

**SAN FRANCISCO BAY AREA
RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
(A Trust Fund of the San Francisco
Bay Area Rapid Transit District)

Independent Auditor's Report

For the Years Ended June 30, 2020 and 2019



Certified
Public
Accountants

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
For the Years Ended June 30, 2020 and 2019

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the San Francisco Bay Area Rapid Transit District Retiree Health Benefit Trust (Trust), a trust fund of the San Francisco Bay Area Rapid Transit District (District), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of June 30, 2020 and 2019, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 be presented to supplement the basic financial statements. Such information, 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.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, slightly slanted style.

Walnut Creek, California
November 24, 2020

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

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 years ended June 30, 2020 and 2019. Please read it in conjunction with the Trust's financial statements, which begin on page 7. 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 \$389,128,000 and \$340,470,000 as of June 30, 2020 and 2019, respectively.

Financial Statements

The financial report for the Trust includes management's discussion and analysis, statements of trust net position, statements of change in trust 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.

Statements of Changes in Trust Net Position

The following table indicates the changes in trust net position for the years ended June 30, 2020, 2019 and 2018 (dollar amounts in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Employer contributions	\$ 41,832	\$ 39,511	\$ 35,569
Net investment income	32,235	19,386	23,479
Total additions	<u>74,067</u>	<u>58,897</u>	<u>59,048</u>
Benefit payments	25,130	24,060	23,095
Other expenses	279	218	253
Total deductions	<u>25,409</u>	<u>24,278</u>	<u>23,348</u>
Change in net position	48,658	34,619	35,700
Net position, beginning of year	<u>340,470</u>	<u>305,851</u>	<u>270,151</u>
Net position, end of year	<u><u>\$ 389,128</u></u>	<u><u>\$ 340,470</u></u>	<u><u>\$ 305,851</u></u>

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

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 2020 is based on an actuarial valuation as of June 30, 2018. In fiscal year 2020, employer contributions increased by \$2,321,000 compared to fiscal year 2019. The District's contribution rate for fiscal year 2020 was 10.9% of covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) or \$37,419,000 compared to 11.4% in 2019 or \$35,205,000. The higher calculated implied subsidy amounting to \$4,413,000 in fiscal year 2020 compared to \$4,306,000 in fiscal year 2019 also contributed to the increase in employer contributions in fiscal year 2020.
- In fiscal year 2019, employer contributions increased by \$3,942,000 compared to fiscal year 2018. The District's contribution rate for fiscal year 2019 was 11.4% of covered payroll (annual payroll of active miscellaneous and safety employees covered by the plan) or \$35,205,000 compared to 11.2% in 2018 or \$31,373,000. The calculated implied subsidy amounting to \$4,306,000 in fiscal year 2019 also increased compared to \$4,196,000 in fiscal year 2018.

Net Investment Income

- In fiscal year 2020, net investment income increased by \$12,849,000 compared to fiscal year 2019. The Trust earned a return of 9.3% in fiscal year 2020, higher, compared to the return in fiscal year 2019 of 6.2% as the overall investment had favorable gains despite the global pandemic issues and general lack of stability in global political climate that affected the overall financial market.
- In fiscal year 2019, net investment income decreased by \$4,093,000 compared to fiscal year 2018. The Trust earned a return of 6.2% in fiscal year 2019, lower, compared to the return in fiscal year 2018 of 8.6% as tariff impositions and the lack of stability in global political climate affected the overall financial market.

Benefit Payments

- The CBA established that beginning July 1, 2013, the full ARC 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 increased in fiscal year 2020 by \$963,000 mainly due to the increase of 83 retirees and survivors receiving benefits, from 2,408 retirees and survivors in fiscal year 2019 to 2,491 retirees and survivors in fiscal year 2020. The increase in implied Subsidy by \$107,000 from \$4,306,000 in fiscal year 2019 to \$4,413,000 in fiscal year 2020 also contributed to the increase in total benefit payment.
- Medical insurance premiums paid by the Trust increased in fiscal year 2019 by \$855,000 due to the increase of 119 retirees and survivors receiving benefits, from 2,289 retirees and survivors in fiscal year 2018 to 2,408 retirees and survivors in fiscal year 2019. The increase in Implied Subsidy by \$110,000 from \$4,196,000 in fiscal year 2018 to \$4,306,000 in fiscal year 2019 also contributed to the increase in total benefit payment.

