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Corpus Christi Regional Transportation Authority; Transit

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Corpus Christi Regional Transportation Authority; Transit

Credit Profile		
Corpus Christi Regl Transp Auth transit (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Credit Highlights

- S&P Global Ratings affirmed its 'AA-' long-term rating on Corpus Christi Regional Transportation Authority (the authority, or CCRTA), Texas' revenue bonds outstanding .
- The outlook is stable.

Security

A first and prior lien on net revenue of the transit system secures the bonds. Net revenue is defined as gross operating revenue less operations and maintenance (O&M) expenses, after the application of sales tax revenue for O&M. Sales tax revenue is not pledged to debt service, but is the first revenue used to pay operating expenses. As of Dec. 31, 2023, the authority had approximately $17 million in revenue bonds outstanding. The authority has $54.5 million (unaudited) in unrestricted reserves at fiscal year-end 2023, equal to 308% of debt outstanding, and a debt service reserve fund surety policy funded at average annual debt service requirements.

Credit overview

The rating incorporates our view of the authority's significant sales tax revenue support, which funds the majority of operations, as well as positive revenue trends and no additional debt plans. The rating also reflects the authority's history of performance volatility, as demonstrated by CCRTA's insufficient debt service coverage (DSC; S&P Global Ratings calculated which excludes one-time revenues such as with pandemic-related federal relief funds) in three out of the past four fiscal years, and our expectation that financial metrics will continue to fluctuate.

Based on CCRTA's fiscal 2023 unaudited financial results and historical performance, we expect the authority will maintain DSC generally above 1.1x, debt-to-net revenue within a range of 10x-15x, and unrestricted cash above 400 days and 85% of debt.

Key credit strengths, in our view, are CCRTA's:

- Substantial sales tax revenues supporting operations, totaling $37.2 million (net of outflows) or 86% of total revenues in fiscal 2023, providing less sensitivity to declines in ridership activity;
- Robust liquidity position, totaling $54.5 million (unaudited) in unrestricted reserves at fiscal year-end 2023, equal to 308% of debt outstanding; and
- Modest amount of debt outstanding, with no additional debt needs.

Partially offsetting these strengths, in our view, are CCRTA's:

- Relatively slow recovery trends, with fiscal 2023 ridership at 63% of pre-pandemic levels;
- Volatile financial metrics, particularly DSC and debt-to-net-revenue, which have fluctuated historically and were insufficient in three out of the past three fiscal years; and
- Sales tax revenues, which are sensitive to weak economic cycles, particularly due to a weaker service area economy and exposure to the oil and gas and tourism sectors.

Environmental, social, and governance

We analyzed the authority's environmental, social, and governance (ESG) factors relative to its market position, management and governance, and financial performance. In our view, the authority is exposed to heightened physical risks related to flooding, hurricanes, and sea-level rise, given its location on the Gulf of Mexico. The authority maintains various policies that address safety and security, including natural disasters. CCRTA also maintains insurance policies on its buildings, fleet, and capital assets. We consider social and governance credit factors neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that despite historical volatility, the authority will maintain strong financial metrics that are supported by generally growing sales tax revenue, level annual debt service, and no additional debt plans.

Downside scenario

We could lower the rating if we expect financial metrics, specifically DSC and debt-to-net revenues, will continue to exhibit significant volatility and weaken to levels inconsistent with a strong financial risk profile.

Upside scenario

Although unlikely, we could raise the rating if DSC and debt-to-net revenue (S&P Global Ratings-calculated) improve significantly and are sustained at levels consistent with a very strong financial risk profile.

Credit Opinion

Enterprise Risk Profile: Strong

Adequate provider of mass transit bus service with a sufficient base level of demand

We view CCRTA's market position as adequate, given the authority's relatively small service area, historically declining demand, and slow recovery trends. We note that the authority's ridership averaged decreases of about 2% annually from fiscal years 2012-2019, to 5.25 million in fiscal 2019 from 6.1 million in 2012, which was exacerbated due to the pandemic, with 2023 estimated ridership at approximately 63% of 2019's pre-pandemic levels.

However, we believe the authority benefits from strong political support, as evidenced by significant sales tax revenues funding the majority of operations. Sales tax revenues totaled $37 million (net of outflows), or 86% of total revenues, in fiscal 2023. We view the significant sales tax revenues as somewhat offsetting lagging ridership recovery, given that the authority has less reliance on farebox revenues, which accounted for about 2.5% of total revenues in fiscal 2023.

Management insights: Prudent financial policies support robust liquidity and financial flexibility

The authority maintains prudent financial policies regarding liquidity, long-term financial planning, and debt management. Financial policies include a formal liquidity policy of maintaining operating reserves of at least 25% of budgeted expenses less the designated reserve for employee benefits, and a capital reserve fund policy requiring funding to as much as 25% of the capital budget or budgeted depreciation. The authority's debt is fixed-rate, with no variable-rate debt or swaps. The five-year capital improvement plan (CIP) is updated annually as part of the budgetary process.

Very strong economic fundamentals

We consider the authority's service area economic fundamentals very strong, reflecting the Corpus Christi metropolitan statistical area's generally favorable level of economic activity as measured by estimated GDP per capita of about $65,000, tempered by a relatively modest service area population of about 447,000 and a service area economy exposed to volatility within the oil and gas and tourism sectors.

