

**FITCH RATES SAN DIEGO COUNTY  
REGIONAL TRANSPORTATION COMMISSION,  
CA'S \$350MM SALES TAX REVS 'AAA'**

Fitch Ratings-San Francisco-25 July 2014: Fitch Ratings has assigned an 'AAA' rating to the following San Diego County Regional Transportation Commission (the commission), CA sales tax revenue bonds:

--\$350 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 August 18th. The final maturity date on the 2014 series A bonds is April 1, 2048.

The Rating Outlook is Stable.

**SECURITY**

The sales tax revenue bonds are secured by revenue from the 1/2 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**

**STRONG DEBT SERVICE COVERAGE:** Current debt service coverage levels are strong at 2.86 times (x) maximum annual debt service (MADS). Future debt plans are potentially significant but constrained by the commission's relatively high additional bonds test (ABT) of 2.0x MADS.

**MODERATELY CONCENTRATED TAX BASE:** Revenues recorded a new high in fiscal 2014, but have been somewhat volatile given the sharp 17.6% decline from 2007-2010. The tax base is moderately concentrated with the top 10 taxpayers generating nearly 14% of total revenues.

**GROWING, DIVERSE ECONOMY:** San Diego county (Fitch rated 'AAA') benefits from a growing population with above-average income and educational levels. The regional economy is anchored by a diverse mix of defense, education, health care, and high-tech and biotech industries. Unemployment rates remain elevated compared to pre-recession levels but compare favorably to the state and nation.

**LIMITED OPERATING RISK:** The commission does not operate a public transportation system, which Fitch views positively as it reduces financial risks.

**SUPPORT FOR ESSENTIAL PROJECTS:** Fitch views positively the strong voter support for the TransNet program and the essentiality of TransNet's approved projects.

**RATING SENSITIVITY:**

**STRONG CREDIT FUNDAMENTALS:** The rating is sensitive to shifts in fundamental credit characteristics including 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. Given the entity's relatively narrow role, Fitch believes the commission has no material exposure to operating risks from related transit agencies.

#### STRONG DEBT SERVICE COVERAGE

The bonds benefit from strong projected debt service coverage levels. Coverage of MADS (excluding the federal subsidy on outstanding Build America Bonds) on outstanding debt, including the 2014 series A bonds, is 2.86x, based on fiscal 2014 revenues. Coverage levels are projected to remain sound under various Fitch performed stress tests.

Fitch views the commission's outstanding variable rate debt (approximately 27% of total debt post issuance) as elevated but manageable. Rating concerns are offset by the commission's resources dedicated to monitoring its debt portfolio, its good market access, and already high coverage levels that can withstand significant market stress. All of the variable rate debt is synthetically fixed through interest rate swaps with multiple counterparties. Current negative termination values are moderate, and any termination payments would be subordinate to debt service.

#### LEVERAGING CONSTRAINTS AND FUTURE DEBT PLANS

Strong coverage levels are somewhat protected by the commission's relatively high 2.0x ABT, calculated using revenues from the most recent audit.

Preliminary debt issuance plans through 2020 range as high as \$900 million, depending on revenue growth and access to other sources of capital. Fitch views the tentative debt plans, which could bring coverage down to or near the ABT level, as significant. However, rating concerns are offset by the commission's flexibility and control over project decisions, solid track record of prudent financial and debt management, and plans to pursue state and federal funding sources that may reduce future debt plans by a notable amount.

#### SOLID REVENUE PERFORMANCE

Sales tax revenues are generated by a broad-based 1/2 cent sales tax on all taxable transactions within the county. Revenue performance is supported by a moderately concentrated group of sales tax generators. The largest taxpayer, Costco Wholesale, and the top 10 taxpayers comprise 3% and 13.9%, respectively, of total sales tax revenues.

Revenues recorded a new high in fiscal 2014 at approximately \$260.1 million, an increase of 5.2% over 2013. The compound average revenue growth rate over the past five and 10 years, respectively, is 3% and 2%. These figures reflect revenue declines that occurred during the housing-led recession when sales tax revenues dropped by a sharp 17.6% (2007-2010).

Fitch notes that projected coverage levels are sufficient to withstand revenue declines well in excess of the recent drop. Fiscal 2014 revenues would need to decline by 65% to reach 1.0x MADS assuming no additional debt, offsetting concerns regarding the potentially volatile revenue stream.

#### GROWING, DIVERSE ECONOMY

San Diego County is the country's fifth largest county with approximately 3.2 million residents and 18 incorporated cities. The county benefits from a growing population, above average wealth and income levels, increasing employment, and a diverse range of employers and industries.

The county's unemployment rate of 6.1% (June 2014) remains elevated compared to pre-recession levels, but is down from its high of 10.6% in 2010. Positively, both employment and labor force growth have generally been above state and national averages from 2011-2013.

Major employers in the county reflect the diverse nature of the regional economy with defense, general government, higher education, health care, and technology all represented in the top 10. In addition, the county is home to a significant number of biotech and high-tech firms along with business interests connected with trade and San Diego's shared border with Mexico.

Contact:

Primary Analyst  
Matthew Reilly  
Director  
+1-415-732-7572  
Fitch Ratings, Inc.  
650 California Street, 4th Floor  
San Francisco, CA 94133

Secondary Analyst  
Karen Ribble  
Senior Director  
+1-415-732-5611

Committee Chairperson  
Amy Laskey  
Managing Director  
+1-212-908-0568

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors.

Applicable Criteria and Related Research:

- 'Tax-Supported Rating Criteria' (Aug. 14, 2012);
- 'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

U.S. Local Government Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685314](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '[WWW.FITCHRATINGS.COM](http://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. 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.