

**SAN FRANCISCO BAY AREA
RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
(A FIDUCIARY COMPONENT UNIT OF THE SAN FRANCISCO
BAY AREA RAPID TRANSIT DISTRICT)

FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST

FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
STATEMENT OF FIDUCIARY NET POSITION	6
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	7
NOTES TO THE FINANCIAL STATEMENTS	
DESCRIPTION OF THE PLAN	8
SIGNIFICANT ACCOUNTING POLICIES	10
CASH AND CASH EQUIVALENTS AND INVESTMENTS	10
OTHER POSTEMPLOYMENT BENEFITS	14
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS	17
SCHEDULE OF EMPLOYER CONTRIBUTIONS	18
SCHEDULE OF INVESTMENT RETURNS	20

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
San Francisco Bay Area Rapid Transit District
Retiree Health Benefit Trust
Oakland, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the San Francisco Bay Area Rapid Transit District Retiree Health Benefit Trust ("Trust"), a component unit of the San Francisco Bay Area Rapid Transit District ("District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Trust, as of June 30, 2022, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net OPEB liability and related ratios, the schedule of employer contributions, and the schedule of investment returns, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Francisco, California

<>, 2022

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2022

The following discussion and analysis of the financial performance of the Retiree Health Benefit Trust (the "Trust") of the San Francisco Bay Area Rapid Transit District (the "District") provides an overview of its financial activities for the year ended June 30, 2022. Please read it in conjunction with the Trust's financial statements, which begin on page 6. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests solely with management of the Trust. To the best of our knowledge and belief, the financial statements, as presented, are accurate in all material respects.

Financial Highlights

Net position held in trust for retiree health benefits totaled \$450,028,000 as of June 30, 2022.

Financial Statements

The financial report for the Trust includes management's discussion and analysis, statement of fiduciary net position, statement of changes in fiduciary net position, and notes to the financial statements. These financial statements are prepared on the accrual basis of accounting. The Trust is administered by one or more trustees appointed by the District's Board of Directors (the "Board"). Currently, the Board has appointed the District's Controller-Treasurer as the Trustee. The Trust's assets are held in trust by US Bank.

Condensed Statements of Changes in Fiduciary Net Position

The following table indicates the changes in fiduciary net position for the years ended June 30, 2022 and 2021 (dollar amounts in thousands):

	<u>2022</u>	<u>2021</u>	<u>Increase Decrease</u>
Employer contributions	\$ 44,021	\$ 45,978	\$ (1,957)
Net investment income (loss)	<u>(65,580)</u>	<u>93,374</u>	<u>(158,954)</u>
Total additions	(21,559)	139,352	(160,911)
Benefit payments	29,480	26,890	2,590
Other expenses	<u>254</u>	<u>269</u>	<u>(15)</u>
Total deductions	<u>29,734</u>	<u>27,159</u>	<u>2,575</u>
Change in fiduciary net position	<u>(51,293)</u>	<u>112,193</u>	<u>(163,486)</u>
Net position, beginning of year	<u>501,321</u>	<u>389,128</u>	<u>112,193</u>
Net position, end of year	<u><u>\$ 450,028</u></u>	<u><u>\$ 501,321</u></u>	<u><u>\$ (51,293)</u></u>

(Continued)

Employer Contributions

Per the Collective Bargaining Agreement (CBA), effective July 1, 2013, the District was required to contribute to the Trust at a minimum the Actuarially Determined Contribution (ADC). The ADC for fiscal year 2022 is based on an actuarial valuation as of June 30, 2020. In fiscal year 2022, employer contributions decreased by \$1,957,000 compared to fiscal year 2021. The District's contribution rate for fiscal year 2022 was 9.4% of projected employee payroll of active miscellaneous and safety employees covered by the plan or \$44,021,000 compared to 11.2% in 2021 or \$45,978,000. The implied subsidy, which is part of the contributions made, amounted to \$4,560,000 in fiscal year 2022 compared to \$4,655,000 in fiscal year 2021.

