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San Francisco Municipal Transportation Agency, California; Transit

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San Francisco Municipal Transportation Agency, California; Transit

Credit Profile

US\$75.0 mil rev bnds ser 2013 due 03/01/2043

Long Term Rating

A+/Stable

New

San Francisco Municipal Transportation Agency rev rfdg bnds

Long Term Rating

A+/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating to 'A+' from 'A' on the San Francisco Municipal Transportation Agency (SFMTA or the agency), Calif.'s senior-lien series 2012 revenue and refunding bonds. In addition, Standard & Poor's assigned its 'A+' rating to SFMTA's \$75 million series 2013 revenue bonds. The outlook is stable.

The upgrade reflects our view of the agency's improved financial position, as well as our view of SFMTA as mass transit provider in San Francisco, which we consider an essential service to the city. Its resilient ridership trends, diverse revenue stream, and strong support from the state and city further support our ratings, in our opinion.

More specifically, the rating reflects our view of:

- The essential role of the SFMTA in the city's and region's economies as the largest transit operator in the Bay Area, carrying approximately 43% of all Bay Area transit passengers;
- The lack of competing services in the service area;
- Stable ridership trends despite fare increases, service reductions, and the economic recession, as well as one of the highest levels of service per capita in the U.S., with 223 million passengers in fiscal 2013;
- Revenues from a broad range of sources, which have helped to insulate the agency from potential declines in local and state payments;
- Management's strong track record of maintaining fiscally prudent operations while investing in the system; and
- Demonstrated support from the city government, which has a transit-first policy and substantial general fund revenues and allocates parts of various tax collections to SFMTA, as well as the populace.

Partially offsetting the preceding credit strengths, in our view, are the agency's break-even nature of transit operations, and the SFMTA's \$3 billion fiscal 2013-2017 capital program, which we consider significant. 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, or AB, 1107), and Transportation Development Act (TDA) sales tax revenues. The bonds are additionally secured by a fully funded, stand-alone debt service reserve. The bonds are expected to be fixed rate, with a 30-year maturity. The 2013 bonds will fund a portion of the capital program. We understand that the agency also plans to issue \$75 million in bonds in fiscal 2015. Maximum annual debt service (MADS) after the 2015 issuance is expected to be \$17 million, which we consider to be manageable.

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 (DPT). 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.

Outlook

The stable outlook reflects our anticipation that the SFMTA will achieve a balanced budget each year. We also anticipate that the authority's capital plan will receive adequate funding to ensure continued system preservation, and that it will continue receiving support from the state and city governments while prudently managing its level of capital expenditures. If SFMTA cannot achieve a structural balance in any year, we could lower the rating. We do not expect to raise the rating during the two-year outlook period primarily due to capital pressures.

Issuer

In 1999 the SFMTA was created by a voter-approved amendment to the San Francisco City Charter, combining MUNI and the DPT to provide a transportation system for the city. The agency operates transit, parking, traffic, taxi, paratransit, bicycle, and pedestrian accessibility programs. The agency is an enterprise department of the city and is responsible for the implementation of the city's transit-first policy.

With the establishment of the agency, voters also established a general fund baseline allocation formula to provide a guaranteed share of city general fund revenues. In 2007 an additional charter amendment was approved by the voters, increasing the agency's dedicated revenues by providing the agency with 80% general fund in lieu amount of parking tax, 100% of citation revenues, and authority over parking regulation, fees, and fines.

The agency adopts a two-year budget as part of the city's budget process. The budget is subject to the review of the mayor and the board of supervisors; however, they may only reject the agency's budget as a whole (not on a line-item basis) only if it includes fare increases and/or service reductions. Currently the agency has an adopted balanced budget through fiscal 2014.

