July 18, 2018
NVTA Agenda Item 11.3
Continued From: June 20, 2018
Action Requested: INFORMATION/ACTION

NAPA VALLEY TRANSPORTATION AUTHORITY
Board Agenda Letter

TO:	NVTA Board of Directors
FROM:	Kate Miller, Executive Director
REPORT BY:	Kate Miller, Executive Director (707) 259-8634 / Email: kmiller@nvta.ca.gov
SUBJECT:	Options to Improve Napa Valley Transportation Authority's (NVTA) Standard & Poor and Moody's Investment Rating

RECOMMENDATION

That the Napa Valley Transportation Authority (NVTA) Board receive the report and recommend pursuing additional action.

COMMITTEE RECOMMENDATION

None

EXECUTIVE SUMMARY

At its June board meeting, members of the NVTA board requested staff evaluate the Standard & Poor and Moody's rating evaluation requirements and recommend ways that the NVTA could improve its Standard & Poor and Moody's investment grade A-/A2 ratings respectively to higher investment grade ratings.

PROCEDURAL REQUIREMENTS

1. Staff Report
2. Public Comments

FISCAL IMPACT

Is there a Fiscal Impact? No

Future fiscal impact? A higher investment rating could reduce the cost of issuing debt or borrowing.

CEQA REQUIREMENTS

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (California Environmental Quality Act (CEQA) Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

At the June 20, 2018 Board meeting, staff presented a summary of rating agencies' approaches to its financial evaluations of government and publically traded companies. As noted in the memo, credit ratings reflect the rating agency's opinion on the likelihood that that a government agency or company may default on its debt obligation. In the presentation, staff underscored that the A-/A2 investment grade ratings that NVTA received, are relatively strong ratings given the agency's size and revenue streams.

To provide some perspective, Table 1 below shows ratings of NVTA compared to other public transit agencies. The agencies were selected by the two rating firms and reflect their most current reports.

Table 1: S&P/Moody Investment Ratings for Select Transit Agencies

Agency Name	Description of Services	S & P Rating (Outlook)	Moody's Rating
NVTA	Small public transit	A- (Stable)	A2
Alameda Contra Costa Transit	Large public transit agency, greater east bay	A+ (Negative)	A1
Chicago Transit Authority	Very large public transit agency	A+ (Stable)	
Corpus Christi Regional Transportation Authority	Medium public transit agency	A+ (Stable)	
Metropolitan Transportation Authority of New York	Very large public transit agency	AA- (Stable)	
Peninsula Corridor Joint Powers Authority	Small commuter rail (Caltrain)	BBB+ (Stable)	
Regional Transportation District	Large public transit agency, Denver	A (Stable)	
Sacramento Regional Transit District	Large public transit agency	A-(Stable)	A3
San Diego Metropolitan Transit District	Large public transit agency	AA-(Stable)	Aa2

Table 1: S&P/Moody Investment Ratings for Select Transit Agencies – Cont'd			
San Francisco Municipal Transportation Agency	Very large public transit agency	AA (Stable)	
St. Cloud Metro Transit Commission	Small public transit agency	AA-(Stable)	
VIA Metropolitan Transit Authority	Medium public transit agency	A+ (Stable)	
Washington Metropolitan Area Transit Authority	Large public transit agency	AA-(Stable)	
Gold Coast Transit	Small public transit agency, central coast		A2
Victor Valley Transit	Small public transit agency, central southern California		A2

In the rating agency reports provided to the Board at its June meeting and included herein as Attachments 1 and 2, each rating agency summarized reasons for why the NVTA received a strong investment grade rating and why NVTA didn't receive an even higher rating than those awarded.

S&P

S&P noted that "[t]he ratings reflect our view of the authority's:

- Very low industry risk, with low cyclicality and volatility of earnings during economic cycles, and very low competition;
- Extremely strong economic fundamentals, stemming from good population growth and very strong employment growth in Napa County, along with strong county per capita personal income;
- Extremely strong market position with very strong ridership growth of more than 45% in fiscal years 2012 to 2017, despite a 5.6% decline in fiscal 2017 alone, and NVTA's status as a virtual monopoly in the county as a public transit provider;
- Strong management and governance;
- Very strong liquidity, with total available resources--including unrestricted cash, undrawn line of credit, and carry-over balances of the authority's share of unspent sales tax distributions held at the county--at $12.4 million, or 331 days' cash, as of fiscal 2017; and• Low debt burden, although it is anticipated to rise to moderate levels by fiscal 2019 with a $15.2 million borrowing in fiscal 2019."

