

## **FITCH AFFIRMS ALAMEDA COUNTY TRANS COMMISSION, CA SALES TAX REVS AT 'AAA'; OUTLOOK STABLE**

Fitch Ratings-San Francisco-09 December 2015: Fitch Ratings has affirmed the following bonds issued by the Alameda County Transportation Commission, CA (the commission) at 'AAA':

--\$137.1 million sales tax revenue bonds (limited tax bonds), series 2014.

The Rating Outlook is Stable.

### **SECURITY**

The bonds are secured by a first lien on the commission's Measure B one-half-cent sales tax collected in the County of Alameda.

### **KEY RATING DRIVERS**

**STRONG COVERAGE, CLOSED LIEN:** The rating reflects robust coverage on the sales tax revenue bonds, the closed lien structure, and short maturity limiting the exposure to collection volatility.

**HEALTHY SALES TAX BASE:** The pledged revenue is an existing county-wide voter-approved sales tax supported by a healthy economy. Receipts have renewed growth and surpassed prior highs after a large recessionary decline.

**LIMITED OPERATING PRESSURES:** Sales tax revenues are dedicated to specific capital projects and programs, and face minimal pressure from transportation operations or other potential uses.

**LARGE AND DIVERSE ECONOMY:** Alameda County (implied GO rated 'AA+') is part of the large and diverse bay area economy that has proven resilient in the wake of the economic downturn.

### **RATING SENSITIVITIES**

**STRONG DEBT SERVICE COVERAGE:** The rating is sensitive to shifts in fundamental credit characteristics including the strong debt service coverage. The Stable Outlook reflects Fitch's expectation that such shifts are highly unlikely.

### **CREDIT PROFILE**

The commission is a joint powers authority formed to plan, fund and deliver significant transportation projects and programs throughout the county. It functions as a capital financing agency, with minimal operating responsibilities. Funding priorities include major capital projects, such as Bay Area Rapid Transit (BART) extensions and stations, highway infrastructure, and street improvements.

The commission is governed by 22 elected members representing all county supervisorial districts, cities, BART, and Alameda -Contra Costa (AC) Transit. It was established in 2010 by a merger of the Alameda County Transportation Improvement Authority (ACTIA), itself a successor to

the Alameda County Transportation Authority (ACTA), and the Alameda County Congestion Management Agency (ACCMA).

## STRONG COVERAGE/CLOSED LIEN

Debt service coverage on the sales tax bonds, which have an eight-year maturity, is strong at 5.01x maximum annual debt service (MADS). Coverage remains healthy under various stress scenarios, including a decline in sales tax revenues of 80% - nearly four times the largest historical decline - to equal 1.0x MADS. The indenture prohibits the commission from issuing any additional parity debt apart from refunding bonds (without extension of final maturity), which significantly strengthens the credit quality.

## HEALTHY SALES TAX BASE

Pledged sales taxes exhibit an overall positive trend. Tax receipts increased a combined 40.3% over the last five years to a peak of \$132.5 million in fiscal 2015 following a decline during the recession of 12.9% and 6.8% in fiscals 2009 and 2010, respectively.

Collection of the tax began in 1987 with voter approval of Measure B, a county-wide one-half-cent sales tax. In 2000, voters approved a 20-year extension of Measure B with an approval rate of 81.5%. A 2012 ballot measure that would have added a half-cent and extended the tax in perpetuity received 66.53% of the vote, just under the two-thirds majority necessary to pass (66.67%). However, voters approved a measure on the November 2014 ballot (Measure BB) to extend and increase the tax by a half-cent for a period of 30 years. Payment of debt service on the rated bonds is solely secured by the 2000 Measure B sales tax revenues.

The commission's funding requirements on the 2000 Measure B commitments were met on a pay-as-you-go basis prior to the issuance of the series 2014 bonds. As of June 2015 the commission reported approximately \$306 million in cash available for capital and programmatic expenses. These funds are also available to pay debt service on commission debt, but are not pledged to bondholders.

## SOUND LEGAL PROTECTIONS

Measure B collection of the sales tax sunsets March 31, 2022, which is the same month as the scheduled final maturity date of the series 2014 bonds. The tax is collected by the Board of Equalization and remitted directly to the Trustee. No additional parity bonds are permitted apart from refunding bonds. The Commission may issue subordinate bonds. There is no debt service reserve associated with this series.

## MINIMAL OPERATING PRESSURES

The commission's funding commitments associated with the sales tax receipts are restricted to those specified in Measure B and its supporting 2000 Transportation Expenditure Plan (TEP), and typically provide only a portion of project costs limiting its exposure to potential project cost overruns. In addition, the commission is restricted by the 20-year TEP established by ordinance to allocating no more than 38.3% of Measure B sales tax revenues to capital projects with the remaining revenues allocated to various programmatic expenditures allocated on a formula basis and through competitive grants to local jurisdictions, including mass transit, local streets and roads, bike and pedestrian safety, and administration. These features protect the commission's sales tax revenues from excess commitments or diversion.

## STABLE, DIVERSE ECONOMY

The county is one of five making up the San Francisco metropolitan statistical area (the MSA), and benefits from a strong regional economy and employment gains in neighboring San Francisco and Silicon Valley, with broad-based gains in nearly all industries led by the volatile technology sector. The largest county employers are stable, led by the University of California, Berkeley, as well as several medical centers, though many residents commute across the bay area for employment. The county's unemployment rate of 4.8% as of August 2015 bettered the state and national averages. County incomes are above state and well above national averages, although modestly lower than the MSA.

The county's taxable assessed value declined only 4% during the downturn and is currently at its historic peak after increasing a cumulative 14% over the four years ending fiscal 2015. Home values reported by Zillow are at peak levels as of October 2015 with a median price of \$691,200.

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Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

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

Applicable Criteria

Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)  
[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=869942](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942)

Tax-Supported Rating Criteria (pub. 14 Aug 2012)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685314](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

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