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

Statements of Trust Net Position

A comparison of the Trust's statements of trust net position as of June 30, 2020, 2019, and 2018 is as follows (dollar amounts in thousands):

	2020	2019	2018
Assets	\$ 426,335	\$ 360,888	\$ 325,197
Liabilities	37,207	20,418	19,346
Net position	\$ 389,128	\$ 340,470	\$ 305,851

- Trust net position increased in fiscal year 2020 by \$48,658,000 due to growth in assets primarily from a) employer contributions exceeding benefit payments by \$16,702,000 and b) net investment income of \$32,235,000 earned in fiscal year 2020.
- Trust net position increased in fiscal year 2019 by \$34,619,000 due to growth in assets primarily from a) employer contributions exceeding benefit payments by \$15,451,000 and b) net investment income of \$19,386,000 earned in fiscal year 2019.
- The increase of \$16,789,000 in liabilities between fiscal years 2020 and 2019 and the increase by \$1,072,000 between fiscal years 2019 and 2018 are 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, 300 Lakeside Drive, P.O. Box 12688, Oakland, California 94604.

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**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**

Statements of Trust Net Position

June 30, 2020 and 2019

(dollar amounts in thousands)

	2020	2019
Assets		
Cash and cash equivalents	\$ 177	\$ 68
Receivables and other assets	19,493	7,184
Investments:		
Domestic common stocks	39,679	187,362
Domestic preferred stocks	5	-
U.S. Treasury obligations	37,597	54,719
Money market mutual funds	40,305	26,610
Mutual funds - equity	161,202	21
Mutual funds - debt securities	78,202	59,861
Corporate obligations	42,539	15,017
Foreign stocks and obligations	7,136	10,046
Total investments	406,665	353,636
Total assets	426,335	360,888
Liabilities		
Accounts payable	172	173
Pending trades payable	37,035	20,245
Total liabilities	37,207	20,418
Net position restricted for retiree health benefits	\$ 389,128	\$ 340,470

See accompanying notes to the financial statements.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
Statements of Change in Trust Net Position
For the Years Ended June 30, 2020 and 2019
(dollar amounts in thousands)

	2020	2019
Additions		
Employer contributions	\$ 41,832	\$ 39,511
Investment income (expense):		
Interest income	5,362	6,371
Net appreciation in fair value of investments	27,425	13,485
Investment expense	(552)	(470)
Net investment income	32,235	19,386
Total additions	74,067	58,897
Deductions		
Benefit payments	25,130	24,060
Legal fees	7	8
Audit fees	16	16
Insurance expense	29	27
Administrative fees	227	167
Total deductions	25,409	24,278
Increase in trust net position	48,658	34,619
Net position restricted for retiree health benefits		
Beginning of year	340,470	305,851
End of year	\$ 389,128	\$ 340,470

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, 2020 and 2019

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 trust fund of the San Francisco Bay Area Rapid Transit District (the “District”), 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.

(a) 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, 2020 and 2019, 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 trust 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, 2020 and 2019, the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As of June 30, 2020 and 2019, the Trust includes the funding only for the “retiree medical benefits”, which include retiree health medical benefits and the survivors benefits. It does not fund the additional “other postemployment benefits” (“OPEB”), which include retiree life insurance premiums and survivors dental and vision benefits, medical liability from survivors of active employees, and the difference between the required medical contribution from the beneficiary and required contribution from survivors enrolled in the special survivor’s program.

(b) Health Care Benefits

The District provides 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.

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Notes to the Financial Statements (Continued)
June 30, 2020 and 2019

Note 1 – Description of the Plan (Continued)

Membership in the Plan, per the CalPERS billing roster summary as of June 30, 2020 and 2019, consisted of the following:

	2020	2019
Retirees and beneficiaries receiving benefits	2,491	2,408
Active plan members	3,884	3,643
Total plan participants	6,375	6,051

(c) Employer and Retiree Contributions

The District contributes to the OPEB trust based on the Actuarially Determined Contribution (ADC). The Trust received total cash contributions from the District of \$37,419,000 in fiscal year 2020 and \$35,205,000 in fiscal year 2019. In addition, in fiscal years 2020 and 2019, the District also contributed implied subsidy amounting to \$4,413,000 and \$4,306,000, respectively.