And then noted:

"[p]artly offsetting the above strengths, in our view, is our view of the authority's:

- Somewhat volatile historical and projected net revenue available for debt service, as calculated by S&P Global Ratings, and weak debt service coverage (DSC) at less than 1x in fiscal 2017, although DSC is forecast to improve to more than 1x in fiscal 2019

- Weak financial flexibility, with an overall authority farebox recovery ratio per our calculations of 9.1% in fiscal 2017, with a moderately high debt service carrying charge--debt service as a percentage of combined debt service and operating expenses--of 16.0%."

Moody's

Moody's noted that "[t]he A2 rating reflects the strength of the local and regional economies, a strong history of support from the State of California (Aa3 stable) for local transit, the financial flexibility provided by the ability to draw upon additional state funding as needed, and insignificant pension and OPEB liabilities attributable to transit operations.

Moody's went on to state

"[t]hese strengths are offset, in part, by the small size of the transit system, the risks of federal operating support for transit, above-average debt levels assuming execution of the planned loan, and weak liquidity in the transit fund when excluding an existing line of credit."

Based on the above comments, below, staff have developed several opportunities to increase NVTA's investment rating.

Identify Additional, More Flexible Revenue Sources

The agency's existing operating revenues are typically formula funds that the agency receives primarily passed through by the Metropolitan Transportation Commission for operating the transit system and for implementing plans and programs. The source of NVTA revenues include Federal Transit Administration 5307 Small Urbanized Area Funds, Transportation Development Act, State Transit Assistance, Surface Transportation Program and State Transportation Improvement Program planning funds.

The agency also pursues a number of competitive grant funds to complete funding packages for specific projects, plans and programs. Competitive project-related grant funds can be used to offset direct costs, such as staff project management costs. The agency could develop a Cost Allocation Plan that if approved by Caltrans and the Federal Transit Administration, would allow the agency to also charge indirect costs to federal and state-funded projects. This would obviously increase the cost of projects and could make NVTA grant applications less competitive.

NVTA has the statutory authority to raise revenues through sales and parcel tax. The agency currently receives 1% of Measure T to oversee the responsibilities required to administer the Measure. NVTA could ask the voters to approved changes to Measure T or approve another sales tax measure to increase revenues for transit services and administrative fees. Other counties receive as much as 5% to administer programs funded by transportation related measures, and all but one of the countywide sales tax programs includes capital and operating funds to support public transit agencies. Other agencies have also passed parcel taxes to support transit operations. Napa voters, while overwhelmingly supportive of Measure T, have not in previous tax measure proposals been supportive of a sales tax that supported a broader program of projects.

Other than San Francisco County Transportation Authority, which has only one member, NVTA is the only Congestion Management Agencies that does not charge membership fees. In most counties, the fee is based on the total revenues received and depending on the number of member agencies, can contribute a sizable amount in flexible revenue of between $500,000 and $2 million annually.

Increase the Vine's Fare Revenues

There are two ways to increase revenues generated by fares – increase transit fares and/or increase the number of riders. The Board adopted a fare policy several years ago that stipulates fare increases will be considered when the agency fails to meet its statutory farebox recovery ratio or every three years with increases indexed Bay Area consumer price index unless the farebox recovery is equal to or greater than 20%. The Board could elect to change this policy but there is a significant inelasticity of demand to pay for transit services so generally, increasing fares often results in reduced ridership, offsetting or exceeding the new fares generated.

NVTA staff is currently working on ways to increase transit ridership by evaluating new technologies and identifying ways to restructure services that focus more on neighborhoods with a propensity for transit ridership. In the past, the agency has largely focused on service coverage throughout the larger Napa Valley. The latter methodology deploys services in neighborhoods where there may be occasional riders and the former focuses on neighborhoods where relatively high ridership exists and where demographics support increasing service. New technologies to deploy on demand service are being studied for use in neighborhoods with low transit ridership. Combined, these two proposals are likely to increase ridership and reduce costs. A fast growing population would also help boost ridership but that is somewhat limited due to the shortage and cost of housing in Napa Valley.

