# S.E.C. RULE 15c2-12

# NOTICE OF SPECIFIED EVENT

San Francisco Bay Area Rapid Transit District (the "District" or "BART") hereby provides notice of the following event (the "Specified Event") related to the following bond issues:

**Issues:** San Francisco Bay Area Rapid Transit District Sales Tax Revenue Bonds, 2012 Series A (the "Series 2012A Bonds")

San Francisco Bay Area Rapid Transit District Sales Tax Revenue Bonds, 2012 Series B (Federally Taxable) (the "Series 2012B Bonds")

San Francisco Bay Area Rapid Transit District Sales Tax Revenue Bonds, 2015 Refunding Series A (the "Series 2015A Bonds")

San Francisco Bay Area Rapid Transit District Sales Tax Revenue Bonds, 2016 Refunding Series A (the "Series 2016A Bonds")

San Francisco Bay Area Rapid Transit District Sales Tax Revenue Bonds, 2017 Refunding Series A (Green Bonds) (the "Series 2017A Bonds")

San Francisco Bay Area Rapid Transit District Sales Tax Revenue Bonds, 2017 Refunding Series B (Federally Taxable) (Green Bonds) (the "Series 2017B Bonds")

San Francisco Bay Area Rapid Transit District Sales Tax Revenue Bonds, 2019 Series A (the "Series 2019A Bonds")

San Francisco Bay Area Rapid Transit District Sales Tax Revenue Bonds, 2019 Refunding Series B (Federally Taxable) (Green Bonds) (the "Series 2019B Bonds" and, together with the Series 2012A Bonds, the Series 2012B Bonds, the Series 2015A Bonds, the Series 2016A Bonds, the Series 2017A Bonds, the Series 2017B Bonds and the Series 2019A Bonds, the "Sales Tax Revenue Bonds")

**Specified Event:**

Fitch Ratings ("Fitch") has published a rating for BART's Sales Tax Revenue Bonds. The Rating Notice is attached hereto as Exhibit A. Fitch has downgraded its rating on BART's outstanding Sales Tax Revenue Bonds from "AA+" to "AA" and its outlook remains negative.

The Sales Tax Revenue Bonds are secured by BART's sales tax revenues, consisting of 75% of a 0.5-cent sales tax collected within the district (the remaining 25% is distributed to the Metropolitan Transportation Commission). The California Department of Tax and Fee Administration (CDTFA) collects the District's sales tax and distributes the sales tax to the bond trustee. After setting aside amounts necessary to pay debt service, the bond trustee releases the remaining sales tax revenues for BART's operating and capital funds.

BART's outstanding Sales Tax Revenue Bonds are also currently rated "AA+" by S&P Global Ratings.

**Other Matters:**

This notice is provided solely for the purposes of the Continuing Disclosure Agreements delivered in connection with the above-referenced Sales Tax Revenue Bonds. The filing of this notice does not constitute or imply any representation: (i) that the foregoing Specified Event is material to investors; (ii) regarding any other financial, operating or other information about the District or the Bonds; or (iii) that no other circumstances or events have occurred or that no other information exists concerning the District, the Bonds or the Specified Event, which may have a bearing on the District's financial condition, the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. No assurance can be given that Fitch will not take any further action with respect to the rating or that any rating will not subsequently be revised or withdrawn entirely if, in the judgment of Fitch, circumstances so warrant.

Dated: August 19, 2021

SAN FRANCISCO BAY AREA RAPID
TRANSIT DISTRICT

By: Christopher S. Gan

Christopher S. Gan
Interim Controller-Treasurer

**EXHIBIT A**

**(See attachment)**

Fitch Ratings

RATING ACTION COMMENTARY

# Fitch Downgrades San Francisco BART's IDR and Sales Tax Revs to 'AA'; Outlook Negative

Thu 19 Aug, 2021 - 4:01 PM ET

Fitch Ratings - San Francisco - 19 Aug 2021: Fitch Ratings has downgraded the following San Francisco Bay Area Rapid Transit District, California (BART or district) ratings to 'AA' from 'AA+':

--Issuer Default Rating (IDR);

--$686.3 million sales tax revenue bonds.

The Rating Outlook remains Negative.

## SECURITY

The sales tax revenue bonds are payable from a first lien on 75% of the 1/2 cent BART sales and use tax (sales tax) levied in Alameda and Contra Costa counties, and the City and County of San Francisco (collectively, the BART counties).