Effective July 1, 2013, retiree medical insurance premiums were paid directly from the Trust. The Trust paid net retiree medical insurance premiums amounting to \$20,717,000 for 2,491 retirees and survivors in fiscal year 2020 and \$19,754,000 for 2,408 retirees and survivors in fiscal year 2019. For fiscal year 2020 and 2019, implied subsidy amounting to \$4,413,000 and \$4,306,000, respectively, were paid bringing the total benefit payments to \$25,130,000 in fiscal year 2020 and \$24,060,000 in fiscal year 2019.

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 2020, the minimum amount is currently set at \$147.14 for non-represented retirees and \$150.44 for retirees represented by AFSCME, ATU or SEIU (\$160.12 for Police retirees) and \$15.00 for survivors who are enrolled in the special survivor’s program. 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. The District currently reimburses the survivors who are enrolled in the special survivors program the difference between the required contribution deducted by CalPERS and the \$15.00 required contribution from the survivors. For fiscal years ended June 30, 2020 and 2019, plan members contributed \$4,393,000 and \$4,126,000 respectively, or approximately 18% and 17.0% of total premiums paid (includes both employer and employee share) for both fiscal years 2020 and 2019, respectively, which are not included in the financial statements of the Trust.

(d) 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:

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Notes to the Financial Statements (Continued)
June 30, 2020 and 2019

Note 1 – Description of the Plan (Continued)

“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.”

Note 2 – Significant Accounting Policies

(a) 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 actuarially determined contribution (ADC) as determined by actuarial valuation.

(b) 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 generally accepted accounting principles. 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.

(c) Net Appreciation (Depreciation) in Fair Value of Investments

Net appreciation (depreciation) in fair value of investments is comprised of unrealized and realized gains and losses. Unrealized gains and/or losses adjust investment carrying amounts to reflect current market values, based on quoted prices in an active market.

(d) 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.

(e) 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.

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**

Notes to the Financial Statements (Continued)

June 30, 2020 and 2019

Note 2 – Significant Accounting Policies (Continued)

(f) New Accounting Pronouncements

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. This Statement is effective for the Trust’s fiscal year ending June 30, 2020. This Statement did not have a significant impact to the District’s financial statements.

Note 3 – 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
- 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:

Asset Class	Minimum	Maximum	Preferred
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.

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**

Notes to the Financial Statements (Continued)

June 30, 2020 and 2019

Note 3 – Investments (Continued)

A summary of investments by type of investments and by segmented time distribution as of June 30, 2020 and 2019 is as follows (dollar amounts in thousands):

	2020	Investment maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasury obligations	\$ 37,597	\$ 10,923	\$ 365	\$ 2,799	\$ 23,510
Money market mutual funds*	40,305	40,305	-	-	-
Foreign Obligations	4,726	-	203	3,925	598
Corporate obligations	42,539	11	5,342	19,462	17,724
Investments subject to interest rate risk	125,167	\$ 51,239	\$ 5,910	\$ 26,186	\$ 41,832
Domestic common stocks	39,679				
Domestic preferred stocks	5				
Foreign stocks	2,410				
Mutual funds - debt securities	78,202				
Mutual funds - equity	161,202				
Total investments	\$406,665				

	2019	Investment maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasury obligations	\$ 54,719	\$ 19,772	\$ 3,321	\$ 10,270	\$ 21,356
Money market mutual funds*	26,610	26,610	-	-	-
Corporate obligations	15,017	548	6,144	2,595	5,730
Investments subject to interest rate risk	96,346	\$ 46,930	\$ 9,465	\$ 12,865	\$ 27,086
Domestic common stocks	187,362				
Foreign stocks	10,046				
Mutual funds - debt securities	59,861				
Mutual funds - equity	21				
Total investments	\$353,636				

* Weighted-average maturity

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**

Notes to the Financial Statements (Continued)

June 30, 2020 and 2019

Note 3 – Investments (Continued)

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 market 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.