Grow the Agency's Size

The revenues that NVTA currently receives are largely based on sales and gas taxes generated in Napa, lane miles, registered vehicles, population, and housing starts. As these factors change, NVTA would receive additional revenues. That said, NVTA would also serve more people resulting in additional responsibility, therefore, this proposal is not likely to result in additional net revenues.

SUPPORTING DOCUMENTS

Attachments: (1) S&P Global Letter and Report
(2) Moody's Letter and Report

S&P Global Ratings

One California Street,
31st Floor
San Francisco, CA
94111-5432
tel 415 371-5000
reference no.: 1516982

May 30, 2018

Napa Valley Transportation Authority
625 Burnell Street
Napa, CA 94559
Attention: Mr Antonio Onorato, Director of Admin, Finance, & Policy

Re: ***Napa Valley Transportation Authority, California, Issuer Credit Rating***

Dear Mr. Onorato:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced entity, S&P Global Ratings has assigned a rating of "A-" . S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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Please send hard copies to:

S&P Global Ratings
Public Finance Department
55 Water Street
New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

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S&P Global Ratings
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S&P Global
Ratings

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Summary:

Napa Valley Transportation Authority, California; Transit

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

Secondary Contact:
Jennifer Hansen, San Francisco (1) 415-371-5035; jen.hansen@spglobal.com

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Summary:

Napa Valley Transportation Authority, California; Transit

Credit Profile		
ICR		
Long Term Rating	A-/Stable	New

Rationale

S&P Global Ratings assigned its 'a-' stand-alone credit profile (SACP) and 'A-' issuer credit rating (ICR) to the Napa Valley Transportation Authority, Calif. (NVTA, or the authority). The outlook is stable.

The ratings reflect our view of the authority's:

- Very low industry risk, with low cyclicality and volatility of earnings during economic cycles, and very low competition;
- Extremely strong economic fundamentals, stemming from good population growth and very strong employment growth in Napa County, along with strong county per capita personal income;
- Extremely strong market position with very strong ridership growth of more than 45% in fiscal years 2012 to 2017, despite a 5.6% decline in fiscal 2017 alone, and NVTA's status as a virtual monopoly in the county as a public transit provider;
- Strong management and governance;
- Very strong liquidity, with total available resources--including unrestricted cash, undrawn line of credit, and carry-over balances of the authority's share of unspent sales tax distributions held at the county--at $12.4 million, or 331 days' cash, as of fiscal 2017; and
- Low debt burden, although it is anticipated to rise to moderate levels by fiscal 2019 with a $15.2 million borrowing in fiscal 2019.

Partly offsetting the above strengths, in our view, is our view of the authority's:

- Somewhat volatile historical and projected net revenue available for debt service, as calculated by S&P Global Ratings, and weak debt service coverage (DSC) at less than 1x in fiscal 2017, although DSC is forecast to improve to more than 1x in fiscal 2019;
- Weak financial flexibility, with an overall authority farebox recovery ratio per our calculations of 9.1% in fiscal 2017, with a moderately high debt service carrying charge--debt service as a percentage of combined debt service and operating expenses--of 16.0%.

NVTA serves as the congestion management agency for Napa County, and is tasked with programming state and federal funds for local projects. NVTA is also responsible for the county's regional transportation planning, working closely with its local, regional, state, and federal partners to improve the county's roads, highways, and bicycle and pedestrian facilities. NVTA also manages a transit system known as Vine Transit system, which served more than 1 million passengers annually in fiscal years 2016 and 2017, providing local fixed-route service in Napa, door-to-door paratransit and community shuttles, and regional express bus service throughout the Valley to key transportation hubs. Within the county, the transit system serves the cities of Napa, American Canyon, St. Helena, Yountville, and Calistoga. NVTA is the only mass transit service provider in Napa County.

The authority's transit system, and the mass transit industry as a whole, is mature and has historically demonstrated only minor cyclicality (including ridership trends), so we characterize the cyclicality and volatility of operating earnings as low risk. We also characterize competition and the threat of substitute products or services as very low risk. Given the above, we consider the authority's industry risk very low.