Net Investment Income

In fiscal year 2022, net investment income decreased by \$158,954,000 compared to fiscal year 2021. The Trust had a negative rate of return of 12.8% in fiscal year 2022 compared to a 23.6% gain in the previous fiscal year. The return in the financial market fell significantly in the fourth quarter of the current fiscal year as the Federal Reserve started raising the Fed Funds rate to control high inflation exacerbated by the economy's pandemic related disruptions and the general lack of stability in global political climate.

Benefit Payments

The CBA established that beginning July 1, 2013, the full ADC will be contributed to the Trust and that retiree medical benefits will be paid directly from the Trust. Medical insurance premiums paid by the Trust, including the implied subsidy, increased in fiscal year 2022 by \$2,590,000 mainly due to the increase in the number of retirees as a result of implementing in fiscal year 2021 the District's Retirement Incentive Program (DRIP) as part of management initiative to reduce labor costs to address the economic impact of the pandemic. The 287 employees who took the DRIP in March 2021 increased the number of retirees and survivors receiving benefits to 2,793 in fiscal year 2022 compared to 2,522 retirees and survivors in fiscal year 2021 prior to the implementation of the DRIP.

Condensed Statements of Fiduciary Net Position

A comparison of the Trust's statements of fiduciary net position as of June 30, 2022 and 2021 is as follows (dollar amounts in thousands):

	<u>2022</u>	<u>2021</u>	<u>Increase Decrease</u>
Assets	\$ 473,167	\$ 501,511	\$ (28,344)
Liabilities	<u>23,139</u>	<u>190</u>	<u>22,949</u>
Net position	<u>\$ 450,028</u>	<u>\$ 501,321</u>	<u>\$ (51,293)</u>

Fiduciary net position decreased in fiscal year 2022 by \$51,293,000 primarily due to the net investment loss of \$65,580,000 in fiscal year 2022 offset by the \$14,287,000 excess in employer contributions over benefit payments and other expenses.

The increase of \$22,949,000 in liabilities between fiscal years 2022 and 2021 is mostly due to the timing in settlement of investment transactions traded near fiscal year-end.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Controller-Treasurer, 2150 Webster Street, 10th Floor, P.O. Box 12688, Oakland, California 94612.

This page is intentionally left blank.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2022
(dollar amounts in thousands)

Cash and cash equivalents	\$ 36,671
Receivables and other assets	
Interest & dividend receivables	511
Pending trades receivables	11,592
Prepaid expenses	<u>19</u>
Total receivables and other assets	<u>12,122</u>
Investments:	
Domestic common stocks	45,666
Foreign stocks	3,107
U.S. Treasury obligations	27,776
Mortgage backed securities	12,623
Mutual funds - equity	213,269
Mutual funds - fixed income securities	77,070
Corporate obligations	42,263
Foreign obligations	<u>2,600</u>
Total investments	<u>424,374</u>
Total assets	<u>473,167</u>
LIABILITIES	
Accounts payable	172
Pending trades payable	<u>22,967</u>
Total liabilities	<u>23,139</u>
Net position restricted for retiree health benefits	<u><u>\$ 450,028</u></u>

See accompanying notes to the financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the year ended June 30, 2022
(dollar amounts in thousands)

Additions

Employer contributions	\$ 44,021
Investment income (expense):	
Interest income	5,768
Net realized and unrealized losses on investments	(70,855)
Investment expense	<u>(493)</u>
Net investment expense	<u>(65,580)</u>
Total additions	<u>(21,559)</u>

Deductions

Benefit payments	29,480
Legal fees	10
Audit fees	18
Insurance expense	24
Administrative fees	<u>202</u>
Total deductions	<u>29,734</u>
Decrease in fiduciary net position	<u>(51,293)</u>

Net position restricted for retiree health benefits

Beginning of year	<u>501,321</u>
End of year	<u><u>\$ 450,028</u></u>

See accompanying notes to the financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the San Francisco Bay Area Rapid Transit District Retiree Health Benefit Trust (the “Trust”), a fiduciary component unit of the San Francisco Bay Area Rapid Transit District (the “District” or “BART”), provides only general information. Participants should refer to the Agreement and Declaration of Trust of the San Francisco Bay Area Rapid Transit District Retiree Health Benefit Trust (the “Trust Agreement”), effective May 18, 2004, as amended effective July 1, 2005, for a more complete description of the Trust’s provisions.

