

Rating Action: Moody's places 15 California transit agencies under review for downgrade due to possible loss of federal grants

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\$6.5 billion in rated debt affected

New York, August 14, 2013 -- Moody's Investors Service has placed under review for downgrade the ratings of 15 California transit agencies. The rating action is prompted by the possibility that the agencies will lose federal grants that on average comprise about 13% of their operating revenue and 40% of their capital funding.

Section 13c of the Federal Transit Act mandates that the US Department of Labor (DoL) must certify that certain transit employee protections, including the right to collective bargaining, are in place before the Federal Transit Administration can issue a grant. In California, transit unions have asserted that the California Public Employees' Pension Reform Act of 2013 (PEPRA) infringes on their right to collective bargaining. As a result, the DoL has not certified various grants to seven rated California transit agencies, threatening over \$3 billion of federal aid and challenging their finances. The grants of the remaining California agencies are at risk of similar delay or decertification.

The debt of the 15 affected agencies includes pledges of net operating revenues, gross pledges of dedicated sales taxes, and one general obligation unlimited tax pledge. The delay or decertification of federal grants creates operating risks that can potentially affect credit quality. Loss of federal operating grants could create significant financial strain for transit agencies and force them to cut service which would reduce fare revenues that in some cases are pledged to bondholders. Loss of federal capital grants may lead some transit agencies to increase leverage of dedicated sales taxes or of general obligation bonds, reducing debt service coverage and resulting in less residual tax revenue available to support operations.

We plan to conclude our review within 90 days. Amid the substantial uncertainty surrounding the grant objections and the process of decertification, during the review period we will identify which California transit agency credits are most at risk from grant decertification.

List of affected issuers (all on review for possible downgrade):

- Alameda-Contra Costa Transit District, Certificates of Participation, rated A1, \$40 million outstanding
- Culver City Transit Enterprise, Certificates of Participation, rated Aa3, \$4 million outstanding
- Los Angeles County Metropolitan Transportation Authority, Proposition A First Tier Senior Sales Tax Revenue Bonds, rated Aa2, \$1.4 billion outstanding
- Los Angeles County Metropolitan Transportation Authority, Grand Central Square Qualified Redevelopment Bonds, rated Aa3, \$21 million outstanding
- Los Angeles County Metropolitan Transportation Authority, Proposition C Sales Tax Bonds, rated Aa3, \$1.1 billion outstanding
- Los Angeles County Metropolitan Transportation Authority, Measure R Sales Tax Revenue Bonds, rated Aa2, \$717 million outstanding
- Los Angeles County Metropolitan Transportation Authority, General Revenue Bonds, rated A1, \$150 million outstanding
- Los Angeles County Metropolitan Transportation Authority, Proposition A Commercial Paper [BANK BONDS], rated Aa3, \$127 million outstanding
- Los Angeles County Metropolitan Transportation Authority, Proposition C Commercial Paper [BANK BONDS], rated A1, \$23 million outstanding

- North County Transit District, Certificates of Participation, rated A1, \$34 million outstanding
- Peninsula Corridor Joint Powers Board, Farebox Revenue Bonds, rated A1, \$23 million outstanding
- Riverside Transit Agency, Certificates of Participation, rated Aa3, \$7 million outstanding
- Sacramento Regional Transit District, Farebox Revenue Bonds, rated A2, \$85 million
- Santa Clara Valley Transportation Authority, Sales Tax Revenue Bonds, rated Aa2, \$1.2 billion outstanding
- San Diego Metropolitan Transit System, Pension Obligation Bonds, rated Aa3, \$41 million outstanding
- San Francisco Bay Area Rapid Transit District, Sales Tax Revenue Bonds, rated Aa3, \$626 million outstanding
- San Francisco Bay Area Rapid Transit District, General Obligation Bonds, rated Aaa, \$413 million outstanding
- San Francisco Municipal Transportation Agency, Revenue Bonds, rated Aa3, \$68 million outstanding
- San Mateo County Transit District, Limited Tax Bonds, rated Aa2, \$315 million outstanding
- San Joaquin Regional Rail Commission, Certificates of Participation, rated A2, \$35 million outstanding
- Victor Valley Transit Authority, Certificates of Participation, rated A2, \$31 million outstanding
- Western Contra Costa Transportation Authority, Certificates of Participation, rated Aa3, \$1 million outstanding

RATING METHODOLOGIES

The principal methodology used in rating the general obligation debt was General Obligation Bonds Issued by US Local Governments published in April 2013. The principal methodology used in rating the enterprise revenue bonds was Mass Transit published in June 2000. The principal methodology used in rating the special tax bonds was US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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