The SFMTA's transit system, and the mass transit industry as a whole, is mature and has historically demonstrated only minor cyclicity (including ridership trends), so 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 the 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 2009 to 2014 was 7.3% and employment growth over the same period was 23.0%. Projections from Global Insight indicate annual population and employment growth will range from 1.1% to 1.4% and 1.8% to 3.7%, respectively, through fiscal 2018. San Francisco's per capita EBI was 206% of the national average in 2015. We consider SFMTA's economic fundamentals extremely strong.

SFMTA's ridership has been relatively stable over the past eight years, with generally good growth but also mild declines in some years despite fare increases, service reductions, and the economic recession. Annual boardings totaled 232.3 million in fiscal 2016, up from 213.7 million in fiscal 2011. In fiscal years 2011 to 2016, gross ridership growth was 8.7%. We consider SFMTA's market position extremely strong given growth in ridership and SFMTA's status as a virtual monopoly for public transit in San Francisco. Management projects 1.5% ridership growth in fiscal 2017 and 2.0% growth in fiscal 2018. We consider the SFMTA's market position very strong.

Voters in San Francisco approved two ballot measures in November 2014: Proposition A, authorizing the city to issue as much as \$500 million in general obligation bonds to finance various transportation projects, and Proposition B, amending the city's charter to adjust the required annual appropriation from the general fund to the transportation fund to reflect population growth. We consider this support a credit strength.

In terms of management and governance, the SFMTA has detailed strategic initiatives and examples of market leadership and innovation, including technology improvements providing real-time information to users. The 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 the 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 the SFMTA's management and governance as very strong.

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

The SFMTA maintains prudent financial policies when it comes to transparency and disclosure, liquidity, long-term financial planning, and debt management. The SFMTA produces and publishes monthly operational and financial reports, and financial audits are clean. The SFMTA has formal reserve and liquidity policies to maintain financial stability and ensure adequate funds to cover various risks of losses. Debt is managed in a manner consistent with the SFMTA's debt policy, and the agency maintains a five-year detailed capital plan that identifies sources and uses of funding. The SFMTA has covenanted to adopt a two-year balanced budget in accordance with the city charter. In addition, the SFMTA has covenanted that it will maintain pledged revenue in each fiscal year equal to or greater than the total of annual debt service, operating costs of the transit system, and any subordinate obligations. Management has also covenanted to the continued operation and maintenance of the transit system. Given these key factors, we view the SFMTA's financial policies as strong.

The SFMTA receives funds from a diverse set of sources. The bulk of total revenue comes from operations, including parking/traffic (25% in fiscal 2016) and passenger fares (20%); in our opinion, this combined percentage represents a significant portion of revenue, over which the agency has direct control. City general fund contributions account for 35% of total revenue, and operating grants for 15%. Rent, advertising, and interest provide the remainder. Total fiscal 2016 revenue was \$1.2 billion. The pledged revenue totaled \$620 million in fiscal 2016 and did not include city general fund contributions, among other items. In our opinion, the agency has proactively managed expenses. Total expenses, including transfers out for capital projects (\$29 million), were \$980 million in fiscal 2016.

Although certain gross revenue 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 lead to break-even results in general. DSC on a net revenue basis was 3.1x in fiscal 2016 and 4.5x in fiscal 2015. DSC based on SFMTA's fiscal 2017 and fiscal 2018 budgets is 2.6x and 2.0x, respectively. These figures include transfers to capital as well as appropriated fund balances. We view SFMTA's DSC as very strong.

SFMTA's available cash and investments totaled \$576 million, or 225 days' cash, in fiscal 2016. Cash balances have been growing over the past five years, and have more than doubled since the fiscal 2012 level of \$271 million. Management does not project significant changes in cash balances for fiscal years 2017 and 2018. Cash is projected at 207 days in fiscal 2017 and 198 days in fiscal 2018. Cash (including cash in reserve funds) to debt service was 35x in fiscal 2016 and is projected to decline to 23x by fiscal 2017 with the issuance of the 2017 bonds. 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 system's farebox recovery ratio --farebox revenue (plus parking revenue in the case of SFMTA) divided by operating costs--in fiscal 2016 was, in our view, strong, at 35.1%. In our view, this indicates strong financial flexibility, in that SFMTA is more in control of its revenue than are agencies that receive a lower share of total revenue from fares. Farebox and parking/traffic revenue provided approximately 45% of total revenue in fiscal 2016. 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 depending on 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. Revenue not automatically indexed is calculated at cost recovery. We consider the plan favorable for the agency. The basic adult cash fare for transit is \$2.50. The latest fare increase was effective Jan. 1, 2017; the fare was \$2.25 prior to that, and fares will increase again, to \$2.75, on July 1, 2017. SFMTA's debt service carrying charge is also a very low 1.73% and is projected at 1.59% in fiscal 2017 and 2.42% in fiscal 2018. We view SFMTA's financial flexibility as strong.

The SFMTA has a substantial \$3.4 billion five-year capital program. The agency, like most transit and transportation agencies, faces challenges in maintaining infrastructure in a state of good repair. Projects include transit infrastructure needs, fleet replacement, the Central Subway Project (an extension of the Third Street light rail line into Chinatown), a transportation management center, and transit expansion and enhancement. The revenue sources for the capital program include federal grants (primarily for the Central Subway), state and local funds, debt (including revenue and GO debt), and SFMTA resources in place. Debt to total revenue in fiscal 2015 was very low, in our opinion, at 0.18, with debt to net revenue at 3.53, but these ratios are set to rise to 0.35 and 8.59 by fiscal 2017, respectively. We view SFMTA's debt burden as low.

In summary, our analysis of the five factors that make up the SFMTA's financial risk profile results in a financial risk

profile score of very strong.

Given our view of the extremely strong enterprise risk profile and the very strong financial risk profile scores, the final SACP is 'aa+', per our criteria (see table 1 in our report "Mass Transit Enterprise Ratings: Methodology And Assumptions," published Dec. 18, 2013 on RatingsDirect). Based on peer comparisons, we applied one notch of flexibility downward in the process of arriving at the final SACP of 'aa', and applied no rating caps. We are assigning the 'aa' SACP rather than the 'aa+' SACP given the relatively large size of SFMTA's CIP. Given our view that the SFMTA is not a government-related entity under S&P Global Ratings' criteria, the ICR is also 'AA'.

Given our analysis of the 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 revenue. While an industry standard, an ABT based on a gross pledge is, in our opinion, weak. While the fully funded debt service reserve funds on previously issued parity debt do improve SFMTA's overall liquidity, in our view, strong DSC and very strong unrestricted cash balances lead us to consider the debt service reserve fund (DSRF) immaterial to the rating. The series 2017 bonds are being issued without a DSRF.

Outlook

The stable outlook reflects our expectation that the SFMTA's market position will remain at least very strong, especially given projected ridership growth, and that the SFMTA will continue to produce very strong financial metrics, including strong DSC. The outlook also reflects our expectation that the SFMTA's capital needs will receive adequate funding to ensure continued system preservation and that the agency will continue receiving support from federal, state, and local governments so that its debt burden does not materially escalate beyond projections.

Upside scenario

We don't expect to raise the ratings within the next two years given our expectation of potentially lower DSC and liquidity as a result of the series 2017 bonds and the potential for additional debt given a very large \$3.4 billion capital plan.

Downside scenario

We don't expect to lower the rating given the SFMTA's very strong financial metrics and extremely strong economic fundamentals.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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