S&P Global Ratings

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Summary:

Santa Clara Valley Transportation Authority, California; Sales Tax

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Summary:

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Credit Profile		
US$27.895 mil sales tax rev rfdg bnds ser 2017B due 06/01/2028		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings Services assigned its 'AAA' long-term rating to the Santa Clara Valley Transportation Authority (VTA), Calif.'s sales tax revenue refunding bonds series 2017B. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the authority's bonds outstanding secured by revenue from the 1976 sales tax. The outlook is stable.

The ratings reflect our view of:

- The VTA's broad and diverse sales tax base, which encompasses San Jose and much of the Silicon Valley region;
- The VTA's very strong annual debt service coverage (DSC) based on historical and projected performance; and
- Santa Clara County's very strong income indicators.

The sales tax revenue bonds are payable from revenue derived from a 0.5% sales tax imposed throughout Santa Clara County. The tax was approved by Santa Clara County voters in 1976 and does not expire. The additional bonds test requires 2x maximum annual debt service (MADS) coverage. If coverage falls to less than 3x MADS the 1997 master indenture, for the 1976 sales tax, requires funding of a reserve fund equal to least of 10% of aggregate original principal amount of bonds, 125% of average annual debt service, or 100% of MADS. The refunding bond proceeds will be used to refund all of series 2011A bonds for debt service interest savings.

Santa Clara County, with an estimated population of 1.9 million, is located in the San Jose-Sunnyvale-Santa Clara metropolitan statistical area, which encompasses most of Silicon Valley. The largest city in the county is San Jose, which is also the third-largest city in the state. The county has a projected per capita effective buying income of 159% of the national level and per capita retail sales of 167%.

The county is among the wealthiest in the state in terms of income and property and also has one of the highest costs of living. Large employers in the county include Cisco Technology Inc., Stanford University, Apple Inc., Kaiser Permanente, and Google Inc.

Based on fiscal 2017 actual collections, MADS coverage of 1976 sales-tax-secured debt was 9.96x. MADS is scheduled to occur in fiscal 2026 based on the series 2008A, 2008B, and 2008C debt service and the authority's pro forma debt service for the 2017B refunding bonds. The pledged 1976 sales tax has been collected for decades and is a permanent 0.5% sales tax. Collections from this revenue stream have experienced various high points in the past two decades, peaking in 2001 ($183 million) and 2007 ($163 million), as a result of technology booms. After a modest 0.4% decline in fiscal 2008, pledged revenue dropped by, in our view, a significant 15.6% in fiscal 2009 (to $138 million). General reductions in spending in all sectors as a result of the recession affected collections during this period, as did some declines in business-to-business-related technology transactions. However, with strong year-over-year gains starting in 2011, revenue exceeded the 2007 peak by 2012 and the 2001 peak by 2014. For fiscal 2017, revenue reached $209 million, with growth slowing to 1.6% compared with 6.8% average annual growth during the previous five years.

The 25 largest sales tax remitters include a large number of locally based technology firms such as Amazon, Apple Computers Corp., Google, Hewlett-Packard, and Cisco. Given the predominance of the high-tech sector locally, business-to-business transactions are a major source of pledged revenue. Motor vehicle and parts dealers, general merchandise, and food services and drinking places are the sales tax base's three largest industries.

Although the authority's capital plan is significant, in our view, including a $7 billion Bay Area Rapid Transit (BART) extension project, we understand that most of the plan will be funded by other voter-approved sales tax measures, and historically the authority has primarily used the 1976 sales tax measure revenue to support operations, and plans to continue to do so. For the 1976 sales tax revenue, the authority's reliance on pledged revenue for operating purposes will likely ensure higher DSC margins.

The series 2008A, 2008B, and 2008C bonds are variable-rate demand bonds with synthetic fixed rate swaps with a combined negative mark-to-market of about $11 million. The VTA pays 3.145% under these three swaps and receives the lower of one-month LIBOR or a rate equal to the greater of 63.5% of one-month LIBOR or 55.5% of LIBOR plus 44 basis points. The synthetic fixed-rate debt represents about 81% of the 1976 debt portfolio. The authority's fixed-rate debt includes the 2017A private placement debt and the 2011A bonds to be refunded by the 2017B bond proceeds. The counterparties for these three swaps are Goldman Sachs (2008A), Citibank (2008B), and Morgan Stanley (2008C).

The authority entered into a private placement agreement with the Bank of the West for the $10.03 million 2017A debt. The agreement was executed through a supplemental agreement to the 1997 master indenture. Under the supplemental indenture for the 2017A bonds, remedies to an event of default do not include acceleration. The interest rate would convert to the default rate, which is equal to the higher of the prime rate and the federal funds rate, plus 0.50% per annum, but not to exceed the higher interest rate permissible under applicable law.

The bonds are eligible to be rated above the sovereign because we believe the authority can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above the Sovereign--Corporate and Government Ratings: Methodology and Assumptions," published April 12, 2013 on RatingsDirect, U.S. local governments are considered to have moderate sensitivity to country risk. The authority's locally derived revenue is the source of security for the bonds, and the institutional framework in the U.S. is predictable with significant U.S. local government autonomy. In a potential sovereign default scenario U.S. local governments would maintain financial flexibility through the ability to continue collecting locally derived revenue, and U.S. local governments have independent treasury management.

Outlook

The stable outlook reflects our expectation that pledged revenue will perform in a manner consistent with long-term historical performance and that the authority will not issue additional bonds more aggressively than anticipated for its capital needs. If DSC levels differ materially from projections, we could lower the ratings. We do not expect to change the ratings during the next two years.

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of December 7, 2017)		
Santa Clara Vy Transp Auth sales tax rfdg rev bnds		
Long Term Rating	AAA/Stable	Affirmed
Santa Clara Vy Transp Auth SALESTAX		
Long Term Rating	AAA/A-1+/Stable	Affirmed
Santa Clara Vy Transp Auth SALESTAX		
Long Term Rating	AAA/A-1+/Stable	Affirmed
Santa Clara Vy Transp Auth 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.capitaliq.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.