## ANALYTICAL CONCLUSION

The downgrade to 'AA' from 'AA+' reflects Fitch's expectations for an incomplete revenue recovery after the pandemic and the execution risks BART will face as it adapts to fundamental changes in commuter behavior and transit demand over the next several years. The Negative Rating Outlook reflects uncertainty surrounding future ridership and BARTs ability to close resulting out-year budget gaps. Fitch believes BART, which has traditionally relied heavily on fares to support its operations, will need additional revenues that would require outside approval or budget reductions on a scale that may be impractical in order to restore its historically strong underlying operating margins after the expiration of federal stimulus measures.

The 'AA' IDR reflects BART's superior gap closing capacity, low long-term liabilities and manageable capital spending pressures in the context of an unusually broad and deep economic resource base. The 'AA' sales tax revenue bond rating reflects system's operating risk, which caps the revenue bond rating at BART's IDR. The revenue bonds would be rated higher absent the IDR cap, reflecting both solid growth prospects for pledged revenues and very strong financial resilience of the structure.

### Economic Resource Base

BART provides essential public transportation services to the San Francisco Bay Area and benefits from one of the strongest economic resource bases in the U.S. The region is home to world's largest information technology industry cluster, which has driven extraordinary wealth creation and sustained population growth for many years. The Bay Area also has large healthcare, biotechnology, higher education, retail, professional services, finance, tourism and governmental sectors. Incomes and educational attainment are far above national averages, while poverty rates are well below average.

Fitch expects BART to continue to play a key role in connecting the region's workers to employment centers and in meeting the region's environmental and congestion management goals, but the transit district is likely to face fundamental changes in commute patterns as remote work persists after the pandemic.

## KEY RATING DRIVERS

**Revenue Framework: 'a'**

Fitch expects the district to experience an extended period of revenue weakness due to reduced ridership. The assessment reflects both a significant long-lasting downward adjustment in demand and Fitch's expectation that the district's revenues will grow faster than inflation from its reduced baseline given the resilience of the regional economy and BART's essential role in connecting the region's workers to jobs.

BART's independent legal ability to raise revenues is satisfactory relative to typical cyclical pressures due to the system's control over fares, though Fitch believes fare flexibility is not sufficient to fully offset the extraordinary downward shift in long-term commuter demand that is expected post-pandemic. The district is likely to need new revenue sources in the next several years, and the board does not have the authority to raise taxes without outside approval.

**Expenditure Framework: 'a'**

Fitch expects spending growth to be above revenues at least over the medium term, reflecting weakened long-term revenue trends and preexisting wage and capital pressures. Expenditure flexibility is solid with moderate fixed costs, strong control over service levels and significant pay-go capital spending offsetting a restrictive labor environment.

**Long-Term Liability Burden: 'aa'**

Combined debt and pension liabilities are low at 7.5% of personal income. Debt is expected to rise as the district uses voter-approved general obligation bonds to address its backlog of capital spending needs, but the liability burden is expected to remain noticeably below 10% of personal income.

**Operating Performance: 'aaa'**

The district is well positioned to withstand typical cyclical revenue variability due to healthy reserves relative to historical revenue volatility, consistently positive margins and the ability to offset reasonable revenue losses with spending adjustments and fare increases. Budget management in times of recovery is somewhat mixed with healthy funding of retirement liabilities and conservative, thorough financial planning offset by some historical deferrals of needed capital spending.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- A robust ridership recovery or shift in the revenue structure that provides the district a broader revenue base and returns growth to its prior solid levels;

-- Spending adjustments that support long-term structural budget balance in the face of lower revenues and ridership.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-- A failure to make progress in aligning expenses with existing revenues and/or an inability to secure new ongoing revenue sources well ahead of the expiration of extraordinary federal stimulus measures, leading to structural imbalances that decrease financial resilience;

-- A weaker than expected recovery in ridership and revenues that is materially weaker than the agency's current base case assumption of a recovery to 75% of pre-pandemic ridership levels.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

## CURRENT DEVELOPMENTS

Near-Term Pressures Addressed by Federal Aid

BART and other fare-dependent U.S. public transit agencies were among the hardest hit local governments during coronavirus pandemic due to the loss of riders and fare revenues through the extended period of shelter-in-place orders and the shift by corporate employers to remote work schemes. To date, federal aid has largely filled the resulting revenue gaps. BART's financial performance remains strong due more than $1 billion of extraordinary federal aid payments, which equals more than 2 years of pre-pandemic fare revenues. The level of aid reflects the acuity of the need among large fare-dependent urban transit providers, their environmental and economic essentiality and an enduring federal commitment to public transportation that has included substantial ongoing support for both capital investments and operations. BART could also receive substantial capital contributions if federal infrastructure legislation is approved.

