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Alameda Corridor Transportation Authority, California; Ports/Port Authorities

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Alameda Corridor Transportation Authority, California; Ports/Port Authorities

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Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'A-' long-term rating and underlying rating (SPUR) on the Alameda Corridor Transportation Authority (ACTA), Calif.'s senior-lien bonds and its 'BBB+' long-term rating and SPUR on the authority's subordinate-lien revenue bonds. The outlook is stable.

The rating actions reflect the application of our criteria, "U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises," published March 12, 2018.

The ratings reflect what we consider to be a combination of a very strong enterprise risk profile, tempered by an adequate financial risk profile. The very strong enterprise risk profile reflects ACTA's strategic value to the railroads and ports, due to the enhanced rail capacity and lower travel times it provides. The adequate financial risk profile reflects the authority's escalating debt service schedule, with combined annual debt service increasing to $228 million by fiscal 2027 from approximately $100 million in 2014, resulting in what we expect will be sufficient near-term debt service coverage (DSC) as per our calculations (net revenues, excluding potential shortfall advances).

The enterprise risk profile reflects our view of ACTA's:

- Very strong market position, as shown by its role in generating efficient container movements via direct connections to on-dock rail services at the major Ports of Los Angeles and Long Beach;
- Extremely strong service area economic fundamentals, which include favorable income levels and economic activity as measured by GDP per capita, a good population size, above-average expected population growth, and below-average unemployment levels;
- Low industry risk relative to that of other industries and sectors; and
- Strong management and governance, with management generally achieving or exceeding financial and operational goals, detailed financial projections, generally well-defined project plans and targets that mitigate key risks, and a history of successful operations.

The financial risk profile reflects our view of the TIE's:

- Vulnerable coverage (per our calculations) that we expect to remain at 1.0x-1.1x, although we believe it is sustainable through 2026 without shortfall advances;
- Adequate debt and liabilities capacity, which, while high at 16x relative to peers', is sustainable given ACTA's lack of additional debt needs; and

- Strong liquidity and financial flexibility based on a combination of adequate days' cash on hand (250) and highly vulnerable unrestricted reserves-to-debt, mitigated by the ports' support explicitly in the form of debt service shortfall advances when necessary, which we treat as a credit facility.

Despite the risk that a vulnerable financial profile suggests, the ports' various support methods to the facility--including a commitment to shortfall advances up to 40% of required debt service--offsets this somewhat.

ACTA is a joint powers authority created by the cities of Los Angeles and Long Beach to acquire, construct, finance, and operate the Alameda Corridor. The corridor is a 20-mile-long, grade-separated, multi-track rail system that connects the ports to the Union Pacific Railroad (wholly owned by Union Pacific Corp.) and Burlington Northern Santa Fe Railway (wholly owned by Burlington Northern Santa Fe LLC) transcontinental rail routes near downtown Los Angeles. In our view, the corridor represents a substantial upgrade to the ports' rail connections and is an important project for the ports and railroads. Under the use-and-operating agreement, the railroads pay for the majority of system maintenance. ACTA is responsible for its own administrative expenses and a portion of nonrail maintenance, which it pays from use fees and container charges and which are subordinate to debt service payments.

Revenues from corridor use fees and container charges that railroads pay, and some shortfall advances the ports of Los Angeles and Long Beach pay, secure the bonds. The railroads pay 20-foot equivalent unit (TEU)-based use fees on loaded and empty containers for using the rail corridor. The railroads also pay TEU-based container charges for loaded TEUs, which leave or arrive in Southern California by rail and also have been moved on or off ships at the ports. The ports have agreed that, in any year in which use fees and container charges are insufficient to cover total annual debt service, they will advance to ACTA funds (the shortfall advances) to pay the difference. However, the ports' obligations to make shortfall advances each year are limited to 40% of the total annual amount of debt service due that year. Also, each is responsible for only its half of the shortfall advances due in a year (neither port is required to pay more than 20% of its annual amount due). In fiscal 2017, the authority did not require shortfall advances to support its October debt service payment. ACTA currently has $1.6 billion in combined senior- and subordinate-lien debt, excluding accreted interest.

Governing operations and finances is the use and operating agreement between ACTA, the two ports, and the two railroads through 2062. Under the agreement, the railroads pay use fees and container charges, which rise annually based on the change in CPI, with a minimum increase of 1.5% and a maximum of 4.5%. In addition, if a shortfall advance from the ports is necessary, ACTA's fees will be subject to a $1, one-time increase (CPI-adjusted). The authority most recently implemented this in 2011 due to a shortfall advance. The railroads currently pay $24.51 per waterborne full TEU, whether using the corridor or routed around the corridor; this figure is adjusted annually Jan. 1.

Outlook

The stable outlook reflects our view that container volumes and market share with scheduled rate increases will provide sufficient revenue to achieve net DSC (S&P Global Ratings-calculated) near sufficiency, with limited reliance on shortfall advances.

Upside scenario

We do not expect to raise the rating during the two-year outlook period due to the ascending debt service schedule, as we expect net revenues to continue providing DSC near sufficiency only.

