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Summary:

Alameda Corridor Transportation Authority, California; Toll Roads Bridges

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Summary:

Alameda Corridor Transportation Authority, California; Toll Roads Bridges

Credit Profile

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

<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Downgraded
Alameda Corridor Transp Auth subord lien rev rfdg bnds		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Downgraded
Alameda Corridor Transp Auth 1st In		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Downgraded
Alameda Corridor Transp Auth 2nd In		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Downgraded

Rationale

Standard & Poor's Ratings Services lowered its long-term and underlying rating (SPUR) to 'A-' from 'A' on Alameda Corridor Transportation Authority (ACTA), Calif.'s senior-lien revenue bonds. At the same time, Standard & Poor's lowered its long-term ratings and SPURs to 'BBB+' from 'A-' on the authority's existing subordinate-lien revenue bonds. The outlook on all ratings is stable.

The lowered ratings reflect our view of the authority's:

- High debt burden and escalating debt service schedule, with annual debt service increasing from \$95 million in fiscal 2011 to \$182 million by fiscal 2022; and
- Low debt service coverage of 0.95x provided by net operating revenues in fiscal 2011, although when including the full potential contributions from the ports, coverage is a higher 1.38x, as calculated by Standard & Poor's.

Offsetting the above weaknesses in our opinion is the authority's:

- Commitments from the Port of Los Angeles (Los Angeles Harbor Department; 'AA/Stable') and Port of Long Beach (Long Beach Harbor Department; 'AA/Stable') to provide up to 40% of annual debt service (20% each) if needed;
- Strategic value to the railroads and ports, due to the enhanced rail capacity and lower travel times it provides;
- Use and operating agreement that includes annual rate increases and requires the railroads to cover most rail operating and maintenance expenses; and
- Strong management and oversight of the project and of operational activity.

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. Shortfall advances

represent the two ports' contingent obligations to each make up half of any deficiency in annual debt service, up to a total of 40% of debt service (each port is responsible for up to 20% of debt service). In fiscal 2011, ACTA collected \$5.9 million in shortfall advances in support of the October 2011 debt service payment. As of June 30, 2011, the authority had \$1.08 billion in senior lien long-term debt and accrued interest, and \$965 million in subordinate lien long-term debt and accrued interest outstanding.

ACTA is a joint powers authority created by the City and Port of Los Angeles and the City and Port of Long Beach. It was created primarily to construct, finance, and operate the Alameda Corridor, 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.; 'BBB+/Stable/A-2') and Burlington Northern Santa Fe Railway (BNSF; wholly owned by Burlington Northern Santa Fe LLC; 'BBB+/Stable/A-2') 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 in the future, ACTA's fees will be subject to a one-time \$1 per TEU increase in 2006 dollars. This increase was implemented in December 2011 in the amount of \$1.12 per TEU due to the shortfall advance. The railroads will pay \$21.60 per waterborne full 20-foot equivalent unit (TEU) using the corridor and \$21.60 per waterborne full TEU routed around the corridor in 2012. These two charges represent about 96% of all use fees and container charges. According to management, ACTA derives its revenue from about 32% of the two ports' combined TEUs.

ACTA's use fee and container-charge revenue generally trends with TEU volumes at the two ports. As such, port volumes were up in 2010 and are down 3% at the Port of Long Beach and up 1% at the Port of Los Angeles through November 2011. In the past, revenues showed strong growth through fiscal 2007 in tandem with the ports' growth in container traffic then fell as port volumes declined in fiscals 2008 and 2009. Fiscal 2010's use fee and container-charge revenues totaled \$80.5 million, down 5.7% from fiscal 2009. Fiscal 2011 revenues were \$93.2 million -- up 15.8%. ACTA corridor TEU traffic was up 15.8% in fiscal 2011.

ACTA's debt is structured with an escalating debt service schedule, which necessitates increasing revenues to maintain sufficient debt service coverage. In fiscal 2011, debt service on the senior and subordinate bonds was \$89.4 million. By fiscal 2022, debt service is slated to increase to \$181.9 million, representing a 6.1% annual growth rate. The escalating debt service schedule is, in our view, a credit concern.

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 out of use fees and container charges. In fiscal 2011, use fees and container charges totaled \$93.1 million while ACTA's operating and maintenance expenses paid with this revenue totaled \$9 million. Net revenues provided debt service coverage of 0.95x in fiscal 2011 on senior and subordinate debt as calculated by Standard & Poor's. Senior-lien net revenue coverage was 1.44x in fiscal 2011. ACTA received shortfall advances from the ports totaling \$5.9 million to cover debt service in fiscal 2011. ACTA used \$24.3 million of excess 1999A construction proceeds to call bonds due to mature on Oct. 1, 2012 and 2013 to lower its debt service payment and minimize shortfall advances. In addition, the authority has applied for an \$83.7 million Railroad Rehabilitation and Improvement Financing (RRIF) loan

from the U.S. Department of Transportation to restructure debt service and minimize required shortfall advances. If the RRIF loan is completed in 2012 as expected, the transaction will likely significantly lower but not completely eliminate shortfall advances. ACTA projects its revenue will increase due to volume and rate increases.

The commitment by the ports to cover up to 40% of annual debt service is a key credit factor, in our view. If the potential shortfall-advance payments available are added to revenues when calculating coverage, net revenue coverage of senior and subordinate debt service increases to 1.38x in fiscal 2011 and gross revenue coverage increases to 1.48x. Senior-lien net debt and gross revenue coverage in fiscal 2011 are 2.08x and 2.24x, respectively, when the ports' potential commitment is included. ACTA currently projects that the authority will require \$98 million in shortfall advances (\$49 million from each port) between 2012 and 2022 assuming there is no restructuring with the RRIF loan. We believe this amount is manageable for the ports. If the RRIF loan is funded in 2012, the shortfall advances would likely be reduced to \$24.6 million (\$12.3 million from each port).

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. We understand that ACTA is evaluating its debt restructuring options, which management believes will reduce or eliminate the need for shortfall advances. Our analysis assumes that the authority will restructure a portion of its near-term debt service to reduce the required shortfall advances.

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 projected shortfall-advance needs rise, the rating could be lowered. We do not anticipate raising the rating during the two-year outlook period.

Related Criteria And Research

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

Ratings Detail (As Of December 30, 2011)

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

Downgraded

Many issues are enhanced by bond insurance.

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