BART entered the pandemic with strong liquidity and healthy financial margins, and federal aid and BART spending adjustments have allowed the transit district to maintain strong performance through the pandemic. Net revenue coverage, a measure of the district's operating margins, equaled a very strong 3x debt service in fiscal 2020 (FYE June 30), up from 2.1x the prior year. Unrestricted cash and investments declined to a still-strong $541.7 million, 235 days cash or 64.4% of spending. BART's total restricted and unrestricted cash and investment balances rose to $1.2 billion from $1.1 billion. Revenues rose 4.8% to just over $1 billion with declines in fare revenues (-29.2%) and sales taxes (-4.8%) more than offset by a 331% surge in operating financial assistance.

Fitch expects fiscal 2021 and 2022 results to look similar on net with much larger fare declines continuing to be offset by federal aid. Fiscal 2021 was likely a low point in fare collections, and estimated actual results for the year through May show just $54 million of fare revenue. BART collected $482.6 million of fares in the full 2019 fiscal year. Sales tax revenue losses were manageable at about 3.1% with heavy losses in San Francisco mostly offset by gains in Alameda and Contra Costa Counties.

Federal aid appears sufficient to support revenues near pre-pandemic levels, the highest level of financial resilience and healthy overall financial margins through at least fiscal 2025 (assuming continued ridership in line with BART's base case assumptions), but fundamental changes in commuting patterns will weaken BART's fare-dependent business model thereafter.

Fare dependence was historically a strength for the district, providing the tools necessary to maintain strong financial performance across cycles through fare increases. Fares equaled about half of revenues excluding capital grants and GO bond levies in fiscal 2019 and equaled about 60% of BART's operating expenses excluding depreciation. The high level of fares reflected the relative strength of BART's business model in earlier periods, its essentiality to the region's commuters and its strong pricing power. BART relied much less on taxes and other public subsidies than peers. Its West Coast counterparts in the Seattle and Los Angeles metropolitan areas, by comparison, received less than 10% of revenues from fares, depended overwhelmingly on broad, locally generated taxes, and did not experience severe revenue losses in the pandemic.

Long-Term Pressures on Business Model

BART ridership and fare revenues remain well below pre-pandemic levels with many employers continuing to allow Bay Area employees to work remotely. Ridership began to recover with the widespread availability and strong uptake of coronavirus vaccines in the region in the spring. Weekly ridership doubled in recent months but remains very weak at about 22% of pre-pandemic levels. The agency's ridership recovery has lagged other large urban transit agencies, reflecting its dependence on commuters, a cautious return to offices by regional employers and public health officials, and a shift to private vehicle usage amid temporary reductions in traffic congestion.

Fitch expects BART's ridership recovery to continue despite temporary setbacks due to periodic surges in coronavirus cases, but Fitch believes the BART's substantial customer base of white-collar and high technology workers are particularly prone to more permanent changes in commute patterns that reduce the district's ridership base. The recovery is likely to lag other regions, and ridership is unlikely to return to pre-pandemic levels for an extended period. Management's base case projections show ridership gradually recovering to 75% of pre-pandemic levels by 2025, which Fitch believes is reasonable. The district's ridership projections are based on an analysis of the composition of its customer base as well as surveys of employers and riders. The district's downside case is 59% of pre-pandemic ridership, and its upside case is 87% of prior ridership.

BART will remain essential to the Bay Area economy despite changing commute patterns. The Bay Area's highways and bridges will remain capacity constrained in the post-pandemic era with cross bay travel likely to remain highly dependent on BART and service continuing to expand within the region. Regional policymakers and employers remain committed to reducing the environmental impact of vehicle dependence via expansion of public transit and increases in housing density near transit. BART recently completed the first phase of a major expansion with revenue service to San Jose beginning in June of 2020. The expansion provides a direct rail link between relatively affordable East Bay housing markets and Silicon Valley in one of the region's most congested commute corridors, increasing BART's already high essentiality to the region.

Execution Risks in Period of Adaptation

A long-lasting reduction in transit demand would require fundamental changes in the district's revenue or expenditure frameworks, creating a new risk that far outweighs the offsetting benefit of reducing strains on the system's capacity. Given policymakers' desire to expand transit usage, Fitch believes deep reductions in service levels to fully match reduced revenues are unlikely. Fitch expects the district to reduce spending where possible but to seek new revenues to resolve out-year budget gaps. BART's tax raising options --

including sales and parcel tax measures -- would require voter approval. Securing additional subsidies from state, federal and regional partners would require legislative approval from bodies outside BART's control, and any attempt to broaden the tax base to cover more of the service area could require state legislative changes.