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 (dollar amounts in thousands):

	2020	Credit ratings						
		AAA	AA	A	BBB	BB	B	Not rated
U.S. Treasury obligations	\$ 37,597	\$ 37,597	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Money market mutual funds	40,305	40,305	-	-	-	-	-	-
Corporate obligations	42,539	4,492	951	13,801	22,902	307	86	-
Foreign Obligations	4,726	-	2,033	920	1,773	-	-	-
Mutual funds - debt securities	78,202	-	-	-	-	-	-	78,202
Investments subject to credit risk	203,369	<u>\$ 82,394</u>	<u>\$ 2,984</u>	<u>\$ 14,721</u>	<u>\$ 24,675</u>	<u>\$ 307</u>	<u>\$ 86</u>	<u>\$ 78,202</u>
Domestic common stocks	39,679							
Domestic preferred stocks	5							
Foreign stocks	2,410							
Mutual funds - equity	161,202							
Total investments	<u>\$ 406,665</u>							

	2019	Credit ratings						
		AAA	AA	A	BBB	BB	B	Not rated
U.S. Treasury obligations	\$ 54,719	\$ 54,719	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Money market mutual funds	26,610	26,610	-	-	-	-	-	-
Mutual funds - debt securities	59,861	-	-	-	-	-	-	59,861
Corporate obligations	15,017	4,059	992	6,832	2,405	-	-	729
Investments subject to credit risk	156,207	<u>\$ 85,388</u>	<u>\$ 992</u>	<u>\$ 6,832</u>	<u>\$ 2,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,590</u>
Domestic common stocks	187,362							
Foreign stocks	10,046							
Mutual funds - equity	21							
Total investments	<u>\$ 353,636</u>							

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Notes to the Financial Statements (Continued)
June 30, 2020 and 2019

Note 3 – Investments (Continued)

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.

All of the Trust’s investments fall under the marketable/actively traded assets category. 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, 2020 and 2019 (dollar amounts in thousands):

Investments at fair value level	Fair value hierarchy							
	2020	(Level 1)	(Level 2)	(Level 3)	2019	(Level 1)	(Level 2)	(Level 3)
Domestic common stocks	\$ 39,679	\$ 39,679	\$ -	\$ -	\$ 187,362	\$ 187,362	\$ -	\$ -
Domestic preferred stocks	5	5	-	-	-	-	-	-
Foreign stocks	2,410	2,410	-	-	10,046	10,046	-	-
Money market mutual funds	40,305	40,305	-	-	26,610	26,610	-	-
Mutual funds - equity	161,202	172	161,030	-	21	21	-	-
Mutual funds - debt securities	78,202	-	-	78,202	59,861	-	-	59,861
Foreign Obligations	4,726	-	4,726	-	-	-	-	-
U.S. Treasury obligations	37,597	12,502	25,095	-	54,719	32,351	22,368	-
Corporate obligations	42,539	-	42,539	-	15,017	-	15,017	-
Total investments at fair value	<u>406,665</u>	<u>\$ 95,073</u>	<u>\$ 233,390</u>	<u>\$ 78,202</u>	<u>353,636</u>	<u>\$ 256,390</u>	<u>\$ 37,385</u>	<u>\$ 59,861</u>

Investments classified in Level 1 of the fair value hierarchy valued at \$95,073,000 and \$256,390,000 in fiscal years 2020 and 2019, respectively, are valued using quoted prices in active markets.

Investments amounting to \$233,390,000 in fiscal year 2020 and \$37,385,000 in fiscal year 2019 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.

Investments amounting to \$78,202,000 in fiscal year 2020 and \$59,861,000 in fiscal year 2019 are classified under Level 3 of the fair value hierarchy using value obtained from issuer or determined by US Bank Specialty Assets unit.

SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
Notes to the Financial Statements (Continued)
June 30, 2020 and 2019

Note 3 – Investments (Continued)

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. As of June 30, 2020 and 2019, there were no investments in one issuer that exceeded 5.0% of the Trust's total investments.

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 market 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, 2020, the annual money-weighted rate of return on investments, net of investment expense, is 9.3% (6.2% in fiscal year 2019). The money-weighted rate of return expresses investment performance (net of investment expense) adjusted for the changing amounts invested monthly.

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Notes to the Financial Statements (Continued)
June 30, 2020 and 2019

Note 4 – Other Postemployment Benefits

The components of the net OPEB liability as of June 30, 2020 and 2019 (in thousands of dollars) are presented below:

	<u>2020</u>	<u>2019</u>
Total OPEB liability (TOL)	\$ 642,692	\$ 625,195
Fiduciary net position (FNP)	<u>(389,128)</u>	<u>(340,470)</u>
Net OPEB liability	<u>\$ 253,564</u>	<u>\$ 284,725</u>
Plan fiduciary net position as a percentage of the total OPEB liability	60.5%	54.5%

The total OPEB liability as of June 30, 2020 was determined by actuarial valuations using the following actuarial assumptions:

