

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF SIGNIFICANT EVENT  
(RATING CHANGE)**

NAME OF ISSUER: SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY  
NAME OF ISSUE: Toll Road Refunding Revenue Bonds ("Senior Lien Bonds")  
Toll Road Refunding Revenue Bonds ("Junior Lien Bonds")  
DATE OF ISSUANCE: November 6, 2014  
BASE CUSIP NO.: 798111

**NOTICE IS HEREBY GIVEN** pursuant to Section 5 of the Issuer's Continuing Disclosure Certificate that Fitch Ratings has upgraded the rating it assigns to the Senior Lien Bonds to BBB from BBB- with a stable outlook and the Junior Lien Bonds to BBB- from BB+ with a stable outlook.

By:   
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Dated: 2/31/17

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY



## Fitch Upgrades San Joaquin Hills Transp. Corridor Agency, CA Bonds; Outlook Stable

Fitch Ratings-San Francisco-31 July 2017: Fitch Ratings has upgraded San Joaquin Hills Transportation Corridor Agency, CA's (SJHTCA, or the agency) outstanding debt as follows:

--\$1.9 billion senior bonds to 'BBB' from 'BBB-';

--\$294 million junior bonds to 'BBB-' from 'BB+'.

The Rating Outlook is revised to Stable from Positive.

### KEY RATING DRIVERS

**Summary:** The upgrade reflects the agency's continued improved traffic and revenue performance subsequent to a fiscal 2015 refinancing, financial metrics strengthening to levels consistent with a higher rating. The 'BBB' senior bond rating reflects the project's role as a stand-alone congestion-relieving facility in a large, affluent, and growing region with solid legal rate-setting flexibility and limited capital plans moving forward. Financial metrics have improved in recent years, with a solid fiscal 2016 senior debt service coverage ratio (DSCR) of 1.7x (1.5x on a total basis), leverage of 10.3x (12.0x), and a low revenue breakeven rate of just 0.5% (1.0%). Fitch views these ratios as consistent overall with a 'BBB' rating based on indicative rating guidance contained in Fitch's rating criteria.

#### Growing Traffic Base with Historical Volatility (Revenue Risk: Volume - Midrange)

The 15-mile congestion-reliever facility benefits from its location within Orange County, which is large, affluent, and growing. Fitch expects facility traffic to grow over the long term, buoyed by these strong regional characteristics. These strengths are offset by a history of significant demand volatility and high toll rates. The facility has the highest per mile toll rate amongst Fitch-rated U.S. toll roads excluding managed lanes and bridges.

#### Robust Rate-Setting Flexibility (Revenue Risk: Price - Stronger)

The agency has unlimited legal rate-setting authority although its plan is to implement small, regular, inflationary increases going forward. A consistent track record of rate increases suggests political flexibility is also solid. Over the past 10 years its rate covenant has been well tested and proven to provide creditors with significant protection.

#### Small Capital Plan, Limited Maintenance Responsibilities (Infrastructure Development & Renewal: Stronger)

The agency has limited exposure to maintenance and capital costs as Caltrans owns and maintains the road. The agency has no additional debt plans and its capital expenditure plan is both small and cash-funded.

#### Escalating Debt Service Profile (Debt Structure: Senior - Midrange / Junior - Midrange)

The debt structure includes fixed-rate and amortizing senior and junior debt with good liquidity support that includes cash-funded debt service reserve accounts sized to the maximum allowed by the IRS and a supplemental reserve account. The debt profile's strengths are offset by escalating debt service and some interest accretion.

**Adequate Financial Metrics:** The facility's financial metrics are satisfactory overall, with Fitch-projected senior and total DSCRs in fiscal 2017 of 1.7x and 1.5x, respectively, consistent with the prior fiscal year. Rating-case projected average 10-year senior and total DSCR equal 1.7x and 1.4x, respectively, consistent with Fitch's indicative guidance for 'BBB' category ratings. The senior and total breakeven growth rates are low at 1% and 0.5%, respectively, which further support the investment-grade ratings and reflect a significant degree of project liquidity.