General: On May 18, 2004, the District created the Trust to account for certain benefits of the District’s single-employer defined benefit other postemployment benefit plan (the “Plan”). The purpose of establishing the Trust is to facilitate the provision of medical benefits (“retiree medical benefits”) and other health and welfare benefits for qualifying retirees and beneficiaries of the District; to provide the means for financing the costs and expenses of operating and administering such benefits; to hold Trust assets for the sole and exclusive purpose of providing benefits to participants and beneficiaries; and to defray the reasonable expenses of administering the Trust and designated plans. Assets placed into the Trust cannot be used for any other purposes and are not available to satisfy general creditors of the District. Under California state law, the restrictions on the use of any proceeds from liquidation of the Trust are significant enough to render the Trust effectively irrevocable. The Trust Agreement states that the Trust shall be administered by one or more Trustees appointed by the District’s Board of Directors (the “Board”). As of June 30, 2022, the Board has appointed the District’s Controller-Treasurer as the Trustee.

The Trust is considered to be a part of the District’s financial reporting entity and is included in the District’s financial statements as a fiduciary fund. The financial statements of the Trust are intended to present only the plan net position and changes in plan net position of the Trust. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2022, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

As of June 30, 2022, the Trust includes the funding only for the “retiree medical benefits”, which include retiree and survivor health medical benefits. It does not fund the additional “other postemployment benefits” (“OPEB”), which include retiree life insurance premiums and survivors dental and vision benefits.

On May 18, 2020, the retiree survivor benefits program trust was created specifically to handle survivor dental and vision benefits and to reimburse survivors the difference between the required medical premium contribution from the beneficiary and required contribution from survivors who are enrolled in the survivor benefits program. The financial data of the retiree survivor benefits program trust is reported separately and is not included in the financial statements of the Retiree Health Benefit Trust.

Health Care Benefits: Per the collective bargaining agreement (CBA), the District is required to provide postemployment health care benefits to employees. Most employees hired before December 31, 2013 who retire directly from the District, or their survivors are eligible to receive the benefits if the employee retires at or after age 50 with a minimum of 5 years of service with the District (15 years full eligibility for those hired after December 31, 2013), elects to take an annuity from the State of California’s Public Employees’ Retirement System (“CalPERS”), and makes a timely election of retiree medical benefits.

(Continued)

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 1 – DESCRIPTION OF THE PLAN (CONTINUED)

Membership in the Plan, per the CalPERS billing roster summary as of June 30, 2022, consisted of the following:

Retirees and beneficiaries receiving benefits	2,793
Active plan members	<u>3,587</u>
 Total plan participants	 <u><u>6,380</u></u>

Employer and Retiree Contributions: Per CBA, the District is required to contribute to the OPEB trust based on the Actuarially Determined Contribution (ADC). The Trust received total cash contributions from the District of \$39,461,000 in fiscal year 2022. In addition, in fiscal year 2022, the District also contributed implied subsidy amounting to \$4,560,000.

Effective July 1, 2013, retiree and survivor medical insurance premiums were paid directly from the Trust. The Trust paid net retiree and survivor medical insurance premiums amounting to \$24,920,000 for 2,793 retirees and survivors in fiscal year 2022. For fiscal year 2022, implied subsidy amounting to \$4,560,000 was paid, bringing the total employer benefit payments to \$29,480,000.

Based on the health plan selected, retired plan members and survivors currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums. For calendar year 2022, the minimum amount is currently set at \$157.35 for non-represented retirees and for retirees represented by AFSCME, ATU or SEIU and is \$169.87 for Police retirees. CalPERS, the third-party administrator of the retiree medical benefit plan, collects the required member contributions directly from the retirees and survivors and bills the District only for the net medical premiums. For fiscal year ended June 30, 2022, plan members contributed \$5,200,000 or approximately 17% of total premiums paid (includes both employer and retiree share) for fiscal year 2022, which is not included in the financial statements of the Trust.

