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FITCH AFFIRMS ALAMEDA CORRIDOR TRANSPORTATION AUTH, CA'S RATINGS AT 'A/BBB+'; OUTLOOK STABLE

Fitch Ratings-New York-13 December 2011: Fitch Ratings affirms its 'A' rating on Alameda Corridor Transportation Authority's (ACTA, the authority) \$956 million senior revenue bonds, series 1999A and 1999C, and affirms its 'BBB+' rating on the authority's \$711 million subordinate revenue bonds, series 1999D, 2004A, and 2004B.

Fitch has revised the Rating Outlook to Stable from Negative.

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, both rated 'AA' by Fitch). As such 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 2011, each port paid \$2.95 million in shortfall advance payments to help cover 2011 debt service. 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.

MODERATE DEBT BURDEN WITH ESCALATING ANNUAL DEBT OBLIGATIONS: ACTA currently has moderate leverage of 17 times (x) net debt to cash flow available for debt service (including contingent port obligations, 12x) and annual debt obligations that grow by 6.6% in the next five years.

WHAT COULD TRIGGER A RATING ACTION

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.

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.

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 charges payable by the railroads and debt service shortfall advances payable by the ports. A Use and Operating Agreement between ACTA, the ports and the railroads governs the assessment of charges.

CREDIT SUMMARY:

In fiscal 2011 (ending June 30), 14.4 million containers, 35% of which were subject to a corridor fee, were transferred through the San Pedro Bay ports. After seeing declines of 10% to 15% in 20-foot equivalent units (TEUs) for fiscal 2009 and 2010, ACTA saw an increase of 15.8% in total TEUs for fiscal 2011 (in line with 12.7% at San Pedro Bay ports). Year to date (three months through September) the corridor has experienced a slight decrease of 0.4% in TEUs (as compared to a 5.7% decrease for the same period at the San Pedro Bay ports). This indicates a slight softening in volume recovery seen in the previous year. Despite the recovery seen in 2011, the volume setback incurred in 2008 and 2009 combined with the corridor's escalating debt service profile mean that meeting annual debt service obligations remains a challenge for ACTA.

ACTA originally applied for a loan from the federal Railroad Rehabilitation & Improvement Financing (RRIF) Program in March 2010, with the intention of restructuring a portion of its outstanding debt. The original loan request was for \$550 million, and ACTA requested that the loan be issued on its unused second subordinate lien. However, in December 2010, the Federal Railroad Administration (FRA) requested that ACTA make substantial changes to its application, namely placing the RRIF financing at parity with ACTA's senior lien debt and precluding the refunding of any 2004 subordinate lien bonds with the proceeds (a large portion of the previous plan). As a result, the amount of the RRIF loan was reduced to \$83.7 million, and would likely be used to refund 1999A senior lien bonds. The revised application was approved by the DOT credit council committee in February 2011 and re-approved on Dec. 13, 2011, and received an Office of Management and Budget (OMB) credit risk premium of zero in June 2011. ACTA continues to negotiate specific terms with the FRA and hopes to see the loan close in early 2012, following a Federal fiscal year 2012 re-approval by OMB. If successful, the restructuring will result in nearly \$50 million in savings on debt service requirements, reducing the need for future shortfall advance payments from the ports of LA and Long Beach. Fitch's sensitivity analysis contemplates a case where the RRIF loan is successful, and also a case where it does not go forward.

Both the Los Angeles and Long Beach ports are legally committed under the operating agreement to cover shortfalls up to 40% of ACTA's annual debt service payment (to be repaid in part via a \$1/TEU rate increase, increasing at inflation). The first such shortfall advance was made in October 2011, with each port contributing \$2.95 million toward debt service payments. Rates for loaded containers were in turn increased by \$1.12/TEU per the agreement. 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. Approximately 60% of both ports' operating revenue comes from minimum annual guarantees (MAGs) payable by tenants regardless of cargo volume. Fitch rates both ports '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, even in the event that the RRIF loan does not go forward. 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 (Port of Los Angeles and Port of Long Beach). 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 has three segments. The north end includes connections to existing railroad lines near the Los Angeles central rail yards and a bridge over the Los Angeles river. The middle segment includes a 10-mile recessed trench running parallel to Alameda Street, 31 street bridges and two rail bridges. The south end links with the San Pedro Bay port facilities.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Rating Criteria for Infrastructure and Project Finance', Aug. 16, 2011.

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Rating Criteria for Infrastructure and Project Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648832

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