Valuation Date	June 30, 2019
Actuarial cost method	Entry age normal cost
Actuarial assumptions:	
Discount rate	6.50%
	Plan assets projected to be sufficient to pay all benefits from the Trust
Long-term investment rate of return on investments	6.50% at June 30, 2019
General inflation	2.75% per annum
Crossover test assumptions	Employer contributes full ADC
Mortality, disability, termination, retirement	CalPERS 1997-2015 Experience Study
Mortality improvement	Mortality projected fully generational with Scale MP-2019
Salary increases	Aggregate - 3.0% annually Merit - CalPERS 1997-2015 experience study
Health care costs trend rate	Non-Medicare - 7.5% for 2021, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% for 2076
Healthcare participation for future retirees	- Medical coverage: 98% of safety and 88% of miscellaneous future retirees elect coverage - Retirees not eligible for BART medical subsidy: 60% participate - Spouse coverage: varies by bargaining unit, 56% to 90% - 10% of waived retirees under age 65 on valuation date assumed to elect coverage at 65 - Assumptions based on study of recent retirees

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Notes to the Financial Statements (Continued)
June 30, 2020 and 2019

Note 4 – Other Postemployment Benefits (Continued)

The total OPEB liability as of June 30, 2019 was determined by actuarial valuations using the following actuarial assumptions:

Discount rate	6.50% Plan assets projected to be sufficient to pay all benefits from the Trust
Long-term investment rate of return on investments	6.50% at June 30, 2018
General inflation	2.75% per annum
Crossover test assumptions	Employer contributes full ADC
Mortality, disability, termination, retirement	CalPERS 1997-2015 experience study
Mortality improvement	Post-retirement mortality projected fully generational with Scale MP-2017
Salary increases	Aggregate - 3.0% annually Merit - CalPERS 1997-2015 experience study
Health care costs trend rate	Non-Medicare - 7.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076 and later years Medicare - 6.3% for 2020, decreasing to an ultimate rate of 4.0% for 2076 and later years
Healthcare participation for future retirees	- Medical coverage: 98.0% of safety and 88.0% of miscellaneous future retirees elect coverage - Retirees not eligible for BART medical subsidy: 60.0% participate - Spouse coverage: varies by bargaining unit, 56% to 90% - 10.0% of waived retirees under age 65 on valuation date assumed to elect coverage at 65 - Assumptions based on study of recent retirees

Discount rate

The discount rate used to measure the total OPEB liability is 6.5% as of fiscal year 2020 and fiscal year 2019. 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.

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**

Notes to the Financial Statements (Continued)

June 30, 2020 and 2019

Note 4 – Other Postemployment Benefits (Continued)

Long- Term Expected Rate of Return on Investments

The long-term expected rate of return on investments used is 6.5%, net of investment expenses for fiscal year 2020 and fiscal year 2019. 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 June 30, 2020 and 2019 measurement dates was as follows:

June 30, 2020

Asset class	Strategic Allocation	10 Year Return
U.S Equity	54.4%	4.8%
International Equity	3.1%	4.8%
Fixed income	33.5%	1.3%
Non U.S. Fixed Income	0.0%	1.3%
Cash equivalents	9.0%	6.0%
Total	<u>100.0%</u>	

June 30, 2019

Asset class	Strategic Allocation	10 Year Return
U.S. equity	56.7%	4.8%
International equity	3.1%	4.8%
Fixed income	32.1%	1.3%
Non U.S. fixed income	0.3%	1.3%
Cash equivalents	7.8%	0.1%
Total	<u>100.0%</u>	

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Notes to the Financial Statements (Continued)
June 30, 2020 and 2019

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 Retiree Medical Benefits Plan as of the June 30, 2020 measurement date, calculated using the discount rate of 6.5%, and healthcare trend rate of 7.5% for non-Medicare and 6.5% for Medicare, decreasing to an ultimate rate of 4.0%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1.0% point lower or 1.0% point higher than the current rate (dollar amounts in thousands):

Discount rate

	1.0% decrease (5.5%)	Current rate (6.5%)	1.0% increase (7.5%)
Net OPEB liability	<u>\$ 340,346</u>	<u>\$ 253,564</u>	<u>\$ 182,188</u>

Health care cost trend rate

	1.0% decrease	Current rate	1.0% increase
Net OPEB liability	<u>\$ 165,113</u>	<u>\$ 253,564</u>	<u>\$ 362,598</u>