Trust Termination: The Trust Agreement provides that the District's Board of Directors has the right to discontinue or to terminate the Trust in whole or in part, subject to any duty to bargain in good faith with the District's unions over any such termination. The Trust Agreement further provides that, in the event of termination of the Trust, the assets then remaining shall be used for the purpose of providing for the expenses of the Trust and for the payment of benefits under any plan that is a health and welfare benefit program to be funded in whole or in part by the Trust and which comprises health benefits offered to District retirees, as designated at the discretion of the Board of Directors, until exhausted. The District's current collective bargaining agreements have the following language:

"The District may terminate the Trust subject to its duty to bargain in good faith to agreement or impasse over such termination with the union. If the District gives the Unions notice of the termination of the Trust, the Trust shall not terminate until the assets then remaining are exhausted. Such assets shall be used only as provided in paragraph 1 above."

Paragraph 1 of the District's current collective bargaining agreement includes the following language:

"Trust assets shall be held for the sole and exclusive purpose of providing health benefits to eligible BART retirees and to defray the reasonable expenses of administering the Trust."

(Continued)

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The accompanying financial statements are presented on the accrual basis of accounting. Contributions are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, employer contributions refer to the District's cash contributions based on the ADC as determined by actuarial valuation.

Cash Equivalents: The District considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

Investments: Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transactions between market participants at the measurement date. The Trust measures its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GAAP. Securities and mutual funds traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

Realized and Unrealized Gains (Losses) on Investments: Realized and unrealized gains (losses) on investments includes realized gains and losses on the sale of investments, as well as the net appreciation (decline) in fair value of investments. Unrealized gains and/or losses adjust investment carrying amounts to reflect current fair value.

Administrative Costs: The costs of administering the Trust are paid by the District, except costs that are directly related to the Trust's activities, such as investment manager fees, insurance premium, legal fees, and audit costs.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Investment Policy – The investment objective of the Trust is to achieve consistent long-term growth for the Trust and to maximize income consistent with the preservation of capital for the sole and exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Trust. The District's Board establishes the general investment policy and guidelines for the Trust. Allowable investments under the Trust investment guidelines include:

- Cash equivalents such as U.S. Treasury bills, money market mutual funds, short-term investment fund (STIF) trusts, commercial paper rated A1/P1, banker's acceptances, certificates of deposits, and repurchase agreements;
- Fixed income securities, which include U.S. agency and corporation bonds (including Yankees), preferred stock and Rule 144A issues, and mortgage or asset-backed securities; and

(Continued)

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

- Equity securities, including U.S. traded common, preferred stocks, and convertible stocks and bonds, including American Depository Receipts.

Interest Rate Risk: The Trust's investment policy mitigates exposure to changes in interest rates by requiring that the assets of the Trust be invested in accordance with the following asset allocation guidelines:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equity securities	45%	70%	60%
Fixed income securities	25%	45%	35%
Cash equivalents	3%	10%	5%

Fixed income securities have the following maturity restrictions: 1) maximum maturity for any single security is 40 years and 2) the weighted average portfolio maturity may not exceed 25 years.

A summary of investments by type of investments and by segmented time distribution as of June 30, 2022 is as follows (dollar amounts in thousands):

	<u>Total</u>	<u>Investment maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
U.S. Treasury obligations	\$ 27,776	\$ 8,072	\$ 9,847	\$ 3,369	\$ 6,488
Mortgage backed securities	12,623	9	35	1,165	11,414
Corporate obligations	42,263	95	9,287	21,339	11,542
Foreign obligations	<u>2,600</u>	<u>-</u>	<u>353</u>	<u>1,500</u>	<u>747</u>
Total investments subject to interest rate risk	85,262	<u>\$ 8,176</u>	<u>\$ 19,522</u>	<u>\$ 27,373</u>	<u>\$ 30,191</u>
Domestic common stocks	45,666				
Foreign stocks	3,107				
Mutual funds - equity	213,269				
Mutual funds - fixed income securities	77,070				
Money market mutual funds & cash in banks	<u>36,671</u>				
Total cash and cash equivalents and investments	<u>\$ 461,045</u>				

Credit Risk: The Trust's credit risk policy is defined in its Statement of Investment Policy approved by the District's Board of Directors. The policy states that the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Trust's objectives and that the Trust's investment managers are expected to make reasonable efforts to control risk. The investment policy requires that all of the Trust's assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Trust, with minimal impact on market prices. The investment policy also requires that no single investment shall exceed five percent of the total Trust assets, at fair value, except obligations of the U.S. Government, short-term money market mutual funds, index funds, and other diversified commingled accounts; and for actively managed equity accounts, where, for issues that comprise more than 4.0% of the account's stated benchmark, the limit shall be 125.0% of the weight of the common stock benchmark.

