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

Fitch Ratings-New York-25 April 2019: Fitch Ratings has affirmed the Alameda Corridor Transportation Authority's (ACTA) $980 million in senior bonds at 'A', $455 million in subordinate revenue bonds at 'BBB+', and $557 million in second subordinate revenue bonds at 'BBB'. The Rating Outlook on all of the bonds is Stable.

ACTA also has $84 million in unrated series 2012 bonds, which are on parity with the rated senior revenue bonds.

KEY RATING DRIVERS

The ratings reflect a vital rail corridor that handles nearly a third of the throughput for the San Pedro Bay ports (SPB ports; Port of Los Angeles and Port of Long Beach, both rated 'AA'/Stable). Backstop commitments from the ports provide some revenue stability and mitigate against the authority's exposure to throughput volatility and rate adjustment limitations. Credit concerns include ACTA's heavily back-loaded debt structure, which Fitch expects to trigger several years of shortfall advances after 2026 if the debt is not restructured and/or volume and inflation growth remains modest.

The 'A' rating on the senior lien reflects superior coverage levels, stronger structural protections, and an expected lack of dependence on shortfall advances, while acknowledging the open nature of the lien for future restructuring transactions. The first subordinate and second subordinate bond ratings of 'BBB+' and 'BBB', respectively, reflect the liens' subordinated positions within the ACTA debt structure, lower coverage levels, weaker structural protections, and expected reliance upon shortfall advances post 2026.

Essential Corridor, Elevated Volatility - Revenue Risk (Volume): Midrange

The corridor provides an essential intermodal transportation link between the SPB ports and two of the nation's largest railroads, Union Pacific and BNSF. However, ACTA's loaded throughput has exhibited slightly more volatility than that of the SPB ports as a result of its exposure to trans-loading and shipment of intermodal cargo to some lower growth regions beyond the Southern California basin. ACTA's import cargo is also somewhat susceptible to diversion, though limited diversion is expected given timing efficiencies provided by the SPB ports and the railroads. ACTA's share of SPB port imports has declined modestly in recent years to approximately 31% of total TEUs. Positively, elasticity to rate increases has been low and is expected to remain low going forward given ACTA's current rate framework.

Moderate Rate-Making Ability - Revenue Risk (Price): Midrange

ACTA has a moderate ability to modify rates as evidenced by its rate framework that tracks rate increases to changes in the consumer price index (CPI). Annual rate increases are subject to a minimum threshold of 1.5% and a maximum threshold of 4.5%, which protects against very low or negative inflation but limits the authority's ability to offset sharp declines in volume with commensurate rate increases. Rate increases for fiscal 2018 and 2019 were 3.1% and 4.1%, respectively. Periods of lower inflation growth are somewhat mitigated by the allowance of shortfall advances by the SPB ports, which have an obligation to cover up to 40% of any debt service payment. ACTA is also able to pass through many maintenance and operational (M&O) costs directly to the BNSF and Union Pacific railroads, though ACTA remains responsible for its own administrative costs and capital refurbishment through the Reserve Account.

Minimal Capital Needs - Infrastructure Renewal/Development: Stronger
ACTA's capital improvement planning mechanisms are considered strong and reflect the anticipated needs of both the ports and the railroads. The corridor is in good condition and is currently operating well above medium-term throughput forecasts, resulting in modest future expected capital needs. The asset benefits from a $74 million in available cash balances as of January 2019, well above expected annual capital spending of roughly $3 million to $4 million. No additional borrowing for capital-related projects is expected over the near term.

Back-Loaded Debt Structure - Debt Structure: Stronger (Senior); Midrange (Subordinate and Second Subordinate)
ACTA's debt structure is fixed-rate and largely back-loaded, with approximately 40% of total outstanding debt in the form of capital appreciation bonds. The lower debt structure score of ACTA's two subordinate liens reflects the liens' subordinated position within the overall debt structure, weaker structural features, and reliance on shortfall advances to meet obligations post fiscal 2026 unless additional restructuring occurs.

Financial Profile:
ACTA benefits from solid senior full-term rating case average debt service coverage ratios (DSCR) of 2.4x, and adequate first subordinate and second subordinate full term average DSCRs of 1.8x and 1.2x, respectively (including the port's contingent obligations and ACTA's administrative costs). Overall, ACTA's coverage ratios are at the upper end of Fitch's indicative guidance for ports, representing Fitch's view that additional financial cushion is necessary to offset ACTA's increased volume and price risk. Rating case year five leverage (including contingent obligations and administrative costs) is adequate for the senior and first subordinate lien at 5.5x and 8.6x but elevated on an all in basis at 11.9x. Higher leverage is mitigated by ACTA's lack of capital needs, which should allow for progressive deleveraging through final maturity.

PEER GROUP:
In comparison to 'A' category rated ports within Fitch's portfolio, ACTA has a lower percentage of minimum annual guaranteed revenues but higher Fitch rating case coverage representing the additional cushion necessary to offset ACTA's lower degree of revenue stability.