The authority, with a catchment area population of 142,417 as of 2016, has had good population and employment growth in recent years. Population growth from 2011 to 2016 was about 3.2%, while employment growth during the same period was 15.4%. Per capita personal income levels are very strong, in our view, at 134% of the national average. Population and employment growth in 2016 alone were 0.3% and 0.8%, respectively. Given these factors, we view the authority's economic fundamentals as extremely strong.

The authority has a monopolistic business position given a lack of competition in its service area. Ridership grew a very strong 45.0% to 1.15 million during the 2012-2017 period, although it dipped 5.6% in fiscal 2017. Declining ridership is not unique to NVTA and is due to a number of factors, including increased car ownership as a result of favorable financing, relatively low gasoline prices, free and plentiful parking, and competition from transportation network companies such as Uber and Lyft. The authority transitioned to Automated Passenger Counter technology for its fixed-route system to count passengers, previously relying on fareboxes to complete the task. Management reports that this change led to a 30% increase in counts, confirming that the prior methodology was undercounting passengers. Farebox revenue was still being collected as normal, and management has provided us with an updated history of ridership better reflecting actual counts. NVTA plans to counter the recent ridership softness with express bus service, adding more frequent, direct service on popular routes and adding bus-only lanes in some areas. The authority projects another small ridership decline, of 2.5%, in fiscal 2018 before 1.6% growth in fiscal 2019 to 1.14 million passengers.

In terms of management and governance, the authority is required to submit a Short-Range Transit Plan (SRTP) to the Bay Area transportation planning organization, Metropolitan Transportation Commission (MTC). The SRTP is transit specific and addresses NVTA's operating and service plan for the next 10 years. The SRTP documents the authority's transit assets, capital and operating costs, ridership, and programs for the past three fiscal years and provides forecasts for the next 10 years. The plan is very comprehensive and has specific operational and financial goals. As Napa County's Congestion Management Agency and public transit services provider, NVTA commissions several strategic planning documents--most significantly a 25-year Countywide Transportation Plan, Napa County Community Based Transportation Plan, and a Vine Transit Express Bus Corridor Study. The authority monitors its risk through several policies, such as a cash reserve policy, various insurance policies, and budgetary reporting requirements that provide structure for day-to-day operations. As with many transit agencies, the authority employs performance benchmarks to evaluate operations and has generally exceeded internal standards. Senior management is experienced with an executive director who has more than 30 years of transportation industry experience. We view the authority's management and governance as satisfactory per application of our "Management And Governance Credit Factors For Corporate Entities And Insurers" criteria (published Nov. 13, 2012 on RatingsDirect). On conversion of our assessment to a six-point scale under the mass transit criteria, our view of management and governance is strong.

In summary, our analysis of the four factors that our enterprise risk profile on the authority comprises results in an enterprise risk profile score of extremely strong, the highest level possible.

The authority produces financial and operational reports quarterly, which we believe shows good, transparent reporting. The authority also is prudent in terms of financial policies, in our opinion, including maintaining a reserve policy of 25% of net position. Cash balances are monitored daily and reported quarterly. While NVTA lacks a formal debt management policy, this is mainly because it has not historically had debt other than a $5 million line of credit over the past two years. The authority does maintain a long-term financial forecast and a long-term capital plan, and updates both frequently. Given these factors, we view its financial policies as satisfactory.

The authority has a variety of funding sources for its operations, and accounts for its finances mainly within two funds: its government/planning fund and its transit fund. Money in the governmental fund is available, if needed, for the transit fund, and vice versa. In audited fiscal 2017 (ended Sept. 30), total operating and nonoperating revenue for the two funds was $15.7 million. This includes farebox revenue of $1.2 million, transportation development act funds (TDA) of $8.4 million consisting of the authority's share of a quarter-cent statewide sales tax, federal transit assistance of $3.0 million, federal highway allocation of $1.1 million, and miscellaneous revenue. Operating revenue is largely consistent from year to year but nonoperating subsidies have been somewhat volatile, depending on the timing of grants and other allocations.

