Fitch Ratings

Fitch Rates Santa Clara VTA, CA's $28MM Sales Tax Revenue Bonds 'AA'; Outlook Stable

Fitch Ratings-San Francisco-06 December 2017: Fitch Ratings has assigned a 'AA' rating to the following Santa Clara Valley Transportation Authority, California (VTA) bonds:

--Approximately $28 million sales tax revenue refunding bonds series 2017B.

The Rating Outlook is Stable.

The bonds are scheduled to sell via negotiation on or about Dec. 14, 2017. Bond proceeds will refund the district's outstanding 2011A bonds and will pay costs of issuance.

The district also has an Issuer Default Rating (IDR) of 'AA'. The IDR reflects VTA's moderate long-term liability burden, very strong gap closing capacity in economic downturns, healthy revenue growth and solid expenditure flexibility. These credit strengths are balanced against a relatively constrained revenue raising environment. For more information, see "Fitch Affirms Santa Clara VTA, CA's Sales Tax Revenue Bonds at 'AA'; Outlook Stable," published Sept. 21, 2017.

SECURITY
The bonds are payable from a senior lien on the 1976 0.5% sales and use tax, net of a collection administrative fee, levied within the county in perpetuity.

ANALYTICAL CONCLUSION

The 'AA' sales tax revenue bond rating reflects the IDR cap on dedicated tax bond ratings. Pledged revenue coverage is very strong.

Economic Resource Base

The VTA provides bus, rail, paratransit, congestion management and other transportation services to Santa Clara County and Silicon Valley. The county, which includes the city of San Jose, is home to many of the nation's largest technology companies. The economy has experienced decades of rapid growth and is well integrated into the broader, more diverse San Francisco Bay Area economy, but it is prone to deep declines during periods of weakness in the technology sector.

KEY RATING DRIVERS

CAPPED BY IDR: The 'AA' sales tax revenue bond rating reflects the IDR cap. The underlying sales tax revenues have solid growth prospects and a high degree of resilience to modelled revenue declines at assumed leverage levels.

RATING SENSITIVITIES

FINANCES, LEVERAGE DRIVE RATING: The sales tax revenue bond rating could come under downward pressure if the authority's IDR decreases or if the authority leverages its sales tax revenues significantly more than currently expected.

CREDIT PROFILE

The pledged sales tax revenues are expected to grow faster than inflation given a gradually growing population and strong overall economic growth in the wealthy service area. The compound annual growth rate of revenues was 2.7% over the last decade, exceeding inflation.

Pledged revenue coverage is very strong (9.7x MADS in 2017) and expected to remain strong throughout a typical, moderate U.S. recession. Debt service is level. To evaluate the sensitivity of the dedicated tax revenue stream to cyclical decline, Fitch considers both a revenue sensitivity scenario (using a 1% decline in national GDP scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Based on the district's sales tax revenue history, Fitch's analytical sensitivity tool (FAST) generates a 7.1% decline in pledged revenues during the first year of a moderate recession. The largest cumulative revenue decline historically was

27.7% during the collapse of the technology sector in 2000. Fitch does not expect such a dramatic collapse to recur, given increased diversification of the economy and maturation of its large technology sector. Fitch believes the experience of the Great Recession, when pledged sales revenues fell 15.9%, better reflects the degree of downturn the authority would experience in a severe recession.

Assuming issuance up to the 2x MADS additional bonds test (ABT), the structure could tolerate a 50% drop in revenues. Fitch does not expect the authority to leverage to the ABT. VTA currently has no plans to further leverage the revenue stream and needs the excess cash flows to fund its ongoing operating budget. Even if it doubled the amount of debt outstanding, the coverage would remain very strong. In a scenario where the authority doubled debt outstanding under the lien and coverage fell to 4.9x, pledged revenues could fall 80% before reaching 1x debt service coverage. The 80% coverage cushion is 11.3x the recessionary decline scenario produced by the FAST model and 5x the decline of the Great Recession, which Fitch views as consistent with a 'aaa' level of financial resilience.

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Date of Relevant Rating Committee: Sept. 20, 2017

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Applicable Criteria
Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017) (https://www.fitchratings.com/site/re/898969)
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017) (https://www.fitchratings.com/site/re/898466)

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