The following presents the net OPEB liability of the Plan as of the June 30, 2019 measurement date, calculated using the discount rate of 6.5%, and healthcare trend rate of 7.5% for non-Medicare and 6.5% for Medicare, decreasing to an ultimate rate of 4.0%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1.0% point lower or 1.0% point higher than the current rate (dollar amounts in thousands):

Discount rate

	1.0% decrease (5.5%)	Current rate (6.5%)	1.0% increase (7.5%)
Net OPEB liability	<u>\$ 369,392</u>	<u>\$ 284,725</u>	<u>\$ 215,079</u>

Health care cost trend rate

	1.0% decrease	Current rate	1.0% increase
Net OPEB liability	<u>\$ 198,219</u>	<u>\$ 284,725</u>	<u>\$ 391,194</u>

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Notes to the Financial Statements (Continued)
June 30, 2020 and 2019

Note 4 – Other Postemployment Benefits (Continued)

The District’s OPEB Expense for Fiscal Year

For the fiscal years ended June 30, 2020 and 2019, the District recognized OPEB expense of \$30,050,000 and 35,491,000, respectively.

Net OPEB Liability/(Asset)

The following table shows the changes in the net OPEB liability for the year ended June 30, 2020 (dollar amounts in thousands):

Retiree medical benefits

	Increase (decrease)		
	Total OPEB liability	Fiduciary net position	Net OPEB liability (asset)
Balance at June 30, 2019*	\$ 625,195	\$ 340,470	\$ 284,725
Change for the year			
Service cost	23,497	-	23,497
Interest	41,348	-	41,348
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(17,434)	-	(17,434)
Change of assumptions	(4,784)	-	(4,784)
Contributions from the employer	-	41,832	(41,832)
Net investment income	-	32,235	(32,235)
Benefit payments, including refunds ***	(25,130)	(25,130)	-
Administrative expense	-	(279)	279
Net change	17,497	48,658	(31,161)
Balance at June 30, 2020**	\$ 642,692	\$ 389,128	\$ 253,564

* Previous measurement date June 30, 2019

** Measurement date June 30, 2020

*** Includes \$4,413,000 implied subsidy benefit payments for fiscal year 2020

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Notes to the Financial Statements (Continued)
June 30, 2020 and 2019

Note 4 – Other Postemployment Benefits (Continued)

The following table shows the changes in the net OPEB liability for the year ended June 30, 2019 (dollar amounts in thousands):

	Increase (decrease)		
	Total OPEB liability	Fiduciary net position	Net OPEB liability (asset)
Balance at June 30, 2018*	\$ 611,681	\$ 305,850	\$ 305,831
Change for the year			
Service cost	23,480	-	23,480
Interest	40,503	-	40,503
Changes of Benefit terms	(1,224)		(1,224)
Difference between expected and actual experience	(29,522)	-	(29,522)
Change of assumptions	4,337	-	4,337
Contributions from the employer	-	39,511	(39,511)
Net investment income	-	19,355	(19,355)
Benefit payments, including refunds ***	(24,060)	(24,060)	-
Administrative expense	-	(186)	186
Net change	13,514	34,620	(21,106)
Balance at June 30, 2019**	\$ 625,195	\$ 340,470	\$ 284,725

* Previous measurement date June 30, 2018

** Measurement date June 30, 2019

*** Includes \$4,306,000 implied subsidy benefit payments for fiscal year 2019

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SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST
Required Supplementary Information
June 30, 2020 and 2019

Schedule of Changes in Net OPEB Liability and Related Ratios (dollar amounts in thousands): (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):