(Continued)

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The following is a summary of the credit quality distribution for securities with credit exposure as rated by Standard & Poor's Financial Services and/or Moody's Investor Services as of June 30, 2022 (dollar amounts in thousands):

	Total	AAA	AA	Credit ratings A	BBB	Not rated
U.S. Treasury obligations	\$ 27,776	\$ 27,776	\$ -	\$ -	\$ -	\$ -
Mortgage backed securities	12,623	12,623	-	-	-	-
Corporate obligations	42,263	7,890	771	12,242	21,360	-
Foreign obligations	2,600	-	236	901	1,463	-
Mutual funds - fixed income securities	<u>77,070</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,070</u>
 Total investments subject to credit risk	 162,332	 <u>\$ 48,289</u>	 <u>\$ 1,007</u>	 <u>\$ 13,143</u>	 <u>\$ 22,823</u>	 <u>\$ 77,070</u>
 Domestic common stocks	 45,666					
Foreign stocks	3,107					
Mutual funds - equity	213,269					
Money market mutual funds & cash in banks	<u>36,671</u>					
 Total cash and cash equivalents and investments	 <u>\$ 461,045</u>					

Fair Value Hierarchy: The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs.

The custodian bank relies on the pricing by nationally known vendors. In the event that a particular category is not priced by the primary pricing vendor, the custodian bank engages a secondary vendor or other sources.

The following is a summary of the fair value hierarchy of the fair value of investments of the Trust as of June 30, 2022 (dollar amounts in thousands):

(Continued)

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

	Fair Value Hierarchy		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Domestic common stocks	\$ 45,666	\$ 45,666	\$ -
Foreign stocks	3,107	3,107	-
U.S. Treasury obligations	27,776	26,079	1,697
Mortgage backed securities	12,623	-	12,623
Mutual funds - equity	213,269	213,269	-
Corporate obligations	42,263	-	42,263
Foreign obligations	<u>2,600</u>	<u>-</u>	<u>2,600</u>
 Total investments at fair value	 347,304	 <u>\$ 288,121</u>	 <u>\$ 59,183</u>
 Investment measured at Net Asset Value			
Mutual funds - fixed income securities	<u>77,070</u>		
Total investments	<u>424,374</u>		
 Money market mutual funds & cash in banks	 <u>36,671</u>		
 Total cash and cash equivalents and investments	 <u>\$ 461,045</u>		

Investments classified in Level 1 of the fair value hierarchy valued at \$288,121,000 in fiscal year 2022 are valued using quoted prices in active markets.

Investments amounting to \$59,183,000 in fiscal year 2022 are classified under Level 2 of the fair value hierarchy and are valued using Matrix pricing, which is used to value securities based on the securities' relationship to benchmark quoted prices.

The fixed income commingled fund totaling \$77,070,000 as of June 30, 2022 is valued using the net asset value (NAV) methodology. The NAV is derived from the value of these investments, accrued income, anticipated cash flow (maturities) and other fund expenses. This fixed income strategy investment is similar to the mutual fund, but at a lower cost for institutional investors. The investment has daily liquidity and any interest earned in the fund is redeemable immediately after the acquisition. There is no restriction on the redemption frequency and the notice period is not currently in place although Western Asset does reserve the right to implement a 15-day notice period per the Confidential Offering Memorandum. The Trust do not have an unfunded commitment related to this investment type.

Concentration of Credit Risk: The Trust's investment policy mitigates exposure to concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5.0% of the total portfolio with the following exceptions: obligations of the U.S. Government, diversified short term money market funds, index funds, other diversified comingled accounts and actively managed equity accounts. As of June 30, 2022, none of the investment exceeds 5% of total investment or 5% of the fiduciary net position except pooled investments.