RATING SENSITIVITIES
Future Developments That May, Individually or Collectively, Lead to Negative Rating Action
-Sustained throughput underperformance not adequately offset by rate increases, resulting in ongoing dependency on shortfall advances.
-Material changes in the credit quality of the two port counterparties, or an inability of the railroads serving ACTA to cover O&M.
-Material changes in federal policy which negatively affects trade with Asia, and correspondingly, ACTA's TEU throughput.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action
ACTA's increasing debt service profile and dependence on revenue growth to avoid shortfall advances make upward rating migration unlikely.

CREDIT UPDATE

Performance Update
On a year-over-year basis, ACTA's TEUs increased 9.3% in fiscal 2018 (ended June 30), reflecting a recovery from the Hanjin bankruptcy and strong TEU growth of 6.6% at the SPB ports in fiscal 2018. ACTA TEUs for fiscal 2019 year to date (first six months through December 2018) continued to grow, increasing by 3.8% year-over-year. TEUs at the SPB ports grew 3.7% for the same period. However, TEU volumes in the first half of 2019 may reflect the acceleration of

volumes in advance of tariffs, with potentially lower growth in the second half of the year. ACTA's financial metrics are expected to remain in line with its current ratings.

Use Fee and Container Charges increased 9.9% in fiscal 2018, reflecting the CPI-linked rate increase of 3.1% effective Jan. 1, 2018. Total Operating Revenues increased 3.9% in year to date through January 2019 due to the increase in TEUs and an additional inflationary rate increase of 4.1% effective Jan. 1, 2019. Use Fees and Container Charges are estimated to remain approximately flat at $112 million, which conservatively allows for potential lower growth in the second half of 2019. Administrative expenses, excluding depreciation and Maintenance-of-Way expenses, declined by 1.9% in fiscal 2018 reflecting a decline in professional services costs. Administrative expenses have declined by 10% in fiscal year to date through January 2019 in part due to lower professional, legal, and audit service costs.

In fiscal 2018, Fitch-calculated senior DSCR (including contingent obligations, net of administrative costs) increased to 2.3x, from 2.1x in fiscal 2017. Total Fitch-calculated DSCR for fiscal 2018 remained flat at 1.5x. Fitch-calculated senior net-debt to cash flow available for debt service fell slightly to 6.9x and total leverage declined to 13.2x driven by higher cash flow available for debt service in 2018.

Fitch Cases
Fitch's base case assumes 2% TEU growth for inbound containers and 1.5% growth for empties, coupled with inflationary rate increases of 2%, and inflationary administrative cost growth of 2%. Fitch's rating case assumes 1.5% TEU growth, rate increases at the minimum threshold of 1.5%, and 2.5% administrative expense growth. Fitch's base case analysis yields full-term DSCRs and year five leverage of 2.7x and 5.3x senior, 2.0x and 8.2x first subordinate, and 1.4x and 11.4x second subordinate, respectively. Fitch's rating case analysis yields full-term DSCRs and year five leverage of 2.4x and 5.5x senior, 1.8x and 8.6x first subordinate, and 1.2x and 11.9x second subordinate, respectively.

Fitch's breakeven analysis indicates that in order to breakeven to 1x DSCR while exhausting all available cash reserves, annual revenue growth would have to decline by 14.4% on the senior lien, decline by 1.1% on the first subordinate lien, and grow at a modest 1.3% on the second subordinate lien. In Fitch's view, the aforementioned percentages demonstrate that all liens have a very low dependence on growth when considering available contingent obligations of the ports. However, breakeven percentages decline substantially when excluding the port's contingent obligations. Under this scenario, no growth would be required for the senior lien, 5.0% growth would be required on the first subordinate lien, and 5.4% required on the second subordinate lien.

While current metrics are considered adequate for their respective ratings, both Fitch's base and rating case require shortfall advances in order to meet obligations through debt maturity as a result of ACTA's back-loaded debt service obligations. Furthermore, avoiding shortfall advances on all liens would require annual revenue growth of at least 5.4% to breakeven, which may not be feasible. Credit quality could be compromised to the extent the authority becomes dependent on shortfall advances to meet obligations. However, Fitch views positively the long tail currently provided by the use permit and the presence of call options within ACTA's debt structure, which should provide for sufficient financial relief via a refunding or restructuring transaction if necessary.

Security
Bondholder security includes the pledged revenue stream and all other monies held by the trustee except for the 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. Shortfall advances from the ports are subordinate to their own costs and debt obligations. A use and

operating agreement among ACTA, the ports and the railroads governs the volume assessment of charges.

Asset Description

Alameda Corridor Transportation Authority 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 network east of downtown Los Angeles.

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Applicable Criteria
Ports Rating Criteria (pub. 23 Feb 2018)
https://www.fitchratings.com/site/re/10021628
Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)
https://www.fitchratings.com/site/re/10038532