Financial Risk Profile: Strong

Increasing sales tax revenue will continue to support an adequate financial profile, despite performance volatility

Based on fiscal 2023 unaudited financial results and historical performance, we expect CCRTA will maintain DSC generally above 1.1x, debt-to-net revenue within a range of 10x-15x with some fluctuations, and unrestricted cash above 400 days and 85% of debt. The authority's financial metrics continue to fluctuate substantially year to year, with insufficient DSC in three out of the past four fiscal years. We note several factors contributing to the recent fluctuations in performance, including the authority's relatively small amount of annual debt service requirements, combined with relatively slim margins, which together can result in swings that are small in absolute terms but have a material effect on financial metrics. Additionally, we note that fluctuations in sales tax revenues and delayed receipt of grant proceeds have attributed to historical performance volatility. Although we believe the authority benefits from significant sales tax revenue and level annual debt service, we will continue to monitor the authority's performance and for any signs of pressure stemming from volatility.

Manageable capital plan, with no additional debt needs

The authority's five-year capital plan is manageable, in our view, and totals approximately $67.3 million for fiscal years 2025-2029, largely funded by federal grants. There are no plans to issue additional debt to fund the CIP.

Significant tax support

In our view, the authority receives significant tax support from sales tax revenues. The authority imposes a half-cent limited sales-and-use tax on all taxable transactions within Nueces County, including the City of Corpus Christi, and portions of San Patricio County. This is the maximum rate allowed by current law. In fiscal 2023, sales tax revenues, net of distributions to regional entities and subrecipient programs, totaled $37 million, or 86% of total revenues.

Tempering our view of tax support is a weaker service area economy with significant exposure to the energy and tourism sectors, which attributes to the authority's revenue volatility, particularly for DSC.

Corpus Christi Regional Transportation Authority, Texas--Financial and operating data

	--Fiscal year ended Dec. 31--					Medians for 'AA' category rated mass transit
	2023u	2022	2021	2020	2019	2023
Financial performance						
Total operating revenue ($000s)	1,761	1,660	1,626	1,992	3,218	37,959
Plus: interest income ($000s)	2,935	913	105	181	553	MNR
Plus: other committed recurring revenue sources ($000s)	38,484	36,526	34,865	30,544	31,645	MNR
Less: total O&M expenses and like transfers out, if any, net of noncash expenses	42,150	39,674	32,603	33,523	31,027	352,777
Numerator for S&P Global Ratings' coverage calculation ($000s)	1,030	(575)	3,993	(806)	4,389	MNR
Total debt service ($000s)	1,409	1,409	1,408	1,410	1,605	23,422
Denominator for S&P Global Ratings' coverage calculation ($000s)	1,409	1,409	1,408	1,410	1,605	MNR
S&P Global Ratings-calculated coverage (x)	0.73	(0.41)	2.84	(0.57)	2.73	1.79
Debt and liabilities						
Debt ($000s)	17,689	18,029	19,011	19,450	20,265	160,830
S&P Global Ratings-calculated net revenue ($000s)	1,030	(575)	3,993	(806)	4,389	116,083
Debt to net revenue (x)	17.2	(31.4)	4.8	(24.1)	4.6	2.7
Liquidity and financial flexibility						
Unrestricted cash and investments ($000s)	54,459	58,318	48,527	45,154	27,157	419,805
Available liquidity, net of contingent liabilities ($000s)	54,459	58,318	48,527	45,154	27,157	MNR
Unrestricted days' cash on hand	471.6	536.5	543.3	491.6	319.5	472.0
Available liquidity to debt (%)	307.9	323.5	255.3	232.2	134.0	112.0
Tax revenues						
Sales tax ($)	40,793	38,482	37,149	33,912	33,878	MNR
Total tax revenues ($)	40,793	38,482	37,149	33,912	33,878	MNR
Tax outflows ($)	3,571	3,433	3,160	3,995	3,188	MNR
Total tax revenues (net of outflows, if any) ($)	37,222	35,049	33,989	29,917	30,690	346,787
Tax revenues to total revenue %	86.2	89.6	92.9	91.4	86.7	78.0
Operating metrics - mass transit						
Bus passengers (000s)	3,024	2,564	2,181	2,810	4,975	MNR
Other passengers (000s)	279	250	202	174	275	MNR
Total passengers (000s)	3,303	2,814	2,383	2,984	5,250	24,332
Fare revenues (000s)	1,084	991	987	1,141	1,858	27,305

Corpus Christi Regional Transportation Authority, Texas--Financial and operating data (cont.)						
	--Fiscal year ended Dec. 31--					Medians for 'AA' category rated mass transit
	2023u	2022	2021	2020	2019	2023
Farebox recovery ratio (%)	2.6	2.5	3.0	3.4	6.0	6.0

u--Unaudited. O&M--Operations and maintenance. S&P Global Ratings-calculated net revenue = (Total operating revenue + other recurring nonoperating revenue committed to debt service) - total O&M expenses excl. noncash expenses. Available liquidity = unrestricted cash and investments + total contingent liquidity resources - contingent liabilities. Examples of total contingent liquidity resources include working capital line of credit and other available cash reserves not already included in unrestricted cash and investments. See "Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions" criteria for more S&P Global Ratings definitions and calculations. MNR--Median not reported.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022