(Continued)

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk – Deposits: For deposits, custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned. California Government Code Section 53652 requires California banks and savings and loan associations to secure governmental deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110.0% of the Trust's deposits. California law also allows financial institutions to secure governmental deposits by pledging first trust deed mortgage notes having a value of 150% of the Trust's total deposits. Such collateral is considered to be held in the Trust's name.

Custodial Credit Risk – Investments: For investments, custodial credit risk is the risk that in the event of a failure of the counterparty, the Trust may not be able to recover the value of its investments. The exposure to the Trust is limited as the Trust's investments are in the custody of a third-party custodian that is separate from the counterparty.

Rate of Return: For the year ended June 30, 2022, the annual money-weighted rate of return on investments, net of investment expense, is -12.8%. The money-weighted rate of return expresses investment performance (net of investment expense) adjusted for the changing amounts invested monthly.

NOTE 4 – OTHER POSTEMPLOYMENT BENEFITS

The components of the net OPEB liability as of June 30, 2022 are presented below (dollar amounts in thousands):

Total OPEB liability (TOL)	\$ 663,877
Fiduciary net position (FNP)	(450,028)
Net OPEB liability	<u>\$ 213,849</u>
Plan fiduciary net position as a percentage of the total OPEB liability	67.8%

The total OPEB liability as of June 30, 2022 was determined by actuarial valuations using the following actuarial assumptions:

Valuation Date	June 30, 2021, update procedures were used to roll forward the total OPEB liability to June 30, 2022
Actuarial cost method	Entry age normal cost
Actuarial assumptions:	
Discount rate	6.00% at June 30, 2022 and 2021 Plan assets projected to be sufficient to pay all benefits from the Trust
Long-term investment rate of return on investments	6.00% at June 30, 2022 2021
General inflation	2.5% per annum
Crossover test assumptions	Employer contributes full ADC
Mortality, disability, termination, retirement	CalPERS 1997-2015 Experience Study
Mortality improvement	Mortality project fully generational with Scale MP-2021

(Continued)

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 4 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Salary increases	Aggregate – 2.75% annually
Healthcare costs trend rate	Non-Medicare – 6.50% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare (Non-Kaiser) – 5.65% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare (Kaiser) – 4.60% for 2023, decreasing to an ultimate rate of 3.75% in 2076
Healthcare participation for future retirees	<ul style="list-style-type: none"> - Medical coverage: 90% of Safety and Miscellaneous future retirees elect coverage - Retirees not eligible for BART medical subsidy: 60% participate - Spouse coverage varies by bargaining unit, 56% to 81% - 10% of waived retirees under age 65 on valuation date assumed to elect coverage at 65
Changes of Assumptions	<ul style="list-style-type: none"> - Assumptions based on study of recent retirees - General inflation changed from 2.75% to 2.50% per annum - Salary increases changed from 3.00% to 2.75% annually - Mortality improvement scale was updated from Scale MP-2020 to MP-2021

Discount Rate: The discount rate used to measure the total OPEB liability is 6.0% as of fiscal year 2022 and fiscal year 2021. The projection of cash flows used to determine the discount rate assumed that the Trust contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position is projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments is applied to all periods of projected benefit payments to determine the total OPEB liability.

Long-Term Expected Rate of Return on Investments: The long-term expected rate of return on investments used is 6.0%, net of investment expenses for fiscal year 2022. The table below reflects the long-term expected real rate of return by asset class. The geometric return method was used to calculate the rate of return. The target allocation for the valuation date was as follows:

<u>Asset class</u>	<u>Strategic Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
U.S Equity	58.00%	6.00%
International Equity	0.80%	6.00%
Fixed Income	30.70%	6.00%
Non U.S. Fixed Income	0.60%	6.00%
Cash Equivalents	9.90%	6.00%
Total	<u>100.00%</u>	

(Continued)

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 4 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of the Net OPEB Liability to Changes in Assumptions: The following presents the net OPEB liability of the Plan as of the June 30, 2022 measurement date, calculated using the current discount rate and healthcare cost trend rate as well as what the net OPEB liability would be if it were calculated using a discount rate and healthcare cost trend rate that is 1% point lower or 1% point higher than the current rate (dollar amounts in thousands):

Discount rate

	<u>1.0% Decrease</u> <u>(5.0%)</u>	<u>Current Rate</u> <u>(6.0%)</u>	<u>1.0% Increase</u> <u>(7.0%)</u>
Net OPEB liability	\$ 298,336	\$ 213,849	\$ 143,688

Health care cost trend rate

	<u>1.0% Decrease</u>	<u>Current Rate</u>	<u>1.0% Increase</u>
Net OPEB liability	\$ 126,514	\$ 213,849	\$ 320,622

The District's OPEB Expense for Fiscal Year: For the fiscal year ended June 30, 2022, the District recognized OPEB expense of \$24,729,000.

