FitchRatings

FITCH RATES SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION, CA'S $325MM SALES TAX REVS 'AAA'

Fitch Ratings-San Francisco-15 July 2016: Fitch Ratings has assigned a 'AAA' rating to the following San Diego County Regional Transportation Commission (the commission), CA sales tax revenue bonds:

--Approximately $325 million sales tax revenue bonds (limited tax bonds), 2016 series A.

In addition, Fitch has affirmed its 'AAA' rating on the following bonds:

--Approximately $345.5 million sales tax revenue bonds, 2014 series A.

Bond proceeds will be used to finance various transportation improvements and pay the costs of the bonds. The bonds will be sold via negotiation the week of Aug. 1. The final maturity date on the 2016 series A bonds is April 1, 2048.

The Rating Outlook is Stable.

SECURITY
The sales tax revenue bonds are payable from 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 state's Board of Equalization administrative fee. The TransNet sales tax expires on March 31, 2048.

KEY RATING DRIVERS

The 'AAA' sales tax revenue bond rating reflects the fundamentally strong local economy, resilient sales tax revenues with sound growth prospects, satisfactory limitations on additional leverage, and high maximum annual debt service coverage.

Sound Growth Prospects: Fitch views growth prospects for San Diego County as sound due to 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.

Resilient Revenue Stream: Sales tax revenues are resilient to both cyclical declines and the return of historic volatility. Unaudited fiscal 2016 revenues cover projected maximum annual debt service (MADS) by 2.62 times (x).

Satisfactory Leverage Limitations: An additional bonds test (ABT) of 2.0x MADS based on historic revenues provides satisfactory limitations on future leveraging.

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

RATING SENSITIVITIES

The rating is sensitive to shifts in fundamental credit characteristics including a material and sustained reversal in generally positive sales tax trends and consistently strong debt service coverage. The Stable Outlook reflects Fitch's expectation that such shifts are highly unlikely.

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.

SALES TAX REVENUE GROWTH PROSPECTS

The sales tax revenue bonds are payable from 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 state's Board of Equalization administrative fee. Fitch views growth prospects for San Diego County as sound due to consistent population growth, above average income levels, and relatively low unemployment rates.

The state Board of Equalization (BOE) administers collection of the sales tax and remits revenue, net of the BOE administration fee, directly to the bond trustee. The BOE distributes the sales tax revenues on a monthly basis according to a predetermined formula with quarterly true-ups. Residual sales tax revenues following debt service payments are released to the commission for other purposes, including distributions to local transit agencies, investments in capital projects, and administrative costs.

SECURITY STRUCTURE RESILIENT THROUGH DOWNTURNS

Legal provisions provide satisfactory protections for bondholders. They include an additional bonds test (ABT) of 2 times (x) maximum annual debt service (MADS) for bonds outstanding plus bonds to be issued. The commission expects to issue up to $600 million in additional bonds through 2021, although the plans are considered preliminary at this time.

Fitch evaluates the revenue stream's sensitivity to economic downturns by considering both the estimated reduction in sales tax revenues under a 1% contraction in national GDP and the largest consecutive decline in actual sales tax revenues over the past 15 years. Given the commission's preliminary plans to issue a potentially significant amount of additional debt, Fitch focused on the sales tax revenue stream's performance relative to the 2.0x ABT. Sales tax proves resilient with an estimated cushion of 8.3x the Fitch estimated 6% revenue loss in a moderate economic contraction scenario and 3.1x the greatest consecutive historical decline, which amounted to approximately 16% from 2007-2010. These cushions exceed Fitch's thresholds for a 'aaa' resilience assessment.

Debt service coverage (DSC) at the current leverage level is quite resilient under both scenarios. MADS coverage, including the estimated debt service on the 2016 bonds, has an ample cushion, able to withstand 10.3x the Fitch estimated 6% revenue loss in a moderate economic contraction scenario. Likewise, the greatest consecutive historical decline would need to recur approximately 3.9x to reduce coverage to 1.0x MADS.

Fiscal 2016 revenues (unaudited), net of the BOE fee, cover estimated MADS of $105 million by 2.62x. Estimated MADS assumes interest on the 2008 variable rate bonds at the fixed rate specified in the respective swap agreements. Fitch views the credit risk of the commission's relatively large amount of variable rate debt, amounting to approximately 23% of total outstanding par (including the 2016 issue), as manageable. Fitch believes the commission has adequately mitigated the risk to bondholders of an unexpected termination of the outstanding swap agreements (negative mark-to-market value of $124.1 million as of June 28, 2016) by the diversity and credit quality of the swap providers, the subordination of any potential termination payments, the commission's market access and commission's substantial liquidity position with approximately $586 million (unaudited) in fund balance at the end of fiscal 2016.

Issuing Entity Exposure
The commission does not own or operate a public transit system. Given the entity's relatively narrow role administrative and overseeing the implementation of transportation programs funded through the TransNet sales tax, Fitch does not believe the assignment of an IDR is relevant to its analysis.

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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.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478