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 Standard and Poor's Global Ratings has upgraded the rating it assigns to the Senior Lien Bonds from BBB- to BBB with a stable outlook and the Junior Lien Bonds from BB+ to BBB- with a stable outlook.

By: Amy Potter
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Dated: 5/2/17

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

S&P Global
Ratings

RatingsDirect®

San Joaquin Hills Transportation Corridor Agency, California; Toll Roads Bridges

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San Joaquin Hills Transportation Corridor Agency, California; Toll Roads Bridges

Credit Profile		
San Joaquin Hills Transportation Corridor Agency sr lien		
Long Term Rating	BBB/Stable	Upgraded
San Joaquin Hills Transp Corridor Agy toll rd rfdg rev bnds ser 1993 dtd 09/01/1997 due 01/01/2033		
Long Term Rating	BBB/Stable	Upgraded
San Joaquin Hills Transp Corridor Agy TOLLFAC		
Long Term Rating	BBB-/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating on the San Joaquin Hills Transportation Corridor Agency (SJHTCA), Calif.'s senior-lien toll road refunding revenue bonds to 'BBB' from 'BBB-', and its rating on the SJHTCA's junior-lien toll road refunding revenue bonds to 'BBB-' from 'BB+'. The outlook is stable.

The upgrade reflects growth in transactions and revenues above forecast resulting in DSC higher than the previous forecast. The increased revenues and higher DSC will help the agency meet its ascending debt service requirements.

The rating reflects our view of the following factors:

- High debt levels and a debt service schedule that increases to $186 million in 2040 from approximately $107 million in 2016;
- Uncertainty regarding the elasticity of tolls and management's financial forecast plans for annual toll increases at the assumed rate of inflation at 2.5% throughout the forecast period (although recent toll increases have increased revenues);
- Negative operational performance, with traffic flat or decreasing from 2008-2013; however, transactions increased from 2014-2016 ranging from 5.9%-11.1%; and
- Adequate total coverage levels forecast ranging from 1.53x-1.64x through 2030; and
- The subordinate nature of the junior-lien bonds.

We believe the service area's high wealth levels, high traffic on toll free highways, and a population that relies on the highway network partially mitigate these risks.

The 2014 bonds refunded and restructured debt. The SJHTCA has approximately $2.1 billion of toll revenue bonds outstanding as of June 30, 2016, including:

- $761.2 million 1997 senior-lien capital appreciation bonds (CABs)
- $1.1 billion series 2014A senior-lien bonds
- $293.9 million of series 2014B junior-lien bonds

The bonds were issued under the first amended and restated master indenture. A pledge of toll revenues from the San

Joaquin toll road, net of operating expenses, secures bonds. The 2014A bonds are senior-lien bonds and are on par with the 1997 bonds. The 2014B bonds are junior-lien bonds subordinate to the senior lien. At the time of the series 2014 transaction, the senior-lien and junior-lien bond reserve funds were funded with cash based on the standard three-part test. Management is cash-funding the supplemental reserve fund each year from 50% of surplus revenues until the balance is equal to 50% of MADS. A use and occupancy fund of $15 million is also pledged to the bonds. Development impact fees (DIF) are also pledged to the bonds, subject to the agency's right to use $2.5 million of fee revenues for any lawful purpose during each semiannual period ending July 15 or Jan. 15.

Since opening in November 1996, the SJHTCA has experienced actual traffic and revenue significantly below the levels projected in the original 1993 traffic study. In 1997, much of the debt was restructured, and a new traffic and revenue report was completed. However, since then, the toll road has continued underperforming compared with the original study's lower projections. The agency has since revised its traffic and revenue forecast and issued a new traffic and revenue report in connection with the 2014 bond issuance. The current traffic and revenue study assumes that tolls will increase at a rate of 2.5% per year. Transaction growth ranges from 0.5%-1.1% per year. This results in a revenue forecast that grows revenue at approximately 3.5% per year through 2022 compared to a debt service growth rate averaging 1.2% per year from 2016-2022. We believe the financial forecast is achievable given management's demonstrated willingness to increase tolls. Recent transaction and revenue performance has been higher than forecast in 2014. The financial forecast has risk of underperformance given the uncertainty of projections and the uncertainty regarding toll elasticity given the high toll rates and the ascending debt service requirements. Management's inability to adjust toll rates and increase revenue in cases where traffic decreases or is below the traffic and revenue forecast, resulting in financial results below expectations, is a credit risk. Available funds in the debt service reserve fund (DSRF) and supplemental reserve fund (SRF) partially mitigates this.

The overall debt service schedule, including senior and subordinate debt, is forecast to increase to a peak of approximately $186 million in 2040 from approximately $107 million in 2016. Although the annual debt service growth for the restructured debt is significant and requires steady annual revenue growth to meet the financial forecast, the growth rate in debt service for the restructured debt is significantly lower than previous debt service levels and the previous MADS level. The restructured debt provides additional financial flexibility to the agency compared with the previous debt structure.

