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Mr. Andre Douzdjian
Director of Finance
San Diego County Regional Transportation Commission
401 B Street, Suite 800
San Diego, CA 92101

Dear Mr. Douzdjian:

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It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between Fitch and you or between us and any user of the ratings.

In this letter, "Fitch" means Fitch Ratings, Inc. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Jeff Schaub
Managing Director
U.S. Public Finance

JS/em

Enc: Notice of Rating Action
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Notice of Rating Action

Bond Description	Rating Type	Rating Action	Rating	Outlook/ Watch	Eff Date	Notes
San Diego County Regional Transportation Commission (CA) sub sales tax rev ST notes ser 2018A	Long Term Rating	New Rating	AA	RO:Sta	21-Mar-2018	
San Diego County Regional Transportation Commission (CA) sub sales tax rev ST notes ser 2018A	Unenhanced Long Term Rating	New Rating	AA	RO:Sta	21-Mar-2018	
San Diego County Regional Transportation Commission (CA) sub sales tax rev ST notes ser 2018A	Short Term Rating	New Rating	F1+		21-Mar-2018	
San Diego County Regional Transportation Commission (CA) sub sales tax rev ST notes ser 2018A	Unenhanced Short Term Rating	New Rating	F1+		21-Mar-2018	

Key: RO: Rating Outlook, RW: Rating Watch, Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

FITCH RATES $537MM SAN DIEGO COUNTY RTC, CA'S SUB SALES TAX REVS 'AA'/'F1+'; STABLE OUTLOOK

Fitch Ratings-San Francisco-21 March 2018: Fitch Ratings has assigned a 'AA' Long-term rating and an 'F1+' Short-term rating to the following San Diego County Regional Transportation Commission (the commission), CA bonds:

--$537.5 million subordinate sales-tax revenue short-term notes 2018 series A.

In addition, Fitch has affirmed the ratings on the following commission bonds:

--$537.5 million TIFIA loan junior subordinate sales tax revenue bond 2017 TIFIA series at 'A';
--$663.2 million senior sales tax revenue bonds, 2014 series A and 2016 series A, at 'AAA'.

The Rating Outlook is Stable.

The notes are scheduled to sell via negotiation on or about April 4, 2018. Proceeds will be used to fund the Mid-Coast Corridor Transit Project, a 10.9-mile extension of the existing light rail system from San Diego north to the University City community, including nine new stations. The commission has previously signed a TIFIA loan agreement with the U.S. Department of Transportation, to provide long-term funding for the project.

SECURITY

The senior sales tax revenue bonds are payable from a first lien on the half-cent retail transactions and use tax (sales tax) authorized by the voter-approved TransNet extension ordinance and levied throughout San Diego county (the county), net of the California Department of Tax and Fee Administration' administrative fee. The subordinate notes are secured by a second lien on the half-cent sales tax, and the junior subordinate TIFIA bonds are secured by a third lien. The TransNet sales tax expires on March 31, 2048 (after maturity of all notes and bonds).

The commission has pledged to repay the current subordinate note offering from any available source of financing. The commission expects to take the notes out with the proceeds of a junior subordinate TIFIA loan.

ANALYTICAL CONCLUSION

The ratings reflect the fundamentally strong local economy, solid growth prospects for sales tax revenues and Fitch's expectation for each structure's resilience given expectations for revenue volatility and additional leverage.

Economic Resource Base
Growth prospects for San Diego County are solid due to consistent population growth, above average income levels, and relatively low unemployment rates. The regional economy is reasonably diverse with higher education, health, and innovative technology and biotechnology sectors in addition to its historical reliance on the defense industry.

KEY RATING DRIVERS

Solid Growth Prospects: Fitch views growth prospects for pledged revenues as solid, due to San Diego County's consistent population growth, above average income levels, and relatively low unemployment rates. The regional economy's diversification away from its historical reliance on the defense industry to include higher education, health, and innovative technology and biotechnology sectors also support expectations for future sales tax revenue growth.

Solid Resilience at Expected Leverage: Resilience to economic downturns is very strong at the senior and subordinate lien levels, at expected leverage levels, and solid at the junior subordinate lien levels. The commission has reduced borrowing in its long range plan of finance since Fitch's last review in June 2017.

2018 Note Rating: The 'F1+' Short-term rating reflects Fitch's assessment of the market access implied by the strong long-term credit quality of the commission's borrowing program. The commission has secured a loan agreement from the U.S. Department of Transportation to refund the notes as junior subordinate lien debt.

No IDR: The commission does not have material exposure to operating risk. As such, Fitch has not assigned an Issuer Default Rating (IDR).

