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September 16, 2011

Summary:

San Diego County Regional Transportation Commission, California; Sales Tax

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Credit Profile		
San Diego Cnty Regl Transp Com sales tax rev bnds		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' rating on the San Diego County Regional Transportation Commission, Calif.'s sales tax bonds. The outlook is stable.

The rating reflects our view of the commission's:

- Participation in the broad and deep San Diego County economy, which remains strong despite weak state and national economies;
- Diverse sales tax revenue base, combined with management's projection that collections will increase;
- Very strong debt service coverage despite larger-than-historical declines in sales tax revenues in fiscal 2009 and fiscal 2010; and
- Good additional bonds test (ABT) of 1.3x, bolstered by the commission's practice of allocating 44.2% of pledged revenues for capital improvement expenditures, which effectively translates into a minimum of approximately 2x coverage.

The bonds are secured by a gross lien on a one-half cent sales tax collected countywide, net of administrative costs, paid to the State Board of Equalization. The sales tax will be collected through 2048, pursuant to voters' reauthorization of the tax, which was first collected in 1988.

Sales tax revenues are assigned to a bond trustee and are released to the commission for other purposes only after principal and interest are paid. We understand that the commission will use bond proceeds to finance transportation projects.

The commission currently has $566.1 million in series 2008 variable-rate demand bonds and $349.5 million in series 2010 bonds outstanding. Combined net annual debt service with these bonds is projected to be roughly $47 million. The restrictions on issuing additional bonds include a 1.3x maximum annual debt service (MADS) ABT. Some additional bondholder protection is provided by the commission's internal allocation of 44.2% of sales tax revenues for capital improvements expenditures, which provide a minimum of at least 2.0x annual debt service coverage. Debt service coverage of MADS (expected in 2038) based on audited fiscal 2010 revenues was 4.3x. Unaudited fiscal 2011 revenues cover MADS by 4.7x, which we consider very strong. We estimate that sales tax revenues would have to fall by almost 79% before they would be insufficient to cover gross MADS. We understand that management does not anticipate issuing additional new debt over the near term.

We consider the commission's sales tax revenue base to be diverse, with 16% from the department and apparel stores sectors, 12% from restaurants, 12% from auto sales, 9% from building materials, 8% from light and heavy industry, 8% from service stations, 8% from other retail, and 4% from furniture/appliances. All other nonclassified sectors make up the remainder.

In our view, the county's historically consistent growth has led to strong revenues. However, in fiscal 2008 the county's sales tax revenues began to decline due to the national recession, falling by 1.4%. Revenues dropped in fiscal 2009 and fiscal 2010 by a larger 9.2% and 8.0%, respectively. According to unaudited results, fiscal 2011 revenues increased by 8.4% to $221.3 million. Management forecasts an additional 4% improvement in fiscal 2012. The last time sales tax revenues declined was during the recession of the early 1990s, when they fell by 7% between 1991 and 1992.

San Diego County (AAA/Stable issuer credit rating) is the second-largest county in California by population, with 3.1 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. County population has grown by an average of 1.1% annually since 1990. Several universities, including leading research institution UC San Diego, add to economic stability.

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. The SANDAG board serves as the commission's board, and is composed of representatives from the 18 cities within the county. Following voter approval of the sales tax in 1987, the commission began financing transportation improvements in 1988 and has completed roughly $3.5 billion worth of projects since then. The commission expects to finance $14 billion in improvements with this second authorization of the sales tax, which is known as TransNet.

Outlook

The stable outlook reflects our expectation that the commission will maintain very strong debt service coverage, which we believe will likely be more than sufficient to withstand modest declines in sales tax revenues. Our view of the diverse San Diego County economy also supports the stability of the rating. Should the commission issue bonds to the fullest extent permitted by the ABT, we could lower the rating.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

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