



Fitch Rates Riverside County Transp Comm, CA's \$158MM Sales Tax Rev Rfdg Bds 'AA'; Outlook Stable

Fitch Ratings-San Francisco-15 June 2017: Fitch Ratings has assigned a 'AA' rating to the following Riverside County Transportation Commission, CA (RCTC) bonds:

--\$158.5 million sales tax revenue bonds (limited tax bonds) 2017 series A.

The bonds are expected to price via negotiation on or around July 12. Approximately \$128.1 million of the proceeds will be used for the I-15 Express Lanes Project, including repayment of approximately \$30 million sales tax commercial paper notes, and \$30.6 million for completion of SR-91 capital improvements.

In addition, Fitch has affirmed its 'AA' rating on the following RCTC obligations:

--\$73.2 million sales tax revenue refunding bonds (limited tax bonds) 2016 series A;

--\$462.2 million sales tax revenue bonds (limited tax bonds) 2013 series A;

--\$37.6 million sales tax revenue bonds (limited tax bonds) 2010 series A;

--\$112.4 million sales tax revenue bonds (limited tax bonds) 2010 series B (taxable build America bonds);

--\$70.8 million sales tax revenue bonds (limited tax bonds) 2009 series B and C (variable rate);

--Sales tax revenue bank bonds, 2009 series B and C.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by an irrevocable first lien pledge of the countywide 2009 Measure A, 1/2 cent sales tax revenues, net of state administrative

costs, and swap revenues. There is no debt service reserve with this issuance.

KEY RATING DRIVERS

The 'AA' sales tax revenue bond rating reflects the fundamentally strong local economy, solid growth prospects, satisfactory limitations on additional leverage, and high maximum annual debt service (MADS) coverage.

Solid Growth Prospects: Fitch views growth prospects for pledged revenues as solid due to consistent population and employment growth in Riverside County, income ratios that fall below state averages and improving unemployment rates. The regional economy's growth is driven by the relatively lower cost of living relative to nearby coastal areas and abundant developable land.

Resilient Revenue Stream: Pledged sales tax revenues are moderately resilient to both cyclical declines and the return of historic volatility. Fiscal 2016 revenues cover MADS for projected existing and planned debt by 2.3x.

Satisfactory Leverage Limitations: A long-standing RCTC policy of limiting leverage to 2.0x MADS is an important limitation to leverage, in addition to an additional bonds test (ABT) of 1.5x MADS.

No IDR: RCTC does not have material exposure to operation risk. As such, Fitch has not assigned an Issuer Default Rating (IDR).

RATING SENSITIVITIES

REDUCED COVERAGE: Sharp and sustained declines in pledged revenues or leveraging of pledged revenues beyond RCTC's policy limitation could lead to negative rating action.

CREDIT PROFILE

RCTC allocates funding for public transit systems and oversees the construction and improvement of roads, highways, and other transit projects. RCTC does not own or operate a public transit system.

SALES TAX REVENUE GROWTH PROSPECTS

The sales tax revenue bonds are payable from the half-cent retail transactions and use tax (sales tax) authorized by the voter-approved Measure A ordinance and levied throughout Riverside County (the county), net of the state's Board of Equalization (BOE) administrative fee. The tax base is broad and diverse and Fitch views growth prospects for Riverside County as solid due to consistent population and employment growth.

The BOE distributes the sales tax revenues on a monthly basis according to a predetermined formula with quarterly true-ups. Residual sales tax revenues following debt service payments are released to RCTC for other purposes, including distributions to local jurisdictions, investments in capital projects, and administrative costs. For fiscal 2016, pledged revenues provided 3.1x coverage of debt service requirements in that year.

SECURITY STRUCTURE RESILIENT THROUGH DOWNTURNS

Legal provisions provide satisfactory protections for bondholders. They include an ABT of 1.5 x MADS for bonds outstanding plus bonds to be issued. In addition, bondholders benefit from a longstanding RCTC policy limiting leverage to 2.0x MADS as well as a maximum \$975 million in outstanding debt; this limitation, as amended in November 2010, was included in the authorizing ordinance. In the current interest rate environment, RCTC's 2.0x MADS policy is more limiting than the \$975 million debt at any given time limitation. After this issuance, RCTC will have about \$60 million in remaining debt capacity under the ordinance. It expects to issue up to that amount in its subordinate commercial paper program. Under a letter of credit issued by the State Street Bank and Trust Company that expires in October 2017, the maximum principal amount is \$60 million.

Fitch evaluates the revenue stream's sensitivity to economic downturns by considering both the estimated reduction in sales tax revenues under a 1% contraction in national GDP and the largest consecutive decline in actual sales tax revenues over the past 15 years. Current debt service coverage (DSC) is quite resilient with a large cushion even against the greatest consecutive historical decline, which amounted to approximately 27% from 2007-2010.

RCTC will have approximately \$60 million remaining under the debt limit of \$975 million, which it is retaining for the commercial paper program. Under RCTC's policy to maintain DSC at 2.0x, pledged revenue's resilience is more mixed with a cushion of 7.6x at the estimated negative 1% GDP decline scenario of 6.6%. At a 2.0x DSC projected level, pledged revenues could withstand a decline of almost 2.0x the greatest historical decline in revenues. Given the outsized impact of the housing market collapse on the Riverside County economy, the rating incorporates Fitch's expectation that such a drastic decline in pledged revenues would not reoccur in future economic downturns.

Estimated MADS assumes interest on the aggregate \$70.8 million series 2009 series B and C variable rate bonds at the fixed rate specified in the respective swap agreements. Fitch views the credit risk of RCTC's rate debt as manageable, particularly as after this issuance variable rate debt is reduced to approximately 8% of total outstanding par. Fitch believes RCTC has adequately mitigated the risk to bondholders of an unexpected termination of the outstanding swap agreement (negative mark-to-market value of \$10.5 million as of March 31, 2017) with Bank of America, N.A. ('A+'/'Outlook Stable'). The subordination of any potential termination payments, RCTC's market access and its substantial liquidity position with about \$500 million in readily available funds at the end of fiscal 2016 offset risks related to the variable rate bonds.

RCTC does not have material operations. Therefore, Fitch does not believe the assignment of an IDR is relevant to its analysis.

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Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)
(<https://www.fitchratings.com/site/re/898466>)

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