MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 to BATA's (CA) senior bonds Series D,E,F-3 and A1 to subordinate bonds Series S-10; stable outlook

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New York, November 19, 2021 -- Moody's Investors Service has assigned Aa3 to Bay Area Toll Authority's ("BATA's") approximately $1.065 billion senior San Francisco Bay Area Toll Bridge Revenue Bonds, offered in the following amounts: $139 million 2021 Series D (Term Rate), $139 million 2021 Series E (Index Rate), and $788 million 2021 Series F-3 (Federally Taxable Fixed Rate). Moody's has also assigned A1 to BATA's $265 million subordinate San Francisco Bay Area Toll Bridge Revenue Bonds, 2021 Series S-10 (Federally Taxable Fixed Rate). The outlook is stable.

RATINGS RATIONALE

The Aa3 senior rating is based on the significant fundamental strengths of BATA. These include 1) a near monopoly on bridge crossings in the populous, economically vibrant and affluent San Francisco Bay Area, 2) maintenance of a $1 billion liquidity reserve that provides a substantial resource relative to short-term operating and financing costs, and 3) the ability to independently increase toll rates, which we believe are low in relation to the area's wealth and willingness to pay for BATA's essential crossings, implying a material level of rate-raising capacity for the authority. Moderating capital spending intensity going forward will support flexibility and stable, or modest improvement in, leverage.

Key rating challenges include BATA's high leverage, which is among the highest for Moody's-rated established toll roads, and a debt structure with heightened floating rate and market access risk relative to peers.

Like all passenger systems, BATA's traffic and revenue have been significantly impacted by COVID. San Francisco Bay Area vehicle travel and commute patterns were particularly affected owing to a combination of more stringent lockdowns and a higher percentage of jobs eligible for remote work than in comparable metropolitan regions. However, BATA's traffic has recovered well over the last year, reaching 85%-90% of pre-pandemic (i.e., fiscal 2019) activity in recent months. BATA expects to end fiscal 2022 at 90%, and fiscal 2023 at 98%, of fiscal 2019 activity. We view BATA's traffic recovery as generally reflecting the slower pace of reopening and normalization in the region, although there is risk that adoption of remote work may permanently alter commute activity. We view BATA's overall performance as sound in the context of Bay Area Rapid Transit (BART) ridership that is at 25% of 2019 levels and San Francisco International Airport (SFO) domestic passenger traffic that is at 55% of 2019 levels.

As a result of significantly lower revenue due to COVID, BATA used reserves to fund portions of the Rehabilitation Program previously funded on a pay-go basis. This reduced unrestricted cash by $700 million from fiscal 2019 to fiscal 2022, although the $1 billion "hard deck" remained intact and the RM3 escrow built to over $250 million. The Series F-3 will provide over $670 million of proceeds to finance certain capital spending over the next several years until a combination of traffic recovery and a potential toll rate increase in fiscal 2027 bring capital funding into greater alignment. The pandemic also necessitated a rapid shift to all-electronic tolling (AET) following the state's suspension of cash tolls in March 2020. BATA is now operating fully cashless tolling through a combination of transponder and pay-by-plate options, and it has significantly improved invoice and collection processes over the last year to minimize the potential impact of such a conversion on cash flow and revenue leakage.

Until full recovery occurs, the authority's substantial cash levels cushion revenue pressures and support its credit profile. BATA generally has flexibility to call and otherwise refinance its short term debt, which accounts for close to 25% of total debt, and this provides an added lever to manage debt service costs if revenues recover slower than anticipated. We forecast debt service coverage ratios in line with historical levels over the next several years and expect continued traffic recovery will gradually build fund balance and bring the capital budget into balance, while toll rate increases provide the potential for substantial further improvement in flexibility.

RATING OUTLOOK

The stable outlook reflects BATA's satisfactory financial metrics despite pressure brought on by the pandemic as well as its strong liquidity position, which can support the credit profile through an extended recovery in traffic. The outlook incorporates our view that BATA's bridge traffic will continue a gradual recovery on track to reach 98% of fiscal 2019 level in fiscal 2023, which will support stability in coverage and liquidity growth in cash flow over the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- A material decrease in leverage consistent with median debt to operating revenues for Aa-rated large established toll road systems

- Continued maintenance of strong liquidity reserve or alternate mitigation of corresponding requirements/risks

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Indications that BATA's market position has experienced a negative fundamental shift due to coronavirus

- Reduction of liquidity to less than $1 billion, particularly given the exposure to variable rate debt

- Unforeseen increases in bridge maintenance or construction costs, or additional debt financing without maintaining the authority's financial profile

LEGAL SECURITY

The senior bonds are secured by net toll revenues collected on the seven Bay Area bridges operated by BATA. The senior bonds have a cash-funded debt service reserve fund (DSRF) equal to the lesser of maximum annual debt service and 125% of average annual debt service. The subordinate bonds are secured by a subordinate claim on net toll revenues and have a DSRF funded at maximum interest on the bonds at the option of BATA. All subordinate series currently have a DSRF equal to maximum interest.

The authority has independent rate-setting authority and no legislation or outside approval is required to adjust toll rates, though electronic and cash toll rates must be the same. The authority is required to increase tolls according to its adopted toll schedule to meet bond covenants, or for maintenance or construction. The authority must hold a public hearing and two public meetings 45 days before the toll increase and provide 30 days' notice to the legislature.

USE OF PROCEEDS

Proceeds will provide $277 million to refinance callable short term bonds; $672 million in new money and reimbursement of prior outlays to BATA; and potentially upwards of $350 million to advance refund senior and subordinate debt for savings, subject to market conditions.

PROFILE

The Bay Area Toll Authority administers toll revenue collections and finances improvements for seven state-owned toll bridges in the San Francisco Bay Area: the Antioch Bridge, the Benicia-Martinez Bridge, the Carquinez Bridge, the Dumbarton Bridge, the Richmond-San Rafael Bridge, the San Francisco-Oakland Bay Bridge and the San Mateo-Hayward Bridge.

BATA was created as a public agency in 1997 under California law. It operates pursuant to Chapters 4, 4.3 and 4.5 of Division 17 of the California Streets and Highways Code and the provisions of the Revenue Bond Law of 1941 made applicable to the authority by the California Streets and Highways Code Section 30961 (collectively, the Act). The Act provides BATA with broad toll-setting authority for the Bridges.

BATA's governing body has the same governing board members as the Metropolitan Transportation Commission (MTC), which consists of 18 voting members appointed by local agencies and three nonvoting members appointed by state and federal agencies. MTC is a public agency created in 1970 by California law to provide regional transportation planning and organization for the nine San Francisco Bay Area counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma. Each commissioner's term of office is four years or until a successor is appointed.

METHODOLOGY

The principal methodology used in these ratings was Publicly Managed Toll Roads and Parking Facilities published in March 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?

docid=PBC_1091602. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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