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

Fitch Ratings-New York-29 October 2015: 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.

The rating reflects a vital rail corridor that handles nearly a third of throughput for the San Pedro Bay ports (Port of Los Angeles and Port of Long Beach, both rated 'AA'/Outlook Stable). Backstop commitments from each of the ports provide stability to the rating and serve to partially offset ACTA's high financial leverage and exposure to changes in throughput. ACTA is particularly sensitive to changes in 20-foot equivalent unit (TEU) volumes due to its escalating debt service profile. ACTA is considering options to restructure, modify, or refund a portion of its outstanding bonds; ACTA financings are subject to, among other things, review and approval by ACTA's Governing Board, as well as certain review and approval by the Harbor Commissions of the Port of Los Angeles and the Port of Long Beach.

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. ACTA is a vital component of the ports' core business. Throughput volumes on the corridor are highly correlated with San Pedro Bay throughput levels, leading to some volatility in periods where port cargos are reduced.

FINANCIAL SUPPORT FROM STRONG COUNTERPARTIES: ACTA has sound rate setting mechanisms to generate revenues linked to container throughput. In addition to ACTA's own operating revenues, the ports of Los Angeles and Long Beach provide ACTA with financial support in the form of a commitment to cover up to 40% of any debt service shortfall at ACTA. The BNSF and Union Pacific railroads cover operating costs through separate assessment charges.

HIGH DEBT BURDEN WITH ESCALATING ANNUAL DEBT OBLIGATIONS: ACTA currently has relatively high all-in leverage of 12.3x net debt-to-cash flow available for debt service (CFADS). When including contingent port obligations as additional cashflow as allowed under the indenture, the leverage metric is 8.9x. Under Fitch's base and rating cases, leverage is expected to decrease over the next five years to 8.0x, which assumes some draw on port obligations. Annual debt service obligations grow by 6.2% between 2015 and 2020.

MINIMAL CAPITAL NEEDS: ACTA 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 - Counterparty Exposure and Throughput: Given high correlation between port throughput and corridor volumes, together with support from the ports in the form of shortfall advance payments, underperformance at the ports of Los Angeles and Long Beach may adversely affect ACTA's credit quality. Additionally, any material change in the credit quality of ACTA's key port counterparties, or inability of the BNSF and Union Pacific railroads to cover operating and maintenance expenses, will likely pressure the rating.

Positive - Growth Dependence a Constraint: Given ACTA's increasing debt service profile through 2034 and dependence on revenue growth, upward rating migration is unlikely.

CREDIT UPDATE

In fiscal 2015 (ending June 30), 15.0 million TEUs, 35% 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 2015, with throughput dropping 0.7% (vs. a 0.0% increase for San Pedro Bay ports). The decrease in throughput volume was the result of the West Coast labor slowdown that took place late in calendar 2014 and early in calendar 2015. Year to date (first two months of fiscal 2016 through August) ACTA has experienced an increase of 5.1% in TEUs, as compared to a 9.4% increase for the same period at the San Pedro Bay ports.

Use fee and container charges, which represent 96% of operating revenues, decreased by $3.4 million, or 3.0% in fiscal 2015, reflecting the decline in throughput volumes. Recent performance indicates that ACTA's volumes and revenues are moderately recovering; however, due to ACTA's escalating debt service profile through 2034, continued throughput and revenue growth is necessary to maintain the credit profile of this asset at current levels.

Both the Los Angeles and Long Beach ports are each legally and individually committed under the operating agreement to cover shortfalls up to 20% of ACTA's annual debt service payment (aggregate of 40% total ACTA debt service payment or an average of $52 million over the next five years). A total of $11.8 million in shortfall advances has been made in 2011 and 2012. No additional advances were requested for 2013 through 2015, though $13.9 million in excess debt service reserve funds from the 2004A bonds were used to meet debt service requirements in 2014, and in 2015 a further $19.0 million was released from the final maturity of the 1999D bonds and excess reserve balance from the 2004A bonds. The release was offset by a deposit of $1.0 million from the Revenue fund into the 2012 bond debt service reserve fund.

Previously, ACTA forecasted that no shortfall advances would be required through at least 2018, and advances beyond that timeframe would be of modest size. However, given recent ACTA performance and an increasing debt service profile, Fitch now believes that one or more shortfall advance payments may be required prior to September 2018. ACTA is considering restructuring portions of its debt, though no specific plan has been adopted yet. Fitch will review ACTA's restructuring plans and updated forecasts once they are made available.

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 collects revenue on roughly 35% of all container throughput through the San Pedro Bay ports. Pursuant to an operating agreement with ACTA, 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. 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.

Contact:

Primary Analyst
Emma W. Griffith
Director
+1-212-908
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Seth Lehman
Senior Director
+1-212-908-0755

Tertiary Analyst
Stephanie Jenks
Analyst
+1-212-908-0751

Committee Chairperson
Scott Zuchorski
Senior Director
+1-212-908-0659

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Rating Criteria for Infrastructure and Project Finance (pub. 28 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=870967