



One Market  
Steuart Tower, 15th Floor  
San Francisco, CA 94105-1000  
tel 415 371-5000  
reference no.: 1138489

September 14, 2010

Contra Costa Transportation Authority  
3478 Buskirk Avenue  
Suite 100  
Pleasant Hill, CA 94523  
Attention: Mr. Randell H. Iwasaki, Executive Director

Re: *US\$200,000,000 Contra Costa Transportation Authority, California, Sales Tax Revenue Refunding Bonds, (Direct Purchase Of Securities Industry and Financial Markets Association Indexed Bonds), Series 2010, dated: Date of Delivery, due: October 1, 2034*

Dear Mr. Iwasaki:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "AA+". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would

Mr. Randell H. Iwasaki

Page 2

September 14, 2010

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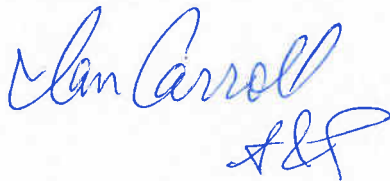
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Standard & Poor's Ratings Services  
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Sincerely yours,

Standard & Poor's Ratings Services  
a Standard & Poor's Financial Services LLC business

Handwritten signature of Alan Carroll in blue ink, with the Standard & Poor's logo (S&P) written below it.

hp  
enclosures

cc: Mr. Peter Shellenberger  
Mr. Randall Carlton  
Mr. Thomas (Tom) Carlson

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Termination of Agreement. This Agreement may be terminated by either party at any time upon written notice to the other party. Except where expressly limited to the term of this Agreement, these Terms and Conditions shall survive the termination of this Agreement.

No Third-Party Beneficiaries. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary of this Agreement or of the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Amendments. This Agreement may not be amended except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties irrevocably agree that the state and federal courts of New York located in the County of New York shall be

the exclusive forums for any dispute arising out of or relating to this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

## Contra Costa Transportation Authority, California; Sales Tax

**Primary Credit Analyst:**

Lisa Schroeer, Charlottesville (1) 434-220-0892; lisa\_schroeer@standardandpoors.com

**Secondary Credit Analyst:**

David G Hitchcock, New York (1) 212-438-2022; david\_hitchcock@standardandpoors.com

### Table Of Contents

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Rationale

Outlook

Debt

Debt Derivative Profile: '1' -- A Low Credit Risk

Related Criteria And Research

# Contra Costa Transportation Authority, California; Sales Tax

Credit Profile		
US\$200. mil Sales Tax rev rfdg bnds (Direct Purchase Of Sifma Indexed Bnds) ser 2010 due 10/01/2034		
Long Term Rating	AA+/Stable	New
Contra Costa Transp Auth Sales Tax rev bnds ser 2010 dtd 10/01/2010 due 10/01/2034		
Preliminary Rating	NR(prelim)	Withdrawn

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating, and stable outlook, to Contra Costa Transportation Authority, Calif.'s series 2010 sales tax revenue bonds and withdrew the preliminary 'AA+' rating it had previously assigned to the bonds.

The rating reflects our opinion of:

- The strength of the gross pledge of 0.5% sales tax revenues collected in Contra Costa County;
- The adequate legal provisions that will include a 1.3x additional bonds test -- We, however, expect coverage to be higher due to the practice of spending 60% of revenues for ongoing programs with local agencies in the county;
- A large and diverse economic base firmly integrated into the San Francisco Bay metropolitan area; and
- The authority's understanding and management of its debt.

The authority's 0.5% sales tax revenues secure its series 2010 \$201 million of Securities Industry And Financial Markets Assn. (SIFMA) indexed bonds. It is our understanding officials plan to use bond proceeds to pay principal due on the series 2009 notes and cover the costs of issuance. According to management, RBC Capital Markets will buy the bonds in a private placement.

The authority has pledged the full amount of sales tax revenues, but it is our understanding management intends to use only a portion for debt financing while using the remaining funds for contributions to local transit providers in the county. An additional bonds test of 1.3x of maximum annual debt service (MADS) is included in the indenture; but the authority states actual coverage will be considerably higher, at approximately 2.5x, since it intends to use no more than 40% of pledged revenues for debt payments while using the remaining 60% for local transit assistance on a pay-as-you-go basis.

The electorate approved the sales tax revenue pledge, known as Measure J, in 2004 as a successor to Measure C, which the electorate approved in 1988. Measure C expired on March 31, 2009; and Measure J will expire in 2034. Between 1990 and 2008, pledged revenues grew by an average rate of 4.2% annually; but pledged revenues experienced a set back in 2009 due to economic recession. Sales tax revenues declined by 13.9% to \$64.3 million in 2009 from \$74.7 million in 2008, the largest decline since the tax's approval; by contrast, revenues declined by 3.6% in 1992. We understand that management is projecting sales tax revenues to be down by 4.3% in 2010 to \$61.5 million and that it believes the number will level off based, in part, on two consecutive quarters of growth; according to management, the second and third quarter of fiscal 2010 showed growth while the fourth quarter

showed negative growth. While we view further sales tax revenue declines as possible, the debt's structure provides a substantial coverage cushion through 2026, at which time payments increase. Coverage through 2026 is above 7.00x; and with current 2010 revenue estimates, MADS coverage is 2.22x.