**Peer Group:** SJHTCA's closest peers come from Fitch's rated standalone / small network toll roads portfolio with senior debt rated in the 'BBB' category. Its closest peers are its sister agency, Foothill/Eastern Transportation Corridor Agency (F/ETCA), and E-470 Public Highway Authority, both of which face initially high leverage and some dependence on revenue growth. F/ETCA's lower rating ('BBB-/BB+/Stable Outlook) reflects its weaker financial metrics with 10-year average senior and subordinate DSCR of 1.4x and 1.3x and higher leverage. E-470's higher rating ('BBB+/Stable Outlook), reflects its stronger financial metrics, with average rating case DSCR over 2.0x and leverage of 7.7x.

### RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

- Traffic and revenue underperformance leading to senior and total 10-year rating case DSCRs below 1.6x and 1.4x, respectively.
- Evidence of political unwillingness to implement rate increases over time.

#### Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

- Traffic and revenue outperformance leading to senior and total rating-case DSCR persistently above 1.7x and 1.6x, respectively.

#### PERFORMANCE UPDATE

Traffic and revenues have performed quite strongly over the past several years, increasing an average annual 3.8% and 10.9%, respectively, from fiscal years 2011-2016. Audited results for fiscal 2016 showed outsized traffic and revenues gains of 9.4% and 12.4%, respectively. Fiscal year-to-date results are also strong with traffic up 4.5% through May while revenues have increased a solid 7.3% during the same period, reflecting continued toll rate increases.

Fiscal 2016 reflects the first full year of operations since a major refinancing in fiscal 2015. The refinancing, combined with robust revenue growth, resulted in satisfactory senior and total DSCRs of 1.7x and 1.5x and leverage of 10.3x and 12.0x, respectively.

Because Caltrans has title to the road and is responsible for its upkeep, SJHTCA has limited capital needs. The agency's capital improvement plan is quite limited at \$54 million, to be cash funded.

#### FITCH CASES

Fitch's base case haircuts fiscal year-to-date revenue growth of 7.3% down to 6% and thereafter adopts the traffic & revenue consultant's forecast of revenue growth through debt maturity. The case also assumes agency-estimated and budgeted expenditures for fiscal years 2017 and 2018, after which expenditures are assumed to grow moderately above inflation at 3%. The base case results in 10-year average senior and total DSCR of 1.8x and 1.5x and five-year leverage of 10.4x and 11.8x, respectively.

Fitch's rating case conservatively assumes a hypothetical recession leads to modest 1% traffic losses in fiscal years 2019 and 2020 and that the 2023 scheduled expansion of the I-405 general purpose lanes will lead to a 6% traffic loss that year. Otherwise, traffic is assumed to grow 1% from 2018-2027 and 0.5% thereafter with 2% inflationary rate hikes. The rating case further assumes 3.5% O&M growth from 2019-2027, with a step-down to 3% thereafter. The rating case results in 10-year average senior and total DSCR of 1.7x and 1.4x and year-five leverage of 11.3x and 12.9x, respectively.

Fitch also calculated a breakeven operating revenue growth rate and concluded that the facility would require a minimum of 0.5% and 1% growth to meet its obligations, assuming the use of its DSRAs and unrestricted cash balances.

#### ASSET DESCRIPTION

SJHTCA operates a 15-mile, six-lane limited access segment of SR 73 in Orange County, California. At its southern end it connects with Interstate 5, and at its northern end it connects with a previously constructed section of SR 73 near John Wayne Airport that connects with I-405. SR-73's purpose is to link residential and employment centers and to relieve congestion on the parallel I-5, I-405, and Pacific Coast Highway.

Bonds are secured by net toll revenues and development impact fees, the latter only if certain thresholds are met and, in any case these have historically not had a significant effect on the agency's ability to service its debt. The junior lien was added in 2014 upon the agency's debt restructuring.

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### Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016) (<https://www.fitchratings.com/site/re/882594>)

Rating Criteria for Toll Roads, Bridges and Tunnels (pub. 11 Aug 2016) (<https://www.fitchratings.com/site/re/886038>)

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