TDA funds (the authority's largest revenue source) that are not spent within the fiscal year they are drawn must either be returned to the Napa County Local Transportation Fund (LTF; trust account for TDA) or designated as advances for a specific project. Funds returned to the LTF become available to NVTA again in the subsequent fiscal year. The LTF is not a fund under the control of NVTA; it is administered by the MTC through the Napa County auditor-controller. NVTA began fiscal 2017 with a balance of $8.1 million in the LTF. During fiscal 2017, additions to the LTF included NVTA's share of the quarter-cent statewide sales tax of $8.4 million, $2.7 million in unspent TDA funds from fiscal 2016 returned to the LTF, and interest of about $39,000. During the same year, disbursements of TDA funds for various transportation purposes, in accordance with allocation instructions from the MTC, totaled $13.6 million, leaving an ending balance of $5.7 million available for use in fiscal 2018. By law, LTF allocations are considered earned only when spent for operations by the transit system. Given this treatment of the authority's share of TDA revenue, we have made an adjustment in our calculation of revenue whereby TDA sales tax receipts attributed to a certain fiscal year are included in revenue for that specific fiscal year, and other activity related to allocations and returned, unused allocations is disregarded. The authority's current practice is to have excess revenue returned to the LTF each year; during fiscal years 2013 to 2017 an average of $1.9 million was returned each year, and the averaging ending balance in the LTF fund was $10.0 million--most recently $5.7 million in fiscal 2017, as indicated above. Ending balances in the LTF are fully available to the authority for any transportation-related purposes in future fiscal years.

For purposes of calculating DSC, given that our focus is on the ability of recurring revenue to cover recurring operating expenses and debt service, S&P Global Ratings is including only the recurring TDA sales tax receipts as revenue, while we include ending balances in our liquidity calculations below.

Examining net revenue results including the adjustments indicated above, we calculate DSC of 0.6x based on 2017 results. Included in our calculation of operating expenses in fiscal 2017 is a downward adjustment of operating expenses of $797,000 that was a one-time cost related to the Napa Valley Vine Trail project. Based on the authority's multiyear financial forecast as of May 2018, we calculate DSC at 0.4x in fiscal 2018 and 1.05x in fiscal 2019. In our view, DSC of less than 1x is weak, but we note that the authority's forecast is conservative, in our view, in terms of its assumptions. Thus, actual results could exceed forecasts, subject to the performance of other revenue and overall operating costs.

NVTA's unrestricted cash position was $2.7 million, or 72 days' cash, as of audited fiscal 2017, up from $2.4 million, or 67 days of operating expenses, in fiscal 2016. Cash balances have been relatively stable historically, and management projects about $1.7 million to $2.7 million in unrestricted cash in fiscal years 2018 and 2019. Management aims to have 25% of net position in cash reserves. In our view, NVTA has satisfactory access to external liquidity if needed and has entered into a $5 million revolving credit facility with the Bank of Marin, which is currently fully repaid. It also typically carries a positive unused balance in the LTF from year to year, as mentioned earlier. Including unrestricted cash, undrawn line of credit, and LTF ending balances in fiscal 2017, total liquidity was $12.4 million in fiscal 2017, equal to 331 days' cash. Excluding the LTF ending balance, total liquidity was $6.7 million, equal to 178 days' cash. Given these factors, we view the authority's liquidity positon as very strong.

NVTA's overall financial operations perform at a deficit prior to nonoperating subsidies, as is typical for U.S. transit systems. According to our calculations the system as a whole (combined funds) operated at a farebox recovery ratio of 9.1% in fiscal 2017, which we consider low. This means that the authority relies heavily on external funding to provide funding for operating costs, relative to rated peers. According to management, for the transit fund alone a farebox recovery ratio of 18.4% for the fixed-route system was achieved in fiscal 2017 (above the statutory 15.0% minimum required). NVTA's fare policy imposes a fare analysis every three years. NVTA last increased passenger fares in January 2015, by 10 cents to $1.60 per adult fare, and will likely increase rates in 2019, by 15 cents per adult fare to $1.75. NVTA had a moderately high debt service carrying charge of 15.7% as of fiscal 2017. NVTA has demonstrated an ability to adjust routes and frequency during the past several years to aid in its financial position. Given these factors, we view NVTA's financial flexibility as weak.

NVTA plans to borrow $15.2 million in 2019 to partly fund a Vine Transit Bus Maintenance Facility. No other borrowing is planned over the next five years and NVTA had around $991,000 in debt outstanding (draw on line of credit) as of fiscal 2017 (although debt outstanding is currently zero). The maintenance facility is NVTA's most significant ongoing project, with a total budget of $36 million. We believe that pension and OPEB risks are manageable for NVTA. Debt to revenue in fiscal 2017 was 0.06x, rising to 1.03x in fiscal 2018 and 0.94x in fiscal 2019. Debt to net revenue was 0.64x in fiscal 2017, rising to 36x in fiscal 2018 and 15x in fiscal 2019. We view NVTA's debt burden as low but likely to grow to more moderate levels once the borrowing occurs.

