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")

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 Moody's Investor Service has upgraded the rating it assigns to the Senior Lien Bonds to Baa3 from Ba2 with a stable outlook.

By: Amy Potter
Amy Potter
Chief Financial Officer

Dated: 7/31/17

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
26 July 2017

Update

Rate this Research

Analyst Contacts

Jennifer Chang 212-553-3842
AVP-Analyst
jennifer.chang@moodys.com

Kurt Krummenacker 212-553-7207
Senior Vice President/ Manager
kurt.krummenacker@moodys.com

A.J. Sabatelle 212-553-4136
Associate Managing Director
angelo.sabatelle@moodys.com

Maria Matesanz 212-553-7241
Senior Vice President
maria.matesanz@moodys.com

San Joaquin Hills Transportation Corridor Agency, CA

Update - Moody's upgrades San Joaquin Hills Transportation Corridor, CA to Baa3 from Ba2; outlook stable

Summary Rating Rationale

Moody's Investors Service upgraded the senior lien toll road revenue bonds of San Joaquin Hills Transportation Corridor Agency, CA's (SJTCA or agency) to Baa3 from Ba2. The rating outlook is stable.

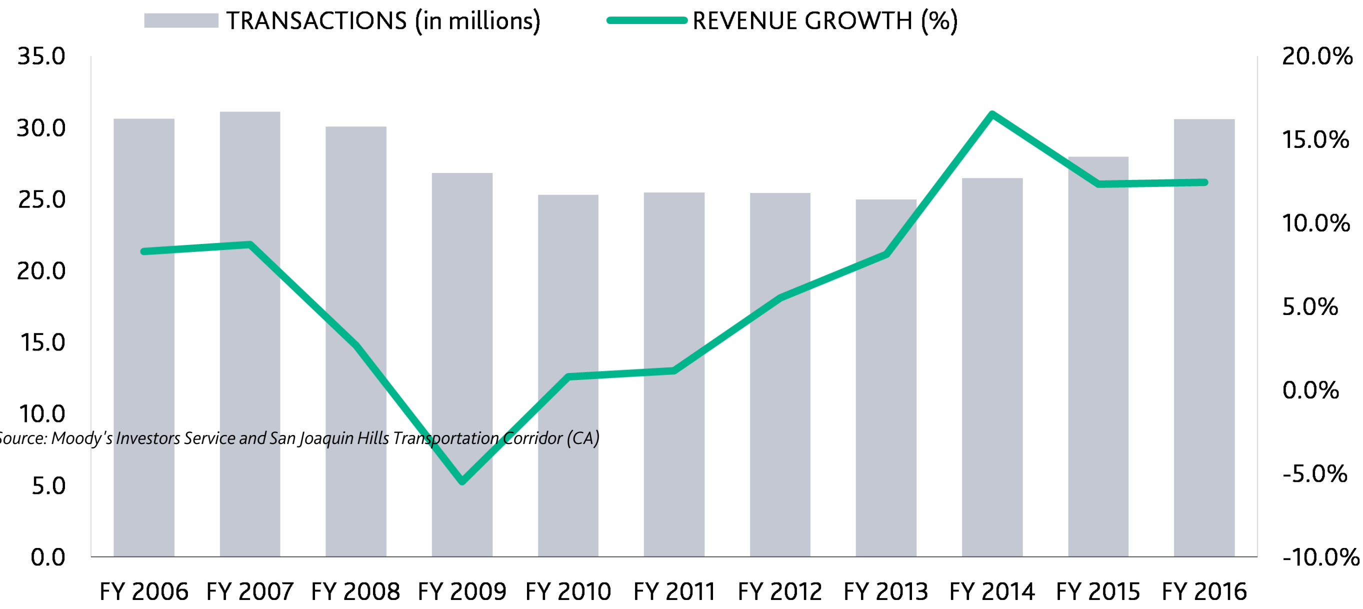
The rating upgrade to Baa3 from Ba2 and stable outlook acknowledges several years of stronger actual than forecasted traffic and revenue growth amid a slower pace of annual debt service growth due to the debt restructuring in 2014. This higher than anticipated revenue growth in the 2014-2016 period which averaged around 15% per year over the period has served to significantly diminish the forecasted rate of required future annual revenue growth, while still leading to robust forecasted debt service coverage ratios. The rating also acknowledges the ongoing growth in the Orange County service area economy, which is expected to continue to contribute to traffic and revenue growth, and the agency's strong liquidity profile and growing reserve fund balances.