This page is intentionally left blank.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
June 30, 2022

Schedule of Changes in Net OPEB Liability and Related Ratios (Last 10 years)

The following tables show the changes in net OPEB liability and related ratios for measurement period ending June 30 (dollar amounts in thousands):

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability						
Service cost	\$ 27,787	\$ 24,764	\$ 23,497	\$ 23,480	\$ 21,777	\$ 21,143
Interest	40,125	42,511	41,348	40,503	39,409	36,977
Changes of benefit terms	-	(2,994)	-	(1,224)	-	-
Difference between expected and actual experience	(12,079)	(29,719)	(17,434)	(29,522)	(35,022)	-
Change of assumptions	(18,173)	5,333	(4,784)	4,337	35,015	-
Benefit payments, including refunds*	<u>(29,480)</u>	<u>(26,890)</u>	<u>(25,130)</u>	<u>(24,060)</u>	<u>(23,095)</u>	<u>(22,396)</u>
Net change in total OPEB liability	8,180	13,005	17,497	13,514	38,084	35,724
Total OPEB liability - beginning	<u>655,697</u>	<u>642,692</u>	<u>625,195</u>	<u>611,681</u>	<u>573,597</u>	<u>537,873</u>
Total OPEB liability- ending	<u>\$ 663,877</u>	<u>\$ 655,697</u>	<u>\$ 642,692</u>	<u>\$ 625,195</u>	<u>\$ 611,681</u>	<u>\$ 573,597</u>
Fiduciary net position						
Contributions from employer	\$ 44,021	\$ 45,978	\$ 41,832	\$ 39,511	\$ 35,569	\$ 28,912
Net investment income	(65,580)	93,374	32,235	19,355	23,448	26,497
Benefit payments, including refunds*	(29,480)	(26,890)	(25,130)	(24,060)	(23,095)	(22,396)
Administrative expense	<u>(254)</u>	<u>(269)</u>	<u>(279)</u>	<u>(186)</u>	<u>(223)</u>	<u>(266)</u>
Net change in total fiduciary net position	(51,293)	112,193	48,658	34,620	35,699	32,747
Total fiduciary net position - beginning	<u>501,321</u>	<u>389,128</u>	<u>340,470</u>	<u>305,850</u>	<u>270,151</u>	<u>237,404</u>
Total fiduciary net position - ending	<u>\$ 450,028</u>	<u>\$ 501,321</u>	<u>\$ 389,128</u>	<u>\$ 340,470</u>	<u>\$ 305,850</u>	<u>\$ 270,151</u>
Net OPEB liability	<u>\$ 213,849</u>	<u>\$ 154,376</u>	<u>\$ 253,564</u>	<u>\$ 284,725</u>	<u>\$ 305,831</u>	<u>\$ 303,446</u>
Plan fiduciary net position as a percentage of the total OPEB liability	67.79%	76.46%	60.55%	54.46%	50.00%	47.10%
Covered employee payroll	\$ 505,787	\$ 504,541	\$ 508,509	\$ 463,124	\$ 418,573	\$ 372,887
Net OPEB liability as a percentage of covered employee payroll	42.28%	30.60%	49.86%	61.48%	73.07%	81.38%

This schedule is intended to show information for the past ten years. Additional years will be displayed as they become available.

* Includes implied subsidy benefit payments of \$4,560,000, \$4,655,000, \$4,413,000, \$4,306,000, \$4,196,000 and \$3,900,000 in fiscal year 2022, 2021, 2020, 2019, 2018 and 2017, respectively.