In summary, our analysis of the five factors that constitute the authority's financial risk profile results in a financial risk profile score of strong, the third-highest level possible.

Our view of the authority's extremely strong enterprise risk profile and strong financial risk profile results in an indicative SACP of 'aa-', per our mass transit enterprise ratings criteria. We are assigning an SACP of 'a-' rather than 'aa-' because of our view of the authority's weak DSC in fiscal 2017 and forecast weak DSC for 2018. Based on comparisons with similarly rated peers, we did not apply one notch of flexibility in arriving at the final SACP. Given our view that the authority is not a government-related entity (GRE; per our criteria), our ICR on the authority is also 'A-'.

Outlook

The stable outlook reflects our expectation that the authority will maintain very strong liquidity, set fares, and manage expenses to maintain adequate financial metrics as projected in 2019, despite softness in ridership in recent years.

Upside scenario

We could raise the rating over our two-year outlook period if the authority's DSC improves to adequate levels that we believe will be sustained, as a result of either ridership growth, improved expense management, or sustained, improved nonoperating revenue and subsidies.

Downside scenario

We could lower the rating over the next two years if the authority's key financial metrics such as liquidity suffers a material decline, or if ridership continues a trend of weakening.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A2 Issuer Rating to Napa Valley Transportation Authority (CA); Outlook Stable

30 Apr 2018

New York, April 30, 2018 -- Moody's Investors Service has assigned an Issuer Rating of A2 to the Napa Valley Transportation Authority (CA). The Issuer Rating represents the rating that we would assign to bonds secured by the revenues of the authority's transit enterprise, including farebox revenues and state and federal operating subsidies. The authority has no bonded debt outstanding, but expects to borrow $15 million through a loan from the California Infrastructure Bank to fund part of the costs of a new bus maintenance and storage facility. The outlook is stable.

RATINGS RATIONALE

The A2 rating reflects the strength of the local and regional economies, a strong history of support from the State of California (Aa3 stable) for local transit, the financial flexibility provided by the ability to draw upon additional state funding as needed, and insignificant pension and OPEB liabilities attributable to transit operations. These strengths are offset, in part, by the small size of the transit system, the risks of federal operating support for transit, above-average debt levels assuming execution of the planned loan, and weak liquidity in the transit fund when excluding an existing line of credit.

RATING OUTLOOK

The outlook on the rating is stable based on the expectation that the state will maintain its support for local transit, the local and regional economies will continue to perform positively, and the authority will implement regular fare increases to maintain farebox recovery near current levels.

FACTORS THAT COULD LEAD TO AN UPGRADE

Significant growth in system utilization associated with an increase in farebox recovery

FACTORS THAT COULD LEAD TO A DOWNGRADE

Decrease in federal or state support for local transit operations

Erosion of liquidity due to delays in the receipt of state or federal grants, or inability to renew the line of credit

LEGAL SECURITY

The issuer rating represents the rating that we would assign to bonds secured by the revenues of the authority's transit enterprise, including farebox revenues and state and federal operating subsidies.

PROFILE

The authority is the regional transportation planning agency for Napa County; its responsibilities include the programming of federal and state funding for highway, transit and other transportation purposes. The authority is also the sole provider of transit services for Napa County, primarily fixed-route bus service.

METHODOLOGY

The principal methodology used in this rating was Mass Transit Enterprises Methodology published in December 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Kenneth Kurtz
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
One Front Street
Suite 1900
San Francisco 94111
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Baye Larsen
Additional Contact
State Ratings
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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CREDIT OPINION
30 April 2018