The rating considers the high leverage and an escalating debt service profile through 2040, which constrains the toll road's financial flexibility in the event of economic downturns limiting its timeframe for recovery and resiliency. The 2014 debt restructuring eliminated the mitigation payment and loan agreement from Foothill/Eastern Transportation Corridor Agency (F/E TCA) to SJHTCA, and included the expectation that $120 million in mitigation payments will be reimbursed to F/E TCA in annual installments from 50% of the agency's excess cash flow at the bottom of the flow of funds starting in January 2025.

Exhibit 1

Historic Annual Transaction and Revenue Growth FY 2006-2016

San Joaquin Hills Transportation Corridor Agency



Source: Moody's Investors Service and San Joaquin Hills Transportation Corridor (CA)

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Credit Strengths

- Four years in a row of higher than forecasted revenue from FY 2014-2017 has significantly reduced the future required rate of revenue growth to lower than inflationary rates while still maintaining robust DSCRs
- Debt refunding and restructuring in 2014 lowered annual debt service costs and strengthened legal covenants for bondholders through a restated 2014 master indenture
- Agency has independent toll raising authority and annually implemented toll increases in the past seven consecutive years, including a 2% increase implemented for FY 2017 and FY 2018
- Road maintenance costs covered by Caltrans
- Satisfactory liquidity relative to operating expenses; cash funded debt service reserve funds (DSRFs) for both senior and junior lien bonds and funded additional operating reserves

Credit Challenges

- High leverage and escalating debt service profile through 2041, despite 8-year amortization extension through 2050 with debt restructuring completed in FY 2014
- Dependent on continued annual traffic and toll increases in order to maintain required coverages
- Relatively short toll road with directly competing freeways (I-5 and 405) which include widening improvements by 2023
- With the 2014 restructuring, SJHTCA agreed to use 50% of excess cash flow to repay $120 million mitigation payment to F/E TCA starting in 2025, if surplus funds are available

Rating Outlook

The stable outlook reflects our expectation for continued stronger than forecasted revenue growth for FY 2017 and that this pattern will continue into FY 2018, aided by the 2% toll rate increase that went into effect on July 1st, 2017.

Factors that Could Lead to an Upgrade

- Continued strong and sustainable growth in traffic and toll revenues that consistently produce DSCRs above the rate covenant without using reserves
- Maintenance of strong liquidity levels

Factors that Could Lead to a Downgrade

- Recurring weaker than forecasted traffic and revenue growth leading to lower than 1.5x total debt service coverage
- Toll rate increases that result in traffic diversion and lower than forecasted revenue
- Sustained traffic diversion from competing freeways as a result of expected future widening improvements
- Additional leverage without commensurate revenue generation though none currently expected

