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Santa Clara Valley Transportation Authority, California

Credit Profile

UPGRADED

To

From

Santa Clara Vy Transp Auth, California

\$174.445 mil. Santa Clara Vy Transp Auth sales tax (MBIA)	AAA/AA+(SPUR)	AA
\$69.170 mil. Santa Clara Vy Transp Auth sales tax ser 2005A (AMBAC) dtd 07/07/2005 due 06/01/2026	AAA/A-1+/AA+(SPUR)	AA
\$51.680 mil. Santa Clara Vy Transp Auth sales tax ser 2005B (AMBAC)	AAA/A-1+/AA+(SPUR)	AA
\$51.680 mil. Santa Clara Vy Transp Auth sales tax ser 2005C (AMBAC) dtd 07/07/2005 due 06/01/2026	AAA/A-1+/AA+(SPUR)	AA

Santa Clara Cnty Transit Dist, California

\$37.445 mil. Santa Clara Cnty Transit Dist (Santa Clara Vy Transp Auth) sales tax rev rfdg bnds ser 1997A DTD 11/24/97 DUE 06/01/98 - 2015 2017 2021	AA+	AA
OUTLOOK:	STABLE	

Rationale

Standard & Poor's Ratings Services raised its rating and underlying rating (SPUR) to 'AA+' from 'AA' on Santa Clara Valley Transportation Authority, Calif.'s senior-lien 1976 sales tax revenue bonds, reflecting the fact that limited additional bonding plans and a substantial reliance on pledged revenues for operating funds should contribute to continued very high debt service coverage.

Additional rating factors include:

- A broad and diverse sales tax base that encompasses San Jose and much of the Silicon Valley region and has demonstrated a 10-year trend that is positive overall;
- Very strong maximum annual debt service (MADS) coverage on both a historic and projected basis; and
- A springing reserve that would be funded if debt service coverage declined to 3.0x MADS.

The bonds are secured by a gross pledge of sales tax revenues collected in Santa Clara County from a tax that was approved by voters in 1976. The 1976 sales tax does not sunset. The authority also issues bonds secured by a separate, half-cent sales tax known as 'Measure A' (rated 'AA').

The authority has \$331 million in revenue bonds outstanding secured by the 1976 sales tax. Historic revenues from the tax totaled \$145 million in 2005, which were sufficient to provide excellent MADS coverage of 8.0x. There are no specific plans to issue additional bonds until 2011, as part of the authority's five-year plan that anticipates spending \$2.4 billion, including pay-as-you-go capital from surplus revenues and state and federal transportation grants.

The authority relies heavily on this source of sales tax revenue for operations. In 2005, about 42% of expenditures were financed with sales tax revenues. Unless the authority can identify new revenue sources, it is unlikely that the authority would issue debt in quantities large enough to seriously reduce debt coverage.

The authority serves Santa Clara County ('AA+' issuer credit rating), which is centered in San Jose, one of California's largest cities, and other communities that form Silicon Valley. Wealth and incomes are very high, although there is also a very high cost of living. The unemployment rate in the county has improved to 5.4% in 2005 from a high of 8.4% in 2002, when recession hit Silicon Valley.

The authority's swap portfolio for its 1976 sales tax revenue bonds has been assigned a Standard & Poor's Debt Derivative Profile (DDP) overall score of '1.5' on a four-point scale where '1' represents the lowest risk. The authority has hedged two variable-rate transactions by entering into floating to fixed swaps. It is hedging the series 1985 variable-rate demand bonds through a cost of funds swap with General Re Financial Products Corp., whereby the authority pays a fixed rate of interest (4.36%) and receives the actual rate on the bonds on a notional amount of \$29.66 million through 2015. The authority has three swaps with three separate counterparties to hedge the series 2005 bonds. The three swaps will have similar terms and the total notional amount of the swaps, \$159.07 million, will be divided among the counterparties. The counterparties are Goldman Sachs Mitsui Marine Derivative Products L.P. ('AAA'), Citibank, N.A. ('AA'), and Morgan Stanley Capital Services ('A+'). 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 through June 1, 2026. The swap counterparties and the authority have the same additional termination event, if the credit rating falls below 'BBB-'.

Outlook

The stable outlook reflects Standard & Poor's expectation both 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.

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