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Contacts

Kenneth Kurtz +1.415.274.1737
Senior Vice President
kenneth.kurtz@moodys.com

Baye Larsen +1.212.553.0818
VP-Sr Credit Officer
baye.larsen@moodys.com

Napa Valley Transportation Authority

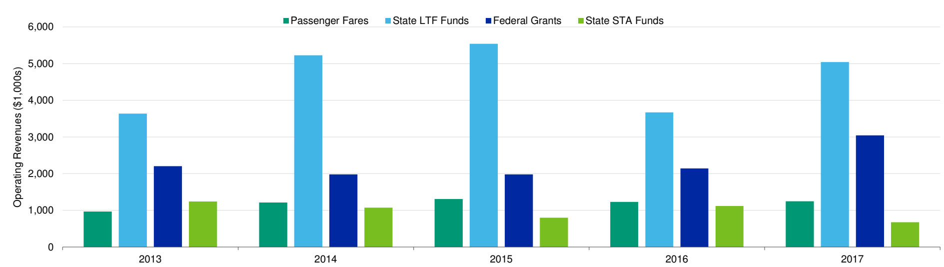
Update following assignment of Issuer Rating

Summary

The credit quality of the Napa Valley Transportation Authority's transit enterprise benefits from the strength of the local and regional economies, a strong history of support from the State of California (Aa3 stable) for local transit, the financial flexibility provided by the ability to draw upon additional state funding as needed, and insignificant pension and OPEB liabilities attributable to transit operations. These strengths are offset, in part, by the small size of the transit system, the risks of federal operating support for transit, above-average debt levels assuming execution of a planned loan, and weak liquidity in the transit fund when excluding an existing line of credit.

On April 26, Moody's Investors Service assigned an Issuer Rating of A2 to the authority. The Issuer Rating represents the rating that we would assign to bonds secured by the revenues of the authority's transit enterprise, including farebox revenues and state and federal operating subsidies. The authority has no bonded debt outstanding, but expects to borrow $15 million through a loan from the California Infrastructure Bank to fund part of the costs of a new bus maintenance and storage facility.

Exhibit 1
Transit operations are highly dependent on state and federal subsidies



Source: NVTA audited financial statements.

Credit strengths

» Strong local economy which appears to have recovered from the fires of 2017, and integration with the large and diverse Bay Area economy

» Demonstrated trend of state support for local transit

» Financial flexibility based on ability to draw upon additional state LTF funding as needed

» Insignificant pension and OPEB liabilities in the transit fund due to contracting out operations

Credit challenges

» Small, bus-only system characterized by low utilization and farebox recovery

» High level of dependence on state and federal operating subsidies

» Above-average debt levels assuming the execution of the planned $15 million loan for construction of a bus storage and maintenance facility

» Weak liquidity in the transit fund when excluding an existing line of credit

Rating outlook

The outlook on the rating is stable based on the expectation that the state will maintain its support for local transit, the local and regional economies will continue to perform positively, and the authority will implement regular fare increases to maintain farebox recovery near current levels.

Factors that could lead to an upgrade

» Significant growth in system utilization associated with an increase in farebox recovery

Factors that could lead to a downgrade

» Decrease in federal or state support for local transit operations

» Erosion of liquidity due to delays in the receipt of state or federal grants, or inability to renew the line of credit

Key indicators

Exhibit 2

Fiscal Year	2013	2014	2015	2016	2017
Annual Ridership (000)	724	932	937	1,216	1,148
Utilization (Trips/Population)	5	7	7	9	8
Farebox Recovery Ratio	9.5%	15.2%	13.5%	12.9%	11.7%
Fixed Costs as a % of Operating Expenditures	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/Revenues	0.00	0.00	0.00	0.12	0.09
3-Year Average Annual Debt Service Coverage by Net Revenues (GAAP) (x)	N/A	N/A	N/A	N/A	N/A
Days Cash on Hand (incl. Lines of Credit)	104	80	211	138	158

Source: Napa Valley Transportation Authority; Moody's calculations.

Profile

The authority is the regional transportation planning agency for Napa County; its responsibilities include the programming of federal and state funding for highway, transit and other transportation purposes. The authority also provides transit services, primarily fixed-route bus service.

Detailed credit considerations

Size and Market Position

The authority is the sole provider of transit services in Napa County (2017 population 142,408). The county's economy is famously concentrated in wine production and tourism, but the county is also well integrated into the large and diverse San Francisco Bay Area economy. Growth in employment has been positive, with county unemployment rates below state and US levels. Income levels are above average--county per capita personal income in 2016 was $65,805, 134% of the US average and 117% of the state average. The fires in late 2017 disrupted the tourism industry, but, by all indications, tourism has fully recovered and rebuilding of damaged property is having a positive economic impact.

