STANDARD & POOR'S RATINGS SERVICES
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Summary:

San Diego County Regional Transportation Commission, California; Sales Tax

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Summary:

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Credit Profile		
US$350.0 mil sales tax bnds ser 2014A due 04/01/2048		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to the San Diego County Regional Transportation Commission, Calif.'s series 2014A sales tax revenue bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating on the commission's sales tax bonds outstanding. The outlook is stable.

The rating reflects our view of the commission's:

- Participation in the broad and diverse San Diego County economy,
- Diverse sales tax revenue base,
- Strong debt service coverage, and
- Strong additional bonds test (ABT) of 2.0x

The bonds are secured by a gross lien on a one-half percent sales tax levied countywide, net of administrative costs paid to the State Board of Equalization (BOE). The sales tax is effective through March 31, 2048, pursuant to voters' reauthorization of the tax, which was first collected in 1988. Sales tax revenues are to be paid to the bond trustee directly from the BOE and are released to the commission for other purposes only after principal and interest have been set aside, according to the bond documents. We understand that the commission will use bond proceeds to finance transportation projects.

Pro forma maximum annual debt service (MADS) is $91.09 million in fiscal 2016. Based on fiscal 2014 pledged revenue collections, MADS coverage is strong at 2.86x, in our view. The commission currently has $402.3 million in series 2008 variable-rate demand bonds outstanding, or about 33% of its currently outstanding debt. The commission also entered into three swap agreements related to the series 2008 bonds for which it pays a fixed rate of 3.8165% or 3.41% and currently receives 65% one-month LIBOR. We understand the pro forma debt service is based on the fixed payer rate only. In addition, our calculation of coverage excludes the federal subsidy the commission expects to receive for the series 2010A Build America Bonds. The restrictions on issuing additional bonds include a 2.0x MADS ABT. Additional bonding is limited by the commission's internal allocation of about 44% of sales tax revenues for capital improvement expenditures. We understand that the commission plans to issue additional debt within the next two to three years. The amount of financing needed is not yet determined and will partially depend on available state and federal funding.

The 'A-1' short-term component of the rating on the series 2008A and 2008B bonds is based on the rating on the liquidity facility provider, JPMorgan Chase Bank N.A., which expires March 2017. The 'A-1' short-term component of the rating on the series 2008C bonds is based on the substitution of the standby bond purchase agreement (SBPA) to Mizuho Corporate Bank LTD. The 'A-1+' rating on the series 2008D bonds is based on the substitution of the SBPA to a severally provided SBPA whereby State Street Bank and Trust Company is providing enhancement for 75% of the bonds and California State Teachers' Retirement System is enhancing 25% of the bonds outstanding. The series 2008C and 2008D bonds' SBPAs expire September 2014 and September 2015, respectively. For more information on the short-term ratings, see the articles published Sept. 27, 2011, and March 7, 2014, on RatingsDirect.

In our view, the commission's historically consistent sales tax revenue growth has led to strong revenues. However, in fiscal 2008 sales tax revenues fell by 1.4% due to the national recession. Revenues dropped further in fiscal 2009 and fiscal 2010 by 9.2% and 8.0%, respectively. Local retail spending has rebounded since then with consistent growth in pledged revenue since fiscal 2011. Pledged revenues have increased by 27% during the past four years to $260.1 million in fiscal 2014. The commission's five-year forecast is slightly more conservative than recent trends, with projected 4% annual pledged revenue growth. We consider the commission's sales tax revenue base to be diverse, with the top 10 retail sales generators accounting for 14% of pledged revenues. The largest sectors are clothing stores (13% of pledged revenues) and apparel stores (7%), food and drinking establishments (15%), nonstore retailers (12%), auto sales (15%), and building materials and service stations (both 8%).

San Diego County is the second-largest county in California by population, with about three million residents. A diverse economic base offers a strong job market, and the countywide unemployment rate is typically lower than that of the state. The county's coastal location and favorable climate support a strong tourism industry, and the military has a strong naval presence in San Diego. Several universities, including leading research institution University of California San Diego, add to economic stability. Per capita effective buying income is good, in our view, at 109% of the national level.

The commission is a component unit of the San Diego Association of Governments (SANDAG). The commission was formed to administer transportation improvement projects funded through the half-cent sales tax, but other agencies in the region are responsible for operations of the various transportation programs. The SANDAG board serves as the commission's board, and is composed of representatives from the county and 18 cities within the county. Following voter approval of the sales tax in 1987, the commission began financing transportation improvements in 1988.

Outlook

The stable outlook reflects our anticipation that debt service coverage will remain strong, and will likely be more than sufficient to withstand possible fluctuations inherent to the retail sales sector. Our view of the diverse San Diego County economy also supports the stability of the rating. For these reasons, we do not expect to lower the rating during the two-year outlook time frame.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014

Ratings Detail (As Of July 24, 2014)		
San Diego Cnty Regl Transp Com sales tax rev bnds		
Long Term Rating	AAA/Stable	Affirmed
San Diego Cnty Regl Transp Com Sales Tax rev bnds ser 2008A		
Long Term Rating	AAA/A-1/Stable	Affirmed
San Diego Cnty Regl Transp Com Sales Tax rev bnds ser 2008B		
Long Term Rating	AAA/A-1/Stable	Affirmed
San Diego Cnty Regl Transp Com Sales Tax rev bnds ser 2008C		
Long Term Rating	AAA/A-1/Stable	Affirmed
San Diego Cnty Regl Transp Com Sales Tax rev bnds ser 2008D		
Long Term Rating	AAA/A-1+/Stable	Affirmed

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.