STANDARD & POOR'S RATINGS SERVICES
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Summary:

Alameda Corridor Transportation Authority, California; Ports/Port Authorities

Primary Credit Analyst:
Todd R Spence, Dallas (1) 214-871-1424; todd.spence@standardandpoors.com

Secondary Contact:
Mary Ellen E Wriedt, San Francisco (1) 415-371-5027; maryellen.wriedt@standardandpoors.com

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Summary:

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Credit Profile		
Alameda Corridor Transp Auth 1st ln		
Unenhanced Rating	A-(SPUR)/Stable	Affirmed
Alameda Corridor Transp Auth 2nd ln		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A-' long-term and underlying rating (SPUR) on Alameda Corridor Transportation Authority (ACTA), Calif.'s senior-lien bonds and its 'BBB+' long-term and underlying rating (SPUR) on ACTA's outstanding subordinate-lien revenue bonds and. The outlook on all ratings is stable.

The ratings reflect our view of the following credit strengths:

- Commitments from the Port of Los Angeles (Los Angeles Harbor Department) and Port of Long Beach (Long Beach Harbor Department) to provide up to 40% of total (senior and subordinate) annual debt service (20% each) if needed;
- The corridor's strategic value to the railroads and ports, due to the enhanced rail capacity and lower travel times it provides;
- A use and operating agreement that includes annual rate increases and requires the railroads to cover rail operating and maintenance expenses; and
- Strong management and oversight of the project and of operational activity.

Our view of the following factors partly offset the above credit strengths:

- ACTA's high debt burden and escalating debt service schedule, with combined senior and subordinate annual debt service increasing from approximately $112 million in fiscal 2013 to $183 million by fiscal 2023; and
- Low overall debt service coverage that when combined with potential shortfall advances provides adequate coverage.

The bonds are secured by revenues derived from corridor use fees and container charges paid by the railroads and certain shortfall advances paid by the ports of Los Angeles and Long Beach. The railroads pay volume-based use fees for using the corridor and container charges for waterborne containers not using the corridor. The ports have agreed that in any year in which use fees and container charges are insufficient to pay, among other things, annual debt service, the ports will advance to the ACTA funds (shortfall advances) sufficient to pay the difference between the annual amount and amounts available to pay debt service. However, the ports' obligation to make shortfall advances in each calendar year are limited to the aggregate an amount equal to 40% of the total annual amount due in such calendar year and each port is separately responsible for one-half of the shortfall advances due in a year, with neither port responsible for the contribution required of the other (neither port individually is required to pay in any calendar year an amount in excess of 20% of the annual amount due in such year). In fiscal 2013, ACTA collected $5.9 million in shortfall advances in support of the October 2012 debt service payment. As of June 30, 2013, ACTA had $1.5 billion in combined senior and subordinate lien debt, excluding accrued interest. Including accrued interest the combined senior and subordinate lien debt totals approximately $2.1 billion.

ACTA is a joint powers authority created by the cities of Los Angeles and Long Beach. ACTA was created primarily 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 (UP; wholly owned by Union Pacific Corp.;) and Burlington Northern Santa Fe Railway (BNSF; wholly owned by Burlington Northern Santa Fe LLC;) main lines near downtown Los Angeles. In our view, the corridor represents a substantial upgrade to the ports' rail connections and is an important project to the ports and railroads.

Corridor operations and finances are governed by the use and operating agreement between ACTA, the two ports, and the two railroads. As noted above, under the agreement, the railroads pay use fees for using the corridor and container charges for waterborne containers not using the corridor. Use fees and container charges are increased annually based on the change in the consumer price index (CPI), with a minimum increase of 1.5% and a maximum of 4.5%. In addition, if a shortfall advance from the ports is needed, ACTA's fees will be subject to a $1 one-time increase (this increase was implemented in 2011 due to a shortfall advance). The railroads will pay $22.81 per waterborne full 20-foot equivalent unit (TEU) using the corridor and $22.81 per waterborne full TEU routed around the corridor as of Jan. 1, 2014.

ACTA's use fee and container charge revenue generally trends with TEU volumes at the two ports. ACTA derives its revenue from approximately 35% of the two ports' combined TEUs and this has been reasonably stable over time. Fiscal 2013 revenue was $99.4 million, up 2.1% from 2012. ACTA corridor TEU traffic was down 3% in fiscal 2013, however traffic for the first six months of fiscal 2014 is up 6% compared to the same period in fiscal 2013.

ACTA's debt is structured with an escalating debt service schedule, which necessitates increasing revenues to maintain sufficient debt service coverage. In fiscal 2013, debt service on the senior and subordinate bonds was $111.7 million. Combined debt service will increase to more than $200 million in fiscal 2031. The escalating debt service schedule is, in our view, a credit risk.

Under the use and operating agreement, the railroads pay for the majority of maintenance on the system, and ACTA is responsible for its own administrative expenses and a portion of non-rail maintenance, which are paid from use fees and container charges. In fiscal 2013, use fees and container charges totaled $99.4 million while ACTA's operating and maintenance expenses, net of maintenance of way expenses totaled approximately $6.4 million. Net revenues provided debt service coverage of 0.83x in fiscal 2013 on senior and subordinate debt, as calculated by Standard & Poor's. Senior lien net revenue coverage was 2.14x in fiscal 2013. ACTA received shortfall advances from the ports totaling $5.9 million to cover debt service in fiscal 2013. During fiscal 2011, ACTA used $24.3 million of excess series 1999A construction proceeds to call bonds maturing on Oct. 1, 2011 and 2012 to lower debt service and minimize potential shortfall advances. In addition, the authority received an $83.7 million Railroad Rehabilitation and

Improvement Financing (RRIF) loan from the U.S. Department of Transportation in 2012. The loan proceeds were utilized to restructure debt service and minimize required shortfall advances. ACTA projects revenue will continue increasing due to volume and rate increases.

The commitment by the ports to cover up to 40% (20% each) of annual debt service is a key credit factor, in our view. If the full potential shortfall advance payments available are added to revenues when calculating coverage, net revenue coverage of senior and subordinate debt service is 1.23x in fiscal 2013 and gross revenue coverage is 1.29x. Senior lien net and gross revenue coverage in fiscal 2013 are 3.17x and 3.32x, respectively, when the ports' potential commitment is included. ACTA currently projects that it will not require additional shortfall advances due to the RRIF loan restructuring and savings from the 2013A refunding which restructured debt service to better match forecasted revenues. Given the escalating debt service schedule, we believe there is the risk that debt service coverage will decrease without a continued increase in cargo volumes. Even if container volumes remain stagnant, the annual fee increases will be the source of some revenue growth.

Outlook

The stable outlook reflects our view that container volumes with scheduled rate increases will provide sufficient revenue and that limited shortfall advances will be required. Should debt service coverage levels fall and shortfall advance needs rise, we could lower the rating. We do not anticipate raising the rating during the two-year outlook period.

Related Criteria And Research

Related Criteria

USPF Criteria: Port Facilities Revenue Bonds, June 13, 2007

Ratings Detail (As Of March 4, 2014)		
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
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 tax ex sr lien rev bnds ser 1999A dtd 01/01/1999 due 10/01/2007-2019 2021 2025 2029 cap apprec bnds dtd 02/09/1999 due 10		
Unenhanced Rating	A-(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.

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