The authority's transit operations include fixed-route bus services, on-demand door-to-door shuttle services, and paratransit. Its fixed route bus services include: local bus routes in the City of Napa (2017 population 80,628); limited local bus routes in the City of American Canyon; longer-distance bus routes connecting the City of Napa with the Cities of St Helena and Calistoga in the northern part of the county via highway 29; and commuter express routes to Fairfield and Suisun City in Solano County, the Vallejo Ferry Terminal, and the El Cerrito del Norte BART station. All transit services are provided through a private contractor.

Total ridership has generally shown positive growth, but part of this growth was attributable to a change from a farebox-based counting system to automatic passenger counters. Authority staff believe that there had been significant undercounting with the prior counting system. A 5.6% decrease in total ridership in fiscal 2017 was driven largely by the strong economy and low gas prices, echoing the experience of other transit systems across the country. For fiscal 2017, total ridership was 1,148,042, including 1,047,676 for bus, 76,672 for shuttles, and 23,603 for paratransit. Overall utilization (trips/population) at 8.1 is low compared to large urban systems, but typical for a low density, exurban system.

Financial Flexibility and Metrics

Farebox recovery at 12% in FY 2017, is low compared to large urban transit systems but comparable to small bus-only systems in less dense, exurban areas. As a result the authority's transit operations are highly dependent on operating subsidies. The primary operating subsidies are the State of California Local Transportation Fund (LTF) allocations (52.6% of gross revenues in fiscal 2017), federal operating grants (26.6%), and State of California State Transit Assistance (5.9%). Beginning July 1, 2018, the authority will be receiving proceeds of a ½-cent county-wide sales tax (Measure T), but this revenue is earmarked primarily for road rehabilitation and will not be available for transit purposes.

State LTF allocations derive from a ¼-cent sales tax collected in the county by the state and allocated to the authority to support transit planning and services. LTF funds not spent within the fiscal year or designated as advances for a specific project, must be returned to the Local Transportation Fund, a fund held by Napa County and administered by the Bay Area's Metropolitan Transportation Commission, but remain available to the authority for capital and operating purposes in the fiscal year following their return. Returns of LTF funds averaged $1.47 million in fiscal years 2015-17. Since the transit fund records as revenues only the LTF funds spent, financial operations are narrowly balanced as evidenced by small operating margins—5.7% in fiscal 2015, -9.7% in 2016, and -1.8% in 2017. But the ability of the authority to draw upon additional LTF funds as needed represents a significant source of financial flexibility.

LIQUIDITY

Liquidity in the transit fund is very narrow at year end due to the timing of the receipt of operating grants. Liquidity is supplemented by a $5 million line of credit which the authority draws upon for cash flow purposes as needed. At the end of fiscal 2017, the transit fund had an outstanding balance due on the line credit of $990,799. Cash on hand after the draw on the line of credit was 21 days. Cash on hand, including the remaining balance available on the line of credit, was 158 days. As of April 23, 2018, there was no outstanding balance due on the line of credit.

Debt and Legal Covenants

DEBT STRUCTURE

The authority has no bonded debt outstanding. Debt outstanding for the transit fund in recent fiscal years was limited to balances due on the authority's line of credit of $1 million in fiscal 2016 and $990,799 in fiscal 2017. The authority is planning to borrow $15 million through a loan from the California Infrastructure Bank to fund part of the costs of a new bus maintenance and storage facility. The loan is expected to have a term of 30 years and be secured by revenues of the transit fund, including state and federal operating subsidies.

DEBT-RELATED DERIVATIVES

The authority has no debt-related derivatives.

PENSIONS AND OPEB

All bus operations are contracted out to a private company. Direct authority personnel costs, and consequently pension and OPEB liabilities, attributable to the transit fund are not significant.

Management and Governance

The authority was established in 1991 as the county's congestion management agency under a joint powers agreement among the county; the cities of American Canyon, Calistoga, Napa and St Helena; and the Town of Yountville. The agreement was amended in 1998 to authorize the provision of public transit services. The authority is governed by a board of directors made up of elected officials from the member agencies and a non-voting representative of the Paratransit Coordinating Council. The authority's transit operations are accounted for in the transit fund (an enterprise fund). The authority's planning and administrative activities are accounted for in the separate planning fund (a governmental fund).

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