Fitch Rates San Diego County RTC, CA's Senior Sales Tax Revs 'AAA'; Stable Outlook

Fitch Ratings - San Francisco - 27 November 2019:

Fitch Ratings has assigned a 'AAA' rating to the following San Diego County Regional Transportation Commission (the commission), CA bonds:

--Approximately $372.5 million senior sales tax revenue bonds, 2019 series A (taxable);
--Approximately $74.8 million senior sales tax revenue bonds, 2019 series B (tax-exempt).

In addition, Fitch has affirmed the following:

--$644 million senior sales tax revenue bonds, 2014 series A and 2016 series A at 'AAA'.
--$537.5 million subordinate sales tax revenue short-term notes 2018 series A at 'AA'/'F1+';
--$537.5 million Transportation Infrastructure Finance and Innovation Act (TIFIA) loan junior subordinate sales tax revenue bonds 2017 TIFIA series at 'A'.

The Rating Outlook is Stable.

The series 2019 series A bond will refund outstanding debt for economic savings, and the series B bonds will fund the commission's ongoing capital improvement program. The series A bonds are expected to sell on or about the week of Dec. 2, 2019. The series B bonds will sell at a later date after final approval by the commission's board of directors.

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 California Department of Tax and Fee Administration (CDTFA) collection charges. The TransNet sales tax expires on March 31, 2048 (coinciding with final maturity of all notes and bonds).

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 commission has pledged to repay the subordinate notes from any available source of financing and expects to take the notes out with the proceeds of a to-be-issued junior subordinate TIFIA loan.
The junior subordinate TIFIA loan is secured by a third lien on the pledged sales tax revenues.

**ANALYTICAL CONCLUSION**

The dedicated tax bond ratings reflect the strength of the pledged sales tax revenue cash flows, solid growth prospects for revenues and the resilience to economic downturns given leveraging expectations at each lien level.

**KEY RATING DRIVERS**

Growth Prospects for Revenues: Fitch expects revenue growth to exceed inflation due to San Diego County's consistent population growth and long-term trends in employment, personal income and taxable sales.

Resilience and Sensitivity: Resilience to economic downturns is very strong at the senior and subordinate lien levels and solid at the junior subordinate lien level. Fitch does not expect the commission to leverage to the maximum amount allowed under the additional bonds tests on any of the liens.

No Issuer Default Rating: 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 performance of the pledged revenues and to leverage levels. While not anticipated, a sustained and material reduction in revenue growth prospects or a significant expansion of borrowing plans could put downward pressure on the ratings. The junior subordinate lien TIFIA loan rating could rise if the commission's borrowing plans remain below prior expectations.

**DEDICATED TAX CREDIT PROFILE**

The commission allocates funding for public transit systems and oversees the construction and improvement of roads, highways and other transit projects in San Diego County. 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 IDR to the commission.

The bonds and notes are supported by a sales tax collected on all taxable sales in a large county with a growing economy and diverse mix of sales taxpayers.
Growth prospects are solid. The 10-year compound annual growth rate (CAGR) of revenues was just above inflation at 1.9% in fiscal 2018 and just above the long-term nominal GDP growth rate at 3.5% in fiscal 2019, based on estimated actuals for the fiscal year ended June 30. The fiscal 2019 metric is somewhat inflated by a catch up in prior year tax disbursements and may exaggerate growth somewhat. Fitch expects future growth to exceed inflation due to consistent population growth and the ongoing diversification of the local economy.

Pledged revenue coverage is currently very strong at 2.9x maximum annual debt service (MADS) at the senior lien level in fiscal 2019 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 Fitch Analytical Stress Test model 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 additional bonds test (ABT), the senior structure could tolerate a 50% drop in revenues. Based on the commission's capital and debt plans, which incorporate the referendum spending allocations that devote more than half of revenues to non-capital purposes, Fitch does not expect the commission to leverage to the ABT on any of the liens. The commission plans to issue about $100 million to $150 million of senior lien bonds over the next three to five years (in addition to the $74.8 million of new money in the current transaction), a level of borrowing that is significantly lower than previously expected. At expected leverage, MADS coverage for the senior lien would remain at 2.5x or higher. At this leverage level, the senior lien bonds could withstand a 60% drop in revenues before reaching 1x coverage. That is 14.3x the revenue loss expected in a moderate recession and 3.4x the worst consecutive decline. Based on these results, Fitch assesses financial resilience of the senior lien at the 'aaa' level.

**Asymmetric Risk Considerations**

No asymmetric risk considerations were identified for the senior lien sales tax revenue bonds.

The subordinate structure could tolerate a 33% drop in revenues, assuming issuance up to the 1.5x ABT. Fitch does not expect the commission to leverage to the ABT. At expected leverage levels, MADS coverage would remain 2.1x or higher, and the subordinate lien bonds could withstand a 52% drop in revenues. That is 12.4x the revenue loss expected in a moderate recession and 3x the worst consecutive decline. Fitch assesses financial resilience of the subordinate lien at the 'aa' level. This analysis assumes that the 2018 notes remain in the subordinate lien only 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.

**Asymmetric Risk Considerations**
No asymmetric risk considerations were identified for the subordinate lien sales tax revenue notes.

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 1.7x or higher, and the junior subordinate lien bonds could withstand a 41% drop in revenues. That is 9.8x the revenue loss expected in a moderate recession and 2.3x 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 revenue stream is likely to grow over time.

Asymmetric Risk Considerations

No asymmetric risk considerations were identified for the junior subordinate lien sales tax revenue notes (the TIFIA loan).

<table>
<thead>
<tr>
<th>ENTITY/DEBT</th>
<th>RATING</th>
<th>PRIOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Diego County Regional Transportation Commission (CA) [General Government]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Diego County Regional Transportation Commission (CA) /Sales Tax Revenues - Junior Subordinate Lien/2 LT</td>
<td>LT A •</td>
<td></td>
</tr>
<tr>
<td>San Diego County Regional Transportation Commission (CA) /Sales Tax Revenues - Subordinate Lien/2 LT</td>
<td>LT AA •</td>
<td></td>
</tr>
<tr>
<td>San Diego County Regional Transportation Commission (CA) /Sales Tax Revenues/1 LT</td>
<td>LT AAA •</td>
<td>AAA •</td>
</tr>
<tr>
<td>San Diego County Regional Transportation Commission (CA) /Sales Tax Revenues - Subordinate Lien/2 ST</td>
<td>ST F1+ •</td>
<td>F1+</td>
</tr>
</tbody>
</table>

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Andrew Ward
Director
Applicable Criteria

U.S. Public Finance Short-Term Debt Rating Criteria (pub. 01 Nov 2017)
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS
SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

COPYRIGHT

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the
applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more.