Key Indicators

Exhibit 2
San Joaquin Hills Transportation Corridor Agency, CA

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Transactions ('000)	30,622	31,097	30,058	26,810	25,308	25,451	25,425	24,984	26,460	27,966	30,589
Total Transactions Annual Growht (%)	3.5%	1.6%	-3.3%	-10.8%	-5.6%	0.6%	-0.1%	-1.7%	5.9%	5.7%	9.4%
5-Year Traffic CAGR (%)	3.3%	3.6%	2.2%	-1.8%	-3.1%	-3.6%	-3.9%	-3.6%	-0.3%	2.0%	3.7%
Annual Revenue Growth (%)	8.3%	8.7%	2.7%	-5.5%	0.8%	1.2%	5.5%	8.1%	16.5%	12.3%	12.8%
Debt Outstanding ($'000)	1,955,153	2,002,067	2,026,508	2,047,516	2,064,731	2,079,712	2,103,164	2,125,984	2,148,605	2,114,652	2,120,341
Days Cash on Hand	331	2,368	3,635	4,358	3,427	495	1,667	1,507	825	1,464	2,182
Toll Rate Increases (%)	14	6	6	6	5	5	10	10	2	2	2
Total Debt Service Coverage By Net Revenues (x)	1.22x	1.22x	1.15x	1.06x	0.99x	0.76x	0.98x	1.15x	1.30x	3.31x	1.53x
Debt to Operating Revenues (x)	19.51	19.40	20.13	22.03	21.68	21.18	19.45	17.85	16.17	13.98	12.74

Source: Moody's Investors Service

Recent Developments

Transactions increased 9.4% to 30.6 million in FY 2016, almost fully recovered to the record 2007 level of 31 million. Toll revenues (including fees and fines) increased 13.1% in FY 2016 to $167.1 million. Transactions year to date for FY 2017 (through May) are up 4.4% and toll revenues are up 7.3%. Toll revenues in FY 2015 and 2016 have been on average 12.5% higher than the 2014 Stantec forecast study.

The board approved a 2% toll increase for FY 2017 and FY 2018 which went into effect July 1, 2017, similar to the increase for FY 2016.

Detailed Rating Considerations

Revenue Generating Base

The toll road is located in the affluent Anaheim/Santa-Ana MSA where the economy continues to perform better than the rest of the state of California, driven by health-care, leisure/hospitality, high tech start-ups, and manufacturing. The area is characterized for above-average share of high-wage jobs, which are growing at a much faster pace than the nation.

The unemployment rate in Anaheim/Santa-Ana/Irvine was 4% in 2016, its lowest level in the last 6 years. The tech sector is a major driver of growth, supported by a highly educated population, and the concentration of universities and venture capital investment in the area should continue to drive long-term growth.

The service area expansion is expected to moderate with job growth slowing to an average pace as tech hiring cools and affordability limits housing demand. The University of California is expected to support long-term gains through innovative research and a steady supply of highly educated workers. In the longer-term, Anaheim/Santa-Ana/Irvine economic performance is expected to come in line with the U.S. as the area's high costs prevent it from above-average gains.

Traffic growth has been strong in the past four years as the service area is now in expansion fully recovered from the economic recession, employment and high wage jobs are performing better than the national average, as are residential and commercial developments.

Operational and Financial Performance

Higher than forecasted traffic and revenues during the past four consecutive years (FY 2014-FY 2017) of 13.5% on average versus the 2014 Stantec T&R study has resulted in significantly higher revenues. FY 2016 toll revenues were $148 million versus forecasted $126 million. As a result of this higher revenue generation, the continued future required rate of revenue growth is now lower. Based on a Moody's sensitivity of continued future growth of 2% which is lower than the estimated inflationary growth rate of 2.5%, DSCRs would be on average 1.48x over the remaining life of the debt.

Although this period of higher than forecasted growth is viewed positively, Moody's also acknowledges that given a growing debt service profile through 2040, and accreting debt through 2022, SJHTA has more limited financial flexibility and a shorter timeframe for traffic and revenue recovery in the event of more significant traffic and revenue declines from economic shocks versus other toll roads with lower leverage and more manageable debt service profiles. From the period of 2007-2010 traffic declined by more than 18%, although it has almost fully recovered to its peak level in 2007 of 31,097 thousand transactions by FY 2016. This is partially mitigated by the now lower required continued rate of future revenue growth and strong unrestricted liquidity of 1,623 days cash as well as a growing reserve funds.