Bond Structure

Securing the bonds is a gross revenues pledge of certain revenues before the payment of SFMTA expenses. The pledged revenues include passenger fares; traffic fines, fees, permits, and taxi medallion fees; parking meter revenues and parking citations; parking garage and surface parking lot revenues; the half-cent sales tax on the Bay Bridge (AB1107); and TDA sales tax. The transfers from the general fund, including the baseline and the parking taxes, are not pledged to the bonds. All pledged revenues are set aside, deposited into the SFMTA enterprise account, and then transferred to the trustee for the debt service fund. The agency may issue additional bonds according to an additional bonds test of 3x. According to our criteria, we consider the operations of the agency as a whole, on a net basis.

Bondholders benefit from a fully funded debt service reserve. The reserve will be funded at the lowest of MADS, 10%

of par, or 125% of average annual debt service. 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 revenues in each fiscal year equal 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.

Operations

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.

Ridership has been relatively stable, despite fare increases, service reductions, and the economic recession. Passengers totaled more than 222 million in fiscal 2012, down from 226 million in fiscal 2009, and up from 206 million in fiscal 2007. In the past five years, the adult cash fare was increased as of July 1, 2009, to \$2.00 from \$1.50, and the adult monthly pass has annually increased to a total of \$66.00 as of July 1, 2013, from \$45.00 in fiscal 2009.

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.

SFMTA also administers regulation of the San Francisco taxi industry and derives revenues from the sale of taxi medallions. In addition, SFMTA manages the San Francisco Bicycle Program to enhance the use of bicycles as transportation in the city. Finally, the agency oversees paratransit and pedestrian accessibility programs.

Effective fiscal 2011, the SFMTA has adopted an "Automatic Indexing Implementation Plan." Under this plan, MUNI fares, parking citations, garage parking rates, and other charges not governed by law are increased on a periodic basis 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 MUNI is \$2.00. The last fare increase was effective July 1, 2009; prior to that time, the fare was \$1.50.

Finances And Capital Program

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 represents a significant portion of revenue over which the agency has direct control. City general fund contributions comprise 33% of total revenues, and 14% of revenues are from operating grants. The remaining 2% is derived from rent, advertising, and interest. Total fiscal 2012 revenues were \$825 million. Total revenues have grown at an average annual rate of 4.5% from fiscal 2007 to fiscal 2012. More specifically, the pledged revenues totaled \$503 million in fiscal 2012, and have grown at an average annual rate of 4.8% between fiscal years 2007 and 2012.

In our opinion, the agency has proactively managed its expenses. While facing significant labor costs, management has worked to reduce burdens. Total expenses grew at an average annual rate of 4.2% from fiscal 2007 to fiscal 2012 (excluding transfers to reserves or capital). Total expenses, including transfers, were \$807 million in fiscal 2012.

Liquidity was good for a transit agency, in our view, with liquid assets totaling \$429 million, or 194 days' cash, in fiscal 2012 (an improvement from \$307 million, or 148 days' cash, in fiscal 2011), including certain internally restricted but available funds. Unaudited fiscal 2013 liquidity has improved substantially to \$606 million, or 261 days' cash.

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 debt service coverage. While the agency benefits from the strength of the revenue supplied by the parking operations, the transit operations ultimately generally lead to break-even results. Pro forma MADS coverage, including the current issuance as well as an expected additional issuance of \$75 million in fiscal 2015, on a net revenue basis ranged from a high of 3.0x in fiscal 2007 to a low of 0.4x in fiscal 2010, with fiscal 2012 at 1.2x and unaudited fiscal 2013 at 3.6x. These figures include transfers to capital as well as appropriated fund balances. Pro forma MADS coverage excluding transfers ranges from a high of 6.7x in unaudited fiscal 2013 to 1.3x in fiscal 2009, with fiscal 2012 at 3.7x. In our opinion, the coverage has improved to a strong level.

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 (does it matter that these local %s total only 42%?).

Related Criteria And Research

USPF Criteria: Mass Transit Bonds Secured By Farebox Revenues, June 13, 2007

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