RATING SENSITIVITIES

Pledged Revenue Performance and Leverage: The ratings are sensitive to the ongoing performance of pledged revenues and leveraging. While not anticipated, a sustained and material reduction in Fitch's expectations for revenue levels relative to debt service requirements could pressure the rating. The junior subordinate lien TIFIA loan rating could rise if the commission's borrowing plans remain below prior expectations.

CREDIT PROFILE

The commission allocates funding for public transit systems and oversees the construction and improvement of roads, highways, and other transit projects. The commission does not own or operate a public transit system. Due to the limited nature of the system's operations, Fitch does not assign an Issuer Default Rating to the commission.

Growth Prospects for Revenues

The bonds and notes are supported by a sales tax collected on all taxable sales in San Diego County, which has a population estimated at about 3.3 million. The payer base is diverse, and growth prospects are solid. The 10-year compound annual growth rate (CAGR) of revenues through 2017 is currently below inflation at 1.4% but this reflects comparison back to an unsustainable prior cyclical peak. Sales tax collections were heavily influenced by the housing boom in the earlier period, resulting in a transitory jump in revenues that reduces the 10-year CAGR's usefulness in establishing long-term growth prospects. Fitch expects the CAGR to recover to above inflation over the next couple of years. Viewed over a longer period where the impact of the housing boom and bust is less pronounced, revenues have grown at a 3% CAGR since 2000. Future growth should remain above inflation and may approach GDP due to consistent population growth and the ongoing diversification of the local economy.

Revenue Stream Sensitivity

Pledged revenue coverage is currently very strong (2.7x at the senior lien level in 2017) and expected to remain strong throughout a typical, moderate U.S. recession. To evaluate the sensitivity of the dedicated tax revenue stream to cyclical decline, Fitch considers both a revenue sensitivity scenario (using a 1% decline in national GDP scenario) and the largest consecutive decline in revenues over the period covered by the revenue sensitivity analysis. Based on the commission's sales tax revenue history, Fitch's analytical sensitivity tool (FAST) generates a 4.2% decline in pledged revenues during the first year of a moderate recession. The largest cumulative revenue decline historically was 17.6% during the collapse of the housing sector from 2008 to 2010.

Assuming issuance up to the 2x ABT, the senior structure could tolerate a 50% drop in revenues. Based on the commission's capital and debt plans which incorporate the referendum's limitation on capital spending (and by extension debt) to about 42.4% of revenues over the life of the program, Fitch does not expect the commission to leverage to the ABT on any of the liens. The commission currently plans to issue about $300 million over the next five years (beyond the current note offering and related take-out financing). Current borrowing plans are significantly lower than previously expected. At expected leverage, MADS coverage for the senior lien would remain at 2.4x or higher. At this leverage level, the senior lien bonds could withstand a 58% drop in revenues before reaching 1x coverage. That is 13.8x the revenue loss expected in a moderate recession and 3.3x the worst consecutive decline. Based on these results, Fitch assesses financial resilience of the senior lien at the 'aaa' level.

Assuming issuance up to the 1.5x ABT, the subordinate structure could tolerate a 33% drop in revenues. Fitch does not expect the commission to leverage to the ABT. At expected leverage levels, MADS coverage would remain 2x or higher, and the subordinate lien bonds could withstand a 50% drop in revenues. That is 11.9x the revenue loss expected in a moderate recession and 2.8x the worst consecutive decline. Fitch assesses financial resilience of the subordinate lien at the 'aa' level. This analysis assumes that the notes currently being issued only remain in the subordinate lien temporarily before being taken out with the approved TIFIA loan in 2021. The subordinate coverage calculations include three years of interest on the notes but exclude the bullet principal payment at note maturity, which is expected to be taken out with the TIFIA loan rather than 2021 sales tax revenues.

Assuming issuance up to the 1.15x ABT, the junior subordinate structure could only tolerate a 13% drop in revenues. Fitch does not expect the commission to leverage to the ABT. At expected leverage levels, MADS coverage would remain at 1.6x or higher, and the junior subordinate lien bonds could withstand a 38% drop in revenues. That is 9x the revenue loss expected in a moderate recession and 2.2x the worst consecutive decline. Fitch assesses financial resilience of the junior subordinate lien at the 'a' level. The assessment incorporates the fact that MADS is far in the future and Fitch's belief that the nature of the revenue stream makes it likely to grow over time.

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

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Additional information is available on www.fitchratings.com

Applicable Criteria
U.S. Public Finance Short-Term Debt Rating Criteria (pub. 01 Nov 2017)
https://www.fitchratings.com/site/re/905637
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)
https://www.fitchratings.com/site/re/898466