Fiscal year 2016 traffic transactions were up 9.4% surpassing the 5.7% growth rates of FY 2015 and 5.9% of FY 2014. The five year compound annual growth rate (CAGR) for FY 2016 was 3.7% and for the first six months of FY 2017 through December 2017 year-over-year transaction growth was 5.1%. Toll revenues grew 12.4% in FY 2016 to $147.9 million, and already surpassed the projected toll revenues of FY 2020 based on the forecast provided in 2014.

As a result of strong transaction growth and revenue growth that is higher than budgeted, financial metrics show improvement with Moody's calculated DSCR on a net Revenues basis of 1.79 times for Senior Lien and 1.53 times for total debt service in FY 2016. On a bond ordinance basis, senior and total DSCR for FY 2016 were 1.73 times and 1.48 times respectively, which only include development impact fees (DIF) in excess of $5 million. DIF revenues in FY 2016 were $8.4 million versus $3.4 million in FY 2015. Debt to operating revenues remains high, at 12.7x as of FY 2016.

The agency's current operating expenses cover tolling equipment systems and management only as Caltrans pays for all maintenance, construction and repair expenses per the cooperative agreement under which TCAs were financed. The agency along with F/E TCA converted to all electronic toll collection on May 14, 2014. We expect that this conversion will facilitate future toll rate adjustments as well as continue to lower operating costs.

LIQUIDITY

The agency's financial position and liquidity have shown improvement since the 2014 debt restructuring owing to stronger traffic and better revenue results than forecasted. The agency has strong liquidity with unrestricted cash at end of FY 2016 of $62.5 million versus $35.6 million in FY 2015 resulting in 1,653 days cash on hand, well above the sector average of 970 days.

In addition, the agency has a $15 million Use and Occupancy fund balance established in 2014, and approximately $20 million in the Series 1997A CAB sinking fund balance and debt service reserve funds of $179 million. From 2017-2031, the sinking fund balance is expected to grow to $178.6 million to pay for the maturing CAB amounts.

Debt and Other Liabilities

As of FY 2016 the agency had a total of $2.2 billion debt outstanding: $761 million of Series 1997 A senior revenue bonds; $1.07 billion of Series 2014 senior revenue bonds and $293 million of Series 2014 junior lien revenue bonds. Total debt outstanding is expected to grow to $2.337 billion by FY 2022, after which it will start a gradual decline.

DEBT STRUCTURE

The debt restructuring in 2014 (the agency's third since the initial financing in 1993) leveled out and extended debt repayment by eight years to the maximum term of the Caltrans cooperative agreement. The restructuring lowered annual debt service growth to 1.6% from the prior 8.8% over the 2014-2024 period and reduced maximum annual debt service (MADs) from $269 million to $186 million, which allows for adequate DSCR based on the authority's 2014 forecast. The restructuring also provided stronger legal covenants under a restated 2014 master indenture and required annual sinking fund payments for accreting capital appreciation bonds (CABs) debt service.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

SJTCA's long-term defined benefit pension and health care liabilities are not a major factor in our assessment of its credit profile. Moody's adjusted net pension liability (ANPL) in FY 2015 for SJTCA is similar compared to its reported net pension liability of $3.79 million. Unfunded pension liabilities have only a nominal impact on SJTCA's financial metrics given its sizeable total debt outstanding of over $2.1 billion that is expected to increase over the next several years. Moody's adjusts the reported pension liabilities of entities that report under governmental accounting standards, to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under our adjustments, we value liabilities using a market based discount rate for high quality taxable bonds, a proxy for the risk of pension benefits.

Management and Governance

The agency is a joint powers agency created under state law and governed by an independent board comprised of 14 local government officials from 14 city and county entities. SJHTCA entities represented on the board are: Aliso Viejo, Costa Mesa, Dana Point, Irvine, Laguna Hills, Laguna Niguel, Laguna Woods, Mission Viejo, Newport Beach, San Clemente, San Juan Capistrano, Santa Ana, and the County of Orange's 3rd and 5th Districts. Eight of the SJHTCA member agencies sit on the F/E TCA board. SJTCA and F/E TCA are managed by a common staff, but they are separate agencies, and each has its own board and financing. A two-thirds majority vote is required to pass any budgets and toll increases.