Retiree medical benefits

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability				
Service cost	\$ 23,497	\$ 23,480	\$ 21,777	\$ 21,143
Interest	41,348	40,503	39,409	36,977
Changes of benefit terms	-	(1,224)	-	-
Difference between expected and actual experience	(17,434)	(29,522)	(35,022)	-
Change of assumptions	(4,784)	4,337	35,015	-
Benefit payments, including refunds*	(25,130)	(24,060)	(23,095)	(22,396)
Net change in total OPEB liability	<u>17,497</u>	<u>13,514</u>	<u>38,084</u>	<u>35,724</u>
Total OPEB liability - beginning	<u>625,195</u>	<u>611,681</u>	<u>573,597</u>	<u>537,873</u>
Total OPEB liability - ending	<u>\$ 642,692</u>	<u>\$ 625,195</u>	<u>\$ 611,681</u>	<u>\$ 573,597</u>
Fiduciary net position				
Contributions from employer	\$ 41,832	\$ 39,511	\$ 35,569	\$ 28,912
Net investment income	32,235	19,355	23,448	26,497
Benefit payments, including refunds*	(25,130)	(24,060)	(23,095)	(22,396)
Administrative expense	(279)	(186)	(223)	(266)
Net change in total fiduciary net position	<u>48,658</u>	<u>34,620</u>	<u>35,699</u>	<u>32,747</u>
Total fiduciary net position - beginning	<u>340,470</u>	<u>305,850</u>	<u>270,151</u>	<u>237,404</u>
Total fiduciary net position - ending	<u>\$ 389,128</u>	<u>\$ 340,470</u>	<u>\$ 305,850</u>	<u>\$ 270,151</u>
Net OPEB liability	<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	60.55%	54.46%	50.00%	47.10%
Covered employee payroll	\$ 508,509	\$ 463,124	\$ 418,473	\$ 372,887
Net OPEB liability as a percentage of covered-employee payroll	49.86%	61.48%	73.08%	81.38%

* Includes implied subsidy benefit payments of: \$4,413,000, \$4,306,000, \$4,196,000 and \$3,900,000 in fiscal years 2020, 2019, 2018 and 2017, respectively.

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

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Required Supplementary Information
June 30, 2020 and 2019

Schedule of Employer Contributions (dollar amounts in thousands): (Last 10 years *)

	Fiscal year 2019/2020	Fiscal year 2018/2019	Fiscal year 2017/2018	Fiscal year 2016/2017
Actuarially determined contribution (ADC)	\$ 41,832	\$ 39,511	\$ 35,369	\$ 28,912
Contribution in relation to the actuarially determined contribution	<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>
Covered payroll **	\$ 508,509	\$ 463,124	\$ 418,573	\$ 372,887
Contribution as a percentage of covered payroll	8.23%	8.53%	8.45%	7.75%

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

** Based on actual payroll.

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Required Supplementary Information
June 30, 2020 and 2019

Notes to Schedule of Employer Contributions

Methods and assumptions for actuarially determined contribution for the 2019/2020 fiscal year follows:

Valuation date	June 30, 2018		
Actuary	Bartel Associates, LLC		
Actuarial cost method	Entry age, level percentage of payroll		
Amortization method	Level percent of payroll		
Amortization period	15-year fixed period for 2018 valuation changes		
Asset valuation method	Market value of asset		
Discount rate	6.50%		
General inflation	2.75%		
Medical trend	Increase from prior year		
	Year	Non-Medicare	Medicare
	2018	Actual premiums	
	2019	Actual premiums	
	2020	7.50%	6.50%
	2021	7.25%	6.30%
	2022-2029	7.00%	6.10%
	2030	5.20%	4.70%
	2031-2075	5.05%-4.3%	4.60%-4.20%
	2076+	4.00%	4.00%
Mortality	CalPERS 1997-2015 Experience Study		
Mortality improvement	Post-retirement mortality projected fully generational		

**SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
RETIREE HEALTH BENEFIT TRUST**
Required Supplementary Information
June 30, 2020 and 2019

Notes to Schedule of Employer Contributions

Methods and assumptions for actuarially determined contribution for the 2018/2019 fiscal year follows:

Valuation date	June 30, 2017		
Actuary	Bartel Associates, LLC		
Actuarial cost method	Entry age, level percentage of payroll		
Amortization method	Level percent of payroll		
Amortization period	16-year fixed period for fiscal year 2019		
Asset valuation method	Market value of asset		
Discount rate	6.50%		
General inflation	2.75%		
Medical trend	Increase from prior year		
	Year	Non-Medicare	Medicare
	2017	Actual premiums	
	2018	Actual premiums	
	2019	7.50%	6.50%
	2020	7.50%	6.50%
	2021-2029	7.25%	6.50%
	2030-2075	4.00%-5.20%	4.20%-4.70%
	2076+	4.00%	4.00%
Mortality	CalPERS 1997-2011 Experience Study		
Mortality improvement	Post-retirement mortality projected fully generational with Scale MP-2017		

Schedule of Investment Returns

Year *	Annual money-weighted rate net of investment expense
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.

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