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Ratings

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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$325.0 mil sales tax rev bnds ser 2016A due 04/01/2048		
Long Term Rating	AAA/Stable	New
San Diego Cnty Regl Transp Com sales tax rev bnds		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to the San Diego County Regional Transportation Commission, Calif.'s series 2016A sales tax revenue bonds. At the same time, S&P Global Ratings 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 (DSC), and
- Strong additional bonds test 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 annual debt service is level, with a maximum annual debt service of (MADS) about $105 million. Based on fiscal 2016 unaudited actual pledged revenue, MADS coverage is strong at 2.6x, in our view. The commission currently has $402.3 million in series 2008 variable-rate demand bonds outstanding, or about 22% 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. The restrictions on issuing additional bonds include a 2.0x MADS additional bonds coverage test based on historical revenue. 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 $400 million to $600 million of additional debt through 2021. 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 State Street Bank & Trust Co. The series 2008C and 2008D bonds' SBPAs expire September 2017 and June 2019, respectively. For more information on the short-term ratings, see the articles published March 7, 2014, and June 4, 2015, on RatingsDirect.

In our view, the commission's historically consistent sales tax revenue growth has supported its sizable capital plan. 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 24% during the past five years to $275.5 million in fiscal 2016. Pledged revenues were up 2.5% year-over-year for fiscal 2016. The commission's five-year forecast includes a projected 4% annual pledged revenue growth, which is slightly lower than the postrecession compound annual growth rate of 5.3% since fiscal 2010.

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. The economy also consists of various high-tech clusters, including biotech and telecommunications, and the military and defense industries. Higher education and scientific research institutions also support the economy, including the University of California-San Diego (28,459 employees), San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center. We believe that, historically, the U.S. Navy and the U.S. Marine Corps have provided a stabilizing presence in the regional economy. Per capita effective buying income is good, in our view, at 103% 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 DSC 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. However, we could consider lowering the rating if revenue trends deteriorated significantly, causing MADS coverage to fall below 2.0x.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: Bank Liquidity Facilities, June 22, 2007
- USPF Criteria: Standby Bond Purchase Agreement Automatic Termination Events, April 11, 2008
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of July 22, 2016)		
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 2008D		
Long Term Rating	AAA/A-1+/Stable	Affirmed
San Diego Cnty Regl Transp Com SALESTAX		
Long Term Rating	AAA/A-1/Stable	Affirmed
San Diego Cnty Regl Transp Com SALESTAX		
Long Term Rating	AAA/A-1/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.