FitchRatings

FITCH AFFIRMS ALAMEDA CORRIDOR TRANSPORTATION AUTH, CA'S SR. & SUB REVS; OUTLOOK STABLE

Fitch Ratings-New York-06 November 2014: Fitch Ratings has affirmed the following ratings for Alameda Corridor Transportation Authority, CA (ACTA)

--$796 million senior revenue bonds series 1999A, 1999C, 2013A at 'A';
--$746 million subordinate revenue bonds series 2004A and 2004B at 'BBB+'.

The Rating Outlook on all bonds is Stable. ACTA also has $83.7 million in unrated series 2012 bonds, which are on parity with the rated senior revenue bonds.

KEY RATING DRIVERS

ECONOMIC ESSENTIALITY: The corridor provides an important intermodal transportation link, handling approximately 35% of all container throughput for the two largest container ports in North America (ports of Los Angeles and Long Beach, each rated 'AA' by Fitch). ACTA is a vital component of the ports' core business.

STRONG COUNTERPARTIES PROVIDING FINANCIAL SUPPORT: In addition to driving corridor throughput, the ports of Los Angeles and Long Beach provide ACTA with financial support. In both 2011 and 2012, each port paid $2.95 million in shortfall advance payments to help cover debt service. In 2013 and 2014, no shortfall advance was required, though excess debt service reserve funds were used to meet debt service payments. Management indicates no additional shortfall advances are anticipated through FY2017 or later. The financial health of the ports is more than adequate to meet their commitment to cover up to 40% of any debt service shortfall at ACTA, should such a need arise. BNSF and Union Pacific railroads cover operating costs through assessment charges.

HIGH DEBT BURDEN WITH ESCALATING ANNUAL DEBT OBLIGATIONS: ACTA currently has relatively high all-in leverage of 12.5 times (x) net debt to cash flow available for debt service (including contingent port obligations, 9.4x), though this is expected to decrease over the next five years as debt is paid down. Annual debt obligations grow by 6.3% per year from 2014 to 2019.

MINIMAL CAPITAL NEEDS: The corridor has no major capital program requirements beyond closeout of the original project and on-going maintenance. No additional borrowing for capital projects is anticipated.

RATING SENSITIVITIES

Negative - Underperformance in container related trade volumes at the two area ports may adversely affect ACTA's credit quality. A slowing or reversal of the recovery of Pacific Rim trade volumes remains central to the rating's stability. Should global trade volumes decrease, or the market share of West Coast ports drop relative to East Coast and Gulf of Mexico alternatives, ACTA's credit quality may be affected.

Negative - Any material change in the credit quality of ACTA's key counterparties, namely the ports of Los Angeles and Long Beach, or inability of BNSF and Union Pacific railroads to cover operating and maintenance expenses, will likely pressure the rating.

Negative - While the port backstop provides stability to the rating, Fitch notes ACTA's use of excess construction and debt service reserve funds in recent years to meet debt service payments in the absence of shortfall advance payments. Ongoing uses of balance sheet funds may indicate credit pressures.

Positive - Given the Authority's increasing debt service profile through 2034 and dependence on revenue growth, upward rating migration is unlikely.

CREDIT SUMMARY

In fiscal 2014 (ending June 30), 15.02 million twenty-foot equivalent units (TEUs), 34% of which were subject to a corridor fee, were transferred through the San Pedro Bay ports. ACTA saw a slight decline in TEU volumes in 2013, with throughput dropping 3% (vs. a 0.9% increase for San Pedro Bay ports). In 2014, ACTA TEU volumes increased 7.2% (vs. a 5.6% increase for San Pedro Bay). Year to date (first two months of fiscal 2015 through August) the corridor has experienced an increase of 4.1% in TEUs (as compared to a 0.5% increase for the same period at the San Pedro Bay ports.

Use fee and container charges, which represent 96% of operating revenues, increased by $9.6 million, or 9.7% in fiscal 2014, reflecting both throughput growth in the corridor and a 1.5% CPI-based rate increase for the year. Recent performance indicates that ACTA's volumes and revenues are improving; however, due to the corridor's escalating debt service profile through 2034, continued recovery is necessary to maintain the credit profile of this asset at current levels.

Both the Los Angeles and Long Beach ports are legally and individually committed under the operating agreement to cover shortfalls up to 20% of ACTA's annual debt service payment. A total of $11.8 million in shortfall advances has been made in 2011 and 2012; rates for loaded containers were also increased by $1.12/TEU per the agreement, an increase that will remain in effect until the ports are repaid in full for their shortfall contributions. No additional advances were requested for 2013 or 2014, though $13.9 million in excess debt service reserve funds from the 2004A bonds were used to meet debt service requirements in 2014, and excess reserves were also used in October 2014 to make the final payment on the 1999D bonds.

At present ACTA is confident that no Shortfall Advances will be required through at least fiscal 2017, in part due to the release of excess debt service reserve funds in 2014. Beyond that timeframe shortfall advances may be necessary though they are expected to be well below the combined 40% of debt service covered by the ports. In Fitch's base case, which assumes modest TEU growth of 2% and the lowest permitted CPI increase of 1.5% per year, senior lien coverage on an operating revenue basis remains at or above 1.8x for senior lien bonds and above 1.0x on an all-in basis, with roughly $10 million in shortfall advances through fiscal 2019. A more stressful scenario which contemplates a 5% drop in port throughput in 2016 still results in senior coverages of 1.8x or better; subordinate coverage remains 1.0x or better with shortfall advances beginning in 2016.

The backstop provided by the shortfall advance structure improves ACTA's standalone credit profile by virtue of the ports' superior financial resources and near-term contractually obligated revenue streams. Over 70% of both ports' operating revenue comes from minimum annual guarantees (MAGs) payable by tenants regardless of cargo volume. Fitch rates Port of Los Angeles 'AA' with a Stable Outlook, and Port of Long Beach 'AA/AA-' with a Stable Outlook. Both ports have an adequate amount of unrestricted cash to meet any near-term shortfall payments without having to adjust their rates or tariffs. However, should there be a material adverse change in overall port throughput levels, or should either port express an unwillingness to honor its obligations under the shortfall advance structure, ACTA's credit quality may be affected.

ACTA is a public body that administers the Alameda Corridor, a 20-mile multi-track freight rail system linking the ports of Los Angeles and Long Beach, the two largest container ports in North

America, with the transcontinental rail lines near downtown Los Angeles. The $2.4 billion corridor opened in April 2002 and currently handles roughly 35% of all container throughput through the San Pedro Bay ports. Pursuant to an operating agreement with the authority, the BNSF and Union Pacific railroads pay monthly assessments to cover certain costs of maintenance, operations and repair of the corridor, giving bondholders a gross lien on corridor revenue. The corridor connects existing railroad lines near the Los Angeles central rail yards with the San Pedro Bay port facilities.

SECURITY

Bondholder security includes the pledged revenue stream and all other monies held by the trustee except for the Maintenance and Operations (M&O) Fund and the Reserve Account, both of which are for purposes of operating and capital maintenance of the corridor. Pledged revenues consist primarily of the volume assessment charges payable by the railroads and debt service shortfall advances payable by the ports. A Use and Operating Agreement among ACTA, the ports and the railroads governs the volume assessment of charges.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Rating Criteria for Infrastructure and Project Finance' (July 12, 2012).

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Rating Criteria for Infrastructure and Project Finance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867