Downside scenario

Should DSC (S&P Global Ratings-calculated) rely heavily on shortfall advances to maintain sufficiency, we could lower the rating. Material declines in activity levels or market share could likewise lead to a lower rating.

Enterprise Risk

Our assessment of the TIE's enterprise risk profile as very strong reflects extremely strong economic fundamentals, a very strong market position, strong management and governance, and low industry risk.

Economic fundamentals

We regard economic fundamentals as extremely strong. The ports of Los Angeles and Long Beach support and reflect the broader U.S. economy. Furthermore, about a third of the content of the ports' imported containers are destined for distribution by rail outside the local market, and a little less than half of the ports' export containers originate outside the local region and arrive at the ports by rail.

Market position

Our view of a very strong market position reflects the structural fees and charges that ACTA earns from the railroads serving the ports. While there is competition for TEUs destined for outside of the local market, the railroads are required to remit fees to ACTA for all TEUs destined for points outside of the local market, whether they actually travel via ACTA or are trucked around the corridor. In our opinion, this requirement also mitigates the limits on pricing power via predetermined rate increases based on maximum/minimum CPI. Fees and container charge revenue usually trend with TEU volumes at the two ports, as ACTA has generally derived its revenue from approximately 35% of the ports' combined TEUs. Recent trends have been below this historical average and continued lower market share could be a risk for a lower rating.

Management and governance

We believe management and governance is strong at ACTA, with good board oversight, an experienced management team and support from commitments from the ports. However, while the authority has a strategic plan, measures of achievement are tied to the ports, resulting in limited ACTA-specific goals. Historically, the authority has met its goals because of rate increases and a steady demand profile, a strategy that is consistent with the ports it serves.

Management has set standards for operational performance that are achievable, although somewhat aggressive, with rate increases over the life of the bonds. Management projects shortfall advances from the ports in 2027 if no restructuring or refunding occurs.

Consistent with our criteria, "Methodology: Industry Risk", and "Key Credit Factors For The Transportation Infrastructure Industry" (both published Nov. 19, 2013), we consider the industry risk for the not-for-profit TIE industry to be low compared with other industries and sectors, equating to very strong on our six-point scale.

Financial Risk

Our assessment of ACTA's adequate financial risk profile reflects strong liquidity and financial flexibility, adequate debt and liabilities, along with vulnerable financial performance reflecting coverage near sufficiency.

Financial performance

We classify the authority's financial performance as vulnerable, largely due to narrow DSC that is sufficient only on a projected basis for fiscal 2018 (year ended June 30) as per our calculations: 1.01x on all debt, net basis excluding potential shortfall advances. Meanwhile, fiscal 2017 revenue (excluding $4.9 million in maintenance-of-way revenue) was $102.8 million, down less than 1% from 2016, resulting in DSC of 1.1x all debt. Factoring in potential shortfall advances and calculating these figures on a gross basis, DSC was calculated at 1.59x in 2017, and is projected at 1.48x in 2018.

However, there are scheduled rate increases, and ACTA benefits from the collective support of the ports through shortfall advances. At the same time, we recognize that the authority has structured an escalating debt service schedule.

Debt and liabilities

We believe ACTA's debt and liabilities position is adequate, given its overall profile. While the revenue stream is narrow, there are no additional debt needs, and the corridor can appropriately handle projected increases in container traffic as currently configured.

Liquidity and financial flexibility

While the authority demonstrates what we believe to be adequate days' cash on hand (250), the overall liquidity position is low relative to annual debt, because the authority uses excess revenues to repay the ports. However, similar to other mitigated risks, the ports' commitments to ACTA mitigates this. Specifically in terms of the ports' support, we view the commitment for each port to provide up to 20% of required debt service when necessary favorably, to the point that we are interpreting this as a credit facility, helping result in classifying the authority's overall liquidity and financial flexibility as strong.

Ratings Detail (As Of June 18, 2018)		
Alameda Corridor Transp Auth second subordinate lien (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth second subordinate lien (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth second subordinate lien rev rfdg bnds ser 2016B due 10/01/2037		
Long Term Rating	BBB+/Stable	Affirmed
Alameda Corridor Transp Auth sr ln rev rfdg bnds		
Long Term Rating	A-/Stable	Affirmed
Alameda Corridor Transp Auth sr ln rev rfdg (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed

Ratings Detail (As Of June 18, 2018) (cont.)		
Alameda Corridor Transp Auth sub lieb (AGM) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth sub lieb (AGM) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth sub lieb (AGM) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth sub lien rev rfdg bnds ser 2016A due 10/01/2025		
Long Term Rating	BBB+/Stable	Affirmed
Alameda Corridor Transp Auth sub lien (AGM) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth sub lien (MAC) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth taxable sr lien rev bnds ser 1999C dtd 01/01/1999 due 10/01/2019 2029 & cap apprec. bnds dtd 02/09/1999 due 10/01/2020-20		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth PORTS		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth subord lien rev rfdg bnds		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.