FitchRatings

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).

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
San Diego County Regional Transportation Commission (CA) [General Government]			
San Diego County Regional Transportation Commission (CA) /Sales Tax Revenues - Junior Subordinate Lien/2 LT	LT A ⭘ Affirmed		A ⭘
San Diego County Regional Transportation Commission (CA) /Sales Tax Revenues - Subordinate Lien/2 LT	LT AA ⭘ Affirmed		AA ⭘
San Diego County Regional Transportation Commission (CA) /Sales Tax Revenues/1 LT	LT AAA ⭘ Affirmed		AAA ⭘
San Diego County Regional Transportation Commission (CA) /Sales Tax Revenues - Subordinate Lien/2 ST	ST F1+ Affirmed		F1+

Additional information is available on www.fitchratings.com

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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

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