

## Contra Costa Transportation Authority, California

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**Credit Profile**

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US\$28.765 mil Sales Tax rev rfdg bnds (Lmtd Tax bnds) ser 2002 A dtd 07/15/2002 due 03/01/2009 AA+

Sale date: 15-JUL-2002

**OUTLOOK:** STABLE

**Rationale**

Standard & Poor's Ratings Services assigned its 'AA+' rating to Contra Costa Transportation Authority, Calif.'s \$28.765 million series 2002A sales tax revenue refunding bonds (limited-tax bonds). The rating reflects:

- A very deep and diverse economic and tax base located in the San Francisco-Oakland-San Jose CMSA;
- Very stable historic pledged revenue trends that demonstrate only minor volatility, even through periods of regional economic downturn;
- Good annual debt service coverage based on historic revenue and debt service;
- A favorably structured Measure C program that allocates sales tax revenue to the trustee on a monthly basis before transferring excess revenues to the authority for operations and pay-as-you-go capital project financing;
- A very short remaining maturity schedule (2009) and an effective additional bonds test (ABT) that is higher than the legally required ABT; and
- A fully funded debt service reserve.

The bonds are secured by a gross senior lien pledge of a 0.5% sales tax levied throughout Contra Costa County, which was approved by voters in November 1988 and took effect in 1989 for a 20-year period, expiring in 2009. The tax is in addition to the 7.25% statewide sales tax and 0.5% sales tax levied for California and the Bay Area Rapid Transit District (BART). Bond proceeds were used to refund the authority's 1995 bonds.

Contra Costa County ('AA-' lease rating) is located in the San Francisco Bay Area, northeast of the City of Oakland and Alameda County. The county encompasses 802 square miles and contains a

population of 1,029,350. Population grew at an annual rate of 1.47% from 1990-2006 and is projected to grow at 1.3% annually, through 2050. The county's wealth and income indicators are strong, particularly given the population, with median household effective buying income and per capita effective buying income levels at 144% and 139% of national averages, respectively. Per capita retail sales are average at 96.5% of the national level. Unemployment is slightly below average at 4.77%. Major employers within the county include the county itself, Pacific Bell/Cingular Wireless, Chevron/Texaco, and Bank of America.

Maximum annual debt service (MADS) occurs in 2008. Based on unaudited 2006 collections, MADS coverage is 2.6x. Annual debt service (ADS) is stable over the life of the bonds and with a projected annual sales tax revenue increase of 4.3%; coverage is expected to improve to 2.94x ADS in fiscal 2009 from 2.51x ADS in fiscal 2005. Sales tax revenues totaled \$71 million in fiscal 2005, an increase of more than 8% from 2004, and accounted for 88% of total authority revenues. Sales tax revenues grew 4.34% annually from 1990 to 2006. Measure J sales tax revenues are projected to grow at 4.3% annually between 2010 and 2033. Retail sales have contributed more to total taxable transactions, increasing from 69.4% in 1999 to 73.8% in 2004. When passed, the Measure C expenditure plan contained \$564.6 million for highway and arterial, transit, and trails projects, and the revenue projection was \$872.4 million.

In November 2004, by a 71% approval margin voters approved an extension of the Measure C sales tax through 2034. Known as Measure J, the tax will remain at 0.5% and will continue to be levied throughout Contra Costa County. The authority's capital improvement program plan, as presented to voters, limits to 35% the use of Measure J proceeds for capital projects (including bonding), effectively increasing protections against debt issuance that could reduce debt service coverage ratios on future debt of the authority. This effectively produces an ABT of 2.86x. Nonetheless, 100% of sales tax revenues are pledged for bond repayment. This is even somewhat more restrictive than the original Measure C, which limited anticipated revenue available for capital projects to 65%, producing an effective ABT of 1.54x. The authority anticipates issuing an additional \$300 million and \$150 million in Measure J sales tax secured debt in 2009 and 2012, respectively.

## Outlook

The stable outlook reflects our dual expectations that pledged revenues will perform in a manner consistent with long-term historic performance and that the authority will not issue additional bonds more aggressively than currently anticipated by capital needs. If debt service coverage levels differ materially from those projected, the rating could be lowered.