The authority has one swap with Bank of America N.A. with a notional amount of \$200 million. The authority pays about 3.70% for 25 years and receives 63.5% of 1-month LIBOR plus 0.29%. The authority does not have any additional debt outstanding. The 2010 bonds have a three-year mandatory tender date. Authority management notes that it is following the swap termination value and that it intends to terminate the swap and refund the bonds with fixed-rate bonds when the termination value hits a specified level.

Standard & Poor's assigned Contra Costa Transportation Authority a Debt Derivative Profile (DDP) score of '1' on a '4'-point scale, with '1' representing minimal risk and '4' representing high risk. The overall score of '1' reflects our view that the authority's forward swap related to its planned 2010 Measure J sales tax bonds is currently a low credit risk.

## Outlook

The stable outlook reflects Standard & Poor's expectation that pledged revenues should perform in a consistent manner with long-term historical performance and that the authority will likely not issue additional bonds more aggressively than it currently needs to for capital needs. If, in our view, debt service coverage differs materially from projections, we could lower the rating. The stable outlook also reflects our expectation that management will likely continue to monitor its current debt portfolio.

## Debt

Management has indicated it will use 2010 bond proceeds to pay the principal due on the series 2009 notes and cover the cost of issuance. We understand that RBC Capital Markets will buy the bonds in a private placement and that the bonds will incorporate the existing swap. The authority will pay the swap counterparty 3.7% and receive 63.5% of 1-month LIBOR plus 29 basis points. The authority will pay bondholders 0.75% plus SIFMA. The initial period for the bonds is three years, at which point there is a mandatory tender on Oct. 1, 2013. The authority has expressed its intent to exit the swap when termination costs reach \$17 million. As of Sept. 15, 2010, the swap termination value was \$38.5 million. The authority has a strong cash position, which management notes estimates have at \$230 million at fiscal year-end 2010. During the three-year indexed bond period, we understand the purchaser has the right to cause a mandatory tender of the bonds to the authority for payment upon certain events of default as outlined in the bond purchase agreement. With five exceptions, the bond purchase agreement allows the authority 180 days to either cure defaults or remarket the bonds, which we believe tempers liquidity concerns. Under the exceptions, however, the authority will be subject to immediate mandatory redemption by the seventh day after notification. The five exceptions include:

- A default on the bonds or parity bonds,
- The filing or declaring of bankruptcy,
- A court of competent jurisdiction assumes custody or control of the authority or revenues, and
- The declaration of any parity obligations by bondholders to be immediately due and payable.

We believe authority management will monitor the swap and provisions in the bond purchase agreement. Several

conditions apply that could have an effect on the amount and timing of debt service payments. Management has reviewed these conditions, and it considers them a minimal risk. Management notes it has good internal liquidity and flexibility to adjust capital expenditures if it needs money in the short term. In addition, management notes that it is constantly monitoring its debt and that it will have a plan in place before the mandatory tender date if it has not already refunded the bonds. Management also notes it can refund the bonds with commercial paper or bond anticipation notes if a long-term fixed-rate bond is not a possibility due to timing constraints.

Standard & Poor's notes two particular provisions that could have an effect on the authority's debt payments if the authority were to enter into future debt agreements. While we understand it is not management's intent to enter into additional variable-rate debt agreements, we recognize that two bond purchase agreement provisions could have an effect on the authority if it were to change its debt profile to include additional variable-rate debt. The two provisions are a "most favored persons clause" and the "more favorable parity acceleration rights." Should the authority include either of these provisions in a contract with another lender and provide more-favorable terms, those terms would also apply to the current agreement and could have an effect on the 2010 bonds. Although we understand management does not intend to enter into agreements that could have an effect on this current issuance, we, however, believe that should the authority's intent change, these provisions could have an effect on the authority's credit profile.

## **Debt Derivative Profile: '1' -- A Low Credit Risk**

Standard & Poor's assigned Contra Costa Transportation Authority a DDP score of '1', reflecting our view that the authority's forward swap related to its planned 2010 Measure J sales tax bonds is currently a low credit risk due to:

- A limited counterparty risk and strong management practices, including formalized swap management policies;
- The swap portfolio's strong economic viability over stressful economic cycles; and
- The low risk of involuntary termination under the authority's swap due to a very narrow ratings trigger spread.

The swap is a floating- to fixed-rate swap with a \$200 million combined notional amount with Bank of America. Swap documents include collateral posting provisions. Under the swap's terms, the authority will pay a fixed interest rate and receive a floating rate on the swap's amortizing notional amount, up to, but excluding, March 1, 2034. The swap's counterparty and authority have the same additional termination event, if the credit rating falls below 'BBB-'. The authority's \$230 million in cash at unaudited fiscal year-end 2010 offers a potential hedge against this exposure: \$120 million of which is unexpended bond proceeds. The authority has one remaining swap that it entered into in 2005. The swap payments were initially insured, but the authority is canceling the swap insurance policies.

## **Related Criteria And Research**

USPF Criteria: Special Tax Bonds, June 13, 2007

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