Changes of benefit terms

- 2019-The additional \$44 monthly BPO & BPMA retiree contributions cease in 2035 (ceased in 2018 for previous measurement date)
- 2021-\$37/month retiree contributions extended to 2024

Changes of assumptions

- 2018-Discount rate was changed from 6.75% at 6/30/2017 to 6.50% at 6/30/2018
-General inflation was changed from 3.00% in 2017 to 2.75% in 2018
- 2019-Demographic assumptions were updated to CalPERS 1997-2015 Experience Study
- 2020-Mortality improvement scale was updated to Scale MP-2019
-Medical trend was changed from 7.50% for 2020 to 7.25% for 2021 for Non-Medicare, and from 6.50% for 2020 to 6.30% for 2021 for Medicare
- 2021-Discount rate was changed from 6.50% at 6/30/2020 to 6.00% at 6/30/2021
-Mortality improvement scale was updated to Scale MP-2020
-Claim cost was updated using age based claims curve
-Medical trend rate for Kaiser Senior Advantage Plans was decreased

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
June 30, 2022

- 2022-General inflation changed from 2.75% to 2.50% per annum
 - Salary increases changed from 3.00% to 2.75% annually
- Mortality improvement scale was updated from Scale MP2020 to Scale MP- 2021
- Retiree participation at retirement
- Spouse coverage at retirement

Schedule of Employer Contributions (Last 10 years *)

The following tables show the employer contributions for the fiscal years ending June 30 (dollar amounts in thousands):

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution (ADC)	\$ 44,021	\$ 45,978	\$ 41,832	\$ 39,511	\$ 35,369	\$ 28,912
Contribution in relation to the actuarially determined contribution	<u>(44,021)</u>	<u>(45,978)</u>	<u>(41,832)</u>	<u>(39,511)</u>	<u>(35,369)</u>	<u>(28,912)</u>
Contribution deficiency / (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll*	\$ 505,787	\$ 504,541	\$ 508,509	\$ 463,124	\$ 418,573	\$ 372,887
Contribution as a percentage of covered employee payroll	8.70%	9.11%	8.23%	8.53%	8.45%	7.75%

This schedule is intended to show information for the past ten years. Additional years will be displayed as they become available.

* Based on actual payroll

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
June 30, 2022

Notes to Schedule of Employer Contributions

Methods and assumptions for actuarially determined contribution for the 2021/2022 fiscal year follows:

Valuation date	June 30, 2020
Actuary	Bartel Associates, LLC
Actuarial cost method	Entry age, level percentage of payroll
Amortization method	Level percent of payroll
Amortization period	13-year fixed period for 2020 valuation changes
Asset valuation method	Fair value of assets
Discount rate	6.50%
General inflation	2.75%
Medical trend	Increase from prior year

Year	Non	Medicare	Kaiser	Others
	Medicare			
2020		Actual premiums		
2021		Actual premiums		
2022	7.00%		5.00%	6.10%
2023	6.75%		4.85%	5.90%
2024	6.50%		4.70%	5.70%
2025	6.25%		4.60%	5.50%
2026	6.00%		4.50%	5.30%
2027	5.80%		4.45%	5.15%
2028	5.60%		4.40%	5.00%
2029	5.40%		4.35%	4.85%
2030	5.20%		4.30%	4.70%
2031-2075	5.05%-4.30%		4.25%-4.05%	4.60%-4.20%
2076+	4.00%		4.00%	4.00%

Mortality	CalPERS 1997-2015 Experience Study
Mortality improvement	Post-retirement mortality projected fully generational Scale MP-2020

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
June 30, 2022

Schedule of Investment Returns

Year *	Annual money-weighted rate of return, net of investment expense
2022	-12.8%
2021	23.6%
2020	9.3%
2019	6.2%
2018	8.6%
2017	11.1%

* Historical information is required only for measurement periods for which GASB Statement No. 74 is applicable.

Notes to Required Supplementary Information

According to GASB Statement No. 74, a single-employer defined benefit OPEB plan is required to disclose the OPEB liability based on benefit payments due to the plan members according to the benefit terms including accrued investment and administrative expenses. Net OPEB liability/asset is not recognized by the Trust but is instead presented in the financial statements of the District.

DRAFT

This page is intentionally left blank.