Fitch's downgrade and continued Negative Outlook for BART reflect the execution risks the district faces as it works to adapt to an environment with reduced demand in its core business of providing transportation to commuters to central business districts. Fitch believes the revenue risk associated with the expected loss of ridership and the need for outside approval of the additional taxes are inconsistent with an above-average IDR for the local government sector.

Fitch believes BART's revenue needs are relatively modest relative to the Bay Area's economic resources, and the region's voters have demonstrated strong support for transit via earlier sales tax measures in the region and BART's 2016 GO bond authorization (approved by 70.5% of voters). BART's projected 2025 revenue gap in its downside ridership scenario equals $255 million, which equals just 0.07% of 2019 personal income in the three core BART counties and less in the broader service area. Fitch believes Bay Area voters and policymakers may be willing to provide greater subsidies to support mass transit system, but we believe timing and political risks inherent in this effort are substantial, particularly given the fragmented nature of the Bay Area multiple transit systems and overlapping political jurisdictions.

A failure to secure sustainable long-term funding to support BART could lead to erosion in its historically strong margins, and Fitch believes the level of projected revenue losses exceed the district's practical fare raising flexibility. The district has thus far reacted promptly and reasonably to maintain financial stability during the pandemic, reducing staffing and spending where allowed under the terms of federal aid packages that sought to avoid layoffs, but it has not made wholesale reductions in costs on a scale that would address expected fare revenue losses. The district would need to make more politically difficult cuts (possibly including significant layoffs and service cuts) absent an unexpected ridership recovery or approval of new revenues.

## CREDIT PROFILE

Strong Sales Tax Revenue Bond Coverage

The dedicated taxes pledged to the bonds do not meet the requirements set out in Fitch criteria for treatment as 'pledged special revenue' under section 902(2) of the bankruptcy code and are not otherwise insulated from the BART's operating risk. Therefore, the rating of the debt is capped at the IDR.

The bonds are supported by a broad sales and use levied across a large and economically diverse service area. Pledged revenue growth prospects are solid. Sales tax revenues are expected to grow above the level of inflation, but below the level of U.S. economic growth over time. Sales taxes have risen at a compound annual growth rate of 4.8% over the past decade. The 10-year CAGR was below GDP prior to fiscal 2020.

Pledged revenue coverage is very strong (4.5x MADS in 2020) and expected to remain strong throughout a typical, moderate U.S. recession. To evaluate the sensitivity of the dedicated tax revenue stream to cyclical decline, Fitch considers both a revenue sensitivity scenario (using a 1% decline in national GDP scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Based on the district's sales tax revenue history, Fitch's analytical sensitivity tool (FAST) generates a 5.7% decline in pledged revenues during the first year of a moderate recession. The largest cumulative revenue decline historically was 17.8% over two years in the aftermath of the Great Recession in 2009 and 2010.

Assuming issuance up to the 1.5x additional bonds test (ABT), the structure could tolerate a 33% drop in revenues. Fitch does not expect the district to issue additional parity debt after the current transaction. The district currently has no plans to further leverage pledged revenues and needs the excess cash flows to fund its ongoing operating and pay-go capital budget. Fitch assumes leverage will be limited to 4x MADS. The assumption reflects the issuer's lack of additional borrowing plans on the lien, a debt service that descends rapidly in the latter half of the decade, BART's need for excess revenues to support operations, and the shift in capital funding strategy toward GO bonds.

Fitch set the 4x MADS coverage assumption below current coverage to reflect an open lien, to allow borrowing for occasional projects that fall outside the parameters of BART's GO bond authorizations and to accommodate transitory coverage erosion during periods of economic weakness. At assumed leverage, sales tax revenues could fall 75% before reaching 1x debt service coverage. The coverage cushion is 13.2x the recessionary decline scenario produced by the FAST model and 4.2x the decline of the Great Recession, which Fitch views as consistent with a 'aaa' level of financial resilience.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

BART has an ESG Relevance Score of '4' for labor relations and practices due to its complex labor negotiating environment and history of labor impasses, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

**RATING ACTIONS**

| ENTITY/DEBT | RATING | | | PRIOR |
|---|---|---|---|---|
| San Francisco Bay Area Rapid Transit District (CA) [General Government] | LT IDR | AA Rating Outlook Negative | Downgrade | AA+ Rating Outlook Negative |
| • San Francisco Bay Area Rapid Transit District (CA) /Issuer Default Rating - General Government/1 LT | LT | AA Rating Outlook Negative | Downgrade | AA+ Rating Outlook Negative |

**VIEW ADDITIONAL RATING DETAILS**

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## PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

| | |
|---|---|
| San Francisco Bay Area Rapid Transit District (CA) | EU Endorsed, UK Endorsed |

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