Management's financial forecast has senior-lien coverage ranging from 1.79x-1.84x through 2030. Total debt service coverage (DSC; including senior- and junior-lien debt service) ranges from 1.53x-1.64x through 2030. DSC under the current forecast is higher than the previous forecast from the 2014 financing, reflecting improved revenues and lower debt service. Although total coverage has improved, debt service is still growing and there is risk that revenue may not keep pace with growth in debt service. An inability of management to adjust rates as needed to meet the financial forecast would be a credit risk and could lead to a lower rating. DSC ranged from 1.12x to 1.86x from 2013 to 2016. Management has indicated that it does not have plans to issue additional debt to fund any capital improvement plan projects for the San Joaquin toll road.

The agency has increased tolls significantly in recent years while transactions and revenues have varied. Recent transaction growth following significant toll increases is evidence of good demand for the toll facility.

In fiscal 2011, the SJHTCA received consent from bondholders to change the rate covenant to 1.0x from 1.3x. The amended and restated master indenture used for the 2014 bond issue changed the senior-lien rate covenant back to a 1.3x requirement.

Outlook

The stable outlook reflects our view of good demand, with strong transaction growth, and our assumption that the agency will be able to adjust rates as needed maintain adequate DSC.

Upside scenario

We could raise the rating during the two-year outlook period if the SJHTCA continues to outperform its revised forecast.

Downside scenario

Flat or declining revenues that lower DSC could result in a downgrade.

Issuer And Toll Road System

The SJHTCA organized under an agreement among Orange County and cities within the county. The agency is empowered to construct and operate the San Joaquin Hills Transportation Corridor and to establish and collect tolls to finance the cost of construction and toll collection. The SJHTCA has 14 members on its board of directors -- two from the county and one from each member city. It is a sister agency to the Foothill/Eastern Transportation Corridor Agency (F/ETCA), which administers another toll facility in the county. The two agencies share staff but are two separate joint-power authorities and have different board members based on the relevant member cities along each road. On Nov. 10, 2005, the SJHTCA entered a mitigation payment and loan agreement with the F/ETCA in which the SJHTCA received $120 million over four years to mitigate the potential loss of revenue due to the potential construction of the F/ETCA 241 extension project. In addition, subject to some conditions, the F/ETCA committed to provide a loan as needed, totaling approximately $1 billion. On Aug. 14, 2014, the agency's board and that of the F/ETCA approved an agreement to terminate the mitigation and loan agreement. As a result, the SJHTCA will repay the $120 million received from F/ETCA plus interest out of available surplus funds as defined in the indenture. Repayment commences Jan. 15, 2025. Payment is to be made solely from 50% of available surplus funds.

The San Joaquin Hills Transportation Corridor is a 15-mile, limited access road running from Newport Beach to San Juan Capistrano in Southwest Orange County. The SJHTCA owns and operates the toll collection and revenue management system on the road. The toll road itself is owned by the state department of transportation (Caltrans). Caltrans is also responsible for maintenance and repairs of the toll road system.

Bond Provisions

A pledge of toll revenues from the San Joaquin Hills system, net of operating expenses, secures the 1997 and 2014 bonds. Development impact fees the agency receives above $2.5 million in any fiscal year also secure the bonds. A

DSRF and SRF also secure the bonds. At the time of the series 2014 transaction, management cash-funded the DSRF based on the three-part reserve balance test. The agency will annually fund the SRF out of 50% of surplus revenues up to the SRF requirement level of 50% of MADS. However, if coverage falls below 1.3x on the senior lien or 1.1x on all bonds, the SJHTCA must fund the SRF out of 100% of surplus revenues until the SRF is fully funded to the 50% of MADS requirement.

The rate covenant requires the agency to set tolls such that net toll revenues provide at least 1.3x senior-lien DSC and at least 1.1x combined senior- and junior-lien coverage on the bonds. The indenture has a requirement for a midyear calculation of DSC to provide for early engagement of a traffic consultant if needed. If the minimum coverage is projected to be below the rate covenant, the agency must adopt a consultant's recommendation for tolls or alternatives that produce at least equivalent coverage. The agency can issue bonds on par with the senior-lien bonds if projected net toll revenues that a consultant estimates provide at least 1.5x projected annual DSC on senior-lien bonds or 1.2x on all existing and proposed bonds. Although the indenture does allow for additional debt, management has indicated that it has no plans to issue any.

The 2014 master indenture allows for partial or full prepayment in advance of debt service with funds held in escrow. The definition of annual debt service was modified to allow for prepayment of debt service to be used to prefund certain 1997A CAB debt service. The annual debt service definition will exclude debt service paid from escrowed funds. The toll covenant, additional bonds test, and DSRF calculations all exclude the escrowed annual debt service.