## Sales Tax As The Dominant Source Of Operating Revenue

Operations are predominantly supported by sales tax revenues (see table below), which represented 88% of fiscal 2005 revenues. This affords considerable stability and strong growth to authority's the total revenue base, which expands along with the regional economy. Sales tax revenues have respectively increased 106% and 69% since fiscal years 1990 and 1996, to \$74.7 million in fiscal 2006. Moreover, in the past 14 years, yearly sales tax revenues have only declined twice and, in those periods, by not more than 1.3%. Additionally, the sales tax base is diverse, with the leading 10 sales tax payers representing just 13% of total collections.

Adding to stability of the authority's net revenue position is the nature of its operations—and therefore its expenses. With its inception by voters in 1988, the authority was charged with carrying out the provisions of the Measure C sales tax ordinance and the Contra Costa Transportation and Growth Management Expenditure Plan. This plan includes the allocation of the sales tax over the 20-year period (initially through 2009) for projects to relieve congestion, develop a modal transportation systems management ordinance, and develop a model

growth management element. Generally, the authority's activities are highly planning- and project management-oriented and do not include direct operating responsibility for bus or light rail service; accordingly, expenses do not fluctuate with ridership or fuel costs as with many transportation agencies.

<b>Contra Costa Transportation Authority Sales Tax Revenues</b>				
<i>Fiscal Year</i>	<i>Sales Tax Revenues (\$000s)</i>	<i>Change (%)</i>	<i>DSC (x)</i>	
1996	44,222	N/A	1.54	
1997	45,470	2.82	1.59	
1998	49,050	7.87	1.71	
1999	51,509	5.01	1.80	
2000	58,655	13.87	2.05	
2001	66,047	12.60	2.30	
2002	65,168	(1.33)	2.27	
2003	65,782	0.94	2.29	
2004	65,684	(0.15)	2.29	
2005	71,014	8.11	2.48	
*2006	74,676	5.16	2.60	

\*Estimated based on actuals for first three quarters.

### Authority Governance And Legal Provisions

Governance of the authority is by a board consisting of 11 members: two from the county board of supervisors, two from each of the four sub-regional areas within the county, and one member from the County Conference of Mayors. The authority was voted into existence in 1988 as the implementing agency of the countywide half-cent sales tax, approved by 58% of voters. Legal provisions are strong, including a gross pledge of senior-lien sales tax revenues collected in the county. Sales tax revenues, which are collected by the State Board of Equalization, are distributed to the trustee on a proportionate (to debt service) monthly basis and prior to distribution to the authority for operations or pay-as-you-go capital purposes. The debt service reserve fund requires the least of 10% of proceeds of all bonds outstanding, MADS, or 1.25x ADS, but was satisfied through the purchase of a surety bond. The additional bonds test requires that actual historic revenue collections cover existing and proposed MADS by 1.3x. For this calculation, no more than 5% of revenues may be derived from investment income.

### Debt Derivative Profile

Standard & Poor's assigned a Debt Derivative Profile (DDP) score of '1.0' on a 4-point scale, with '1.0' representing minimal risk. The overall score of '1.0' reflects Standard & Poor's view that Contra Costa Transportation Authority's forward swap related to its anticipated 2009 Measure J sales tax bonds reflects a low credit risk at this time due to the following factors:

- Highly rated swap counterparties, limited counterparty risk, and strong management practices, including formalized swap management policies;
- Strong economic viability of the swap portfolio over stressful economic cycles; and
- Low risk of involuntary termination risk under the city's swaps due to a very narrow ratings trigger spread.

The authority's total pro forma swap notional amount (based on its 2009 forward swap) is \$300 million, which is average at 55% of total anticipated debt. Currently, the authority's net variable-rate exposure is 17%, or \$15.5 million, though this debt matures in 2009. Moreover, the authority's \$67.1 million at the end of fiscal 2006 (unaudited) in cash offers a potential hedge against this exposure. After the execution of the 2009 forward swaps,

the authority will have two swaps in place as follows: a floating-to-fixed swap, with \$150 million in notional amount with Bank of America ('AA'); and a floating-to-fixed swap, with \$150 million in notional amount with Merrill Lynch Capital Services, guaranteed by Merrill Lynch & Co. ('A+'). Swap documents include appropriate collateral posting provisions. Under the terms of the swaps, the authority will pay a fixed rate of interest and receive a floating rate on the amortizing notional amount of the swap, up to but excluding March 1, 2034. The swap counterparties and the authority have the same additional termination event, if the credit rating falls below 'BBB'.

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