Legal Security

The bonds are secured by net toll revenues and related fees and fines collected on the toll road, and Development impact fees (DIFs) in excess of $5 million a year are pledged but not used in the rate covenant or additional bonds tests calculations. The cash funded senior and junior lien debt service reserve funds are sized at the minimum of (i) 10% of the initial principal, (ii) maximum annual debt service, or (iii) 125% of average annual debt service. As of FY 2016, the balance of the senior debt service reserve fund was $152 million, and $27.3 million for the junior lien reserve. Additional bondholder security is provided by a supplemental reserve to be funded annually from excess revenues to 50% of maximum annual debt service, with a balance of $48 million as of FY 2016 and a $15 million use and occupancy reserve fund. We note that annual deposits will be made to a sinking fund for CABs debt service from 2017 through 2031, which helps offset accretion risk.

Use of Proceeds

Not applicable.

Obligor Profile

San Joaquin Hills Transportation Corridor Authority operates a tolled 15-mile limited access ETC 4-6 lane facility in Orange County, the 3rd largest county in California and the 6th largest county in the US. The toll road opened to traffic in 1996 as the first publicly owned toll road in CA and has undergone three debt restructurings since the initial bond issuance in 1993 to better match the growth of annual debt service to the slower actual than forecasted traffic and revenue growth anticipated at the original financing.

Other Considerations: Mapping to the Grid

Note: The grid is a reference tool that can be used to approximate credit profiles in the toll road sector in most cases. However, the grid is a summary that does not include every rating consideration. Please see our Government Owned Toll Roads Rating Methodology for information about the limitations inherent to grids.

The published Baa3 rating differs from the scorecard output of Baa1 because of the unusual debt structure that includes escalating debt, very slow principal amortization and debt accretion due to CABs, as well as the fact that annual debt service extends to 2050, the final term of the cooperative agreement with Caltrans thereby eliminating any “tail” between the financing and the agreement. The DSCR is based on debt service from audited FY 2016 results.

Exhibit 3

San Joaquin Hills Transportation Corridor Agency Mapping

Government Owned Toll Roads Methodology

Factor	Subfactor	Score	Metric
1. Market Position	a) Asset Type	Ba	
	b) Operating History	Baa	
	c) Competition	Baa	
	d) Service Area Characteristics	Aa	
2. Performance Trends	a) Annual Traffic Transactions	Baa	
	b) Traffic Profile	Aaa	
	c) Five Year Traffic CAGR	Aa	
	d) Ability and Willingness to Increase Toll Rates	A	
3. Financial Metrics	a) Debt Service Coverage Ratio	A	1.53
	b) Debt to Operating Revenue	Caa	12.74x
4. Capacity, Capital Plan and Leverage	a) Asset Condition/Capital Needs	A	
	b) Limitations to Growth/Operational Restrictions	A	
Notching Considerations		**Notch**	
	1 - Debt Service Reserve Fund level		
	2 - Open/Closed Flow of Funds	-0.5	
	3 - Days Cash on Hand	1	
	4 - Other Financial, Operating and Debt Factors	-1	
Scorecard Indicated Rating:		**Baa1**	

Source: Moody's Investors Service

Methodology

The principal methodology used in this rating was Government Owned Toll Roads published in November 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REPORT NUMBER 1083631

Analyst Contacts

Jennifer Chang 212-553-3842
AVP-Analyst
jennifer.chang@moodys.com

A.J. Sabatelle 212-553-4136
Associate Managing Director
angelo.sabatelle@moodys.com

Victoria Shenderovich 212-553-4490
Associate Analyst
vika.shenderovich@moodys.com

Kurt Krummenacker 212-553-7207
Senior Vice President/ Manager
kurt.krummenacker@moodys.com

Maria Matesanz 212-553-7241
Senior Vice President
maria.matesanz@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE