ACTA
Alameda Corridor Transportation Authority

ITEM #3

M E M O

Alameda Corridor Transportation Authority

To:	Governing Board
Meeting Date:	March 20, 2025
From:	Kevin L. Scott, Chief Financial Officer
Subject:	APPROVE staff's recommendation to not undertake a Full Restructuring transaction for ACTA's outstanding bonds starting in 2025

Recommendation:

ACTA Staff proposes that the Governing Board approve our recommendation to not pursue a Full Restructuring of ACTA's outstanding bonds starting in 2025.

ACTA's Governing Board has several financing options available to address projected revenue shortfalls. These options range from a Full Restructuring, which aims to eliminate all projected shortfalls through long-term bond issuances, to more limited restructuring approaches that target shortfalls in specific years or maintain a steady shortfall level. The Governing Board can also choose to forgo restructuring entirely, leaving ACTA's current debt obligations unchanged.

ACTA Staff recommends that the Governing Board not pursue a Full Restructuring at this time. If the Governing Board rejects this recommendation and directs Staff to proceed with a Full Restructuring, ACTA would likely complete a financing transaction in 2025, followed by another transaction in 2026. Given the lead time required for refinancing and the need for early action under a Full Restructuring, Staff advises the Governing Board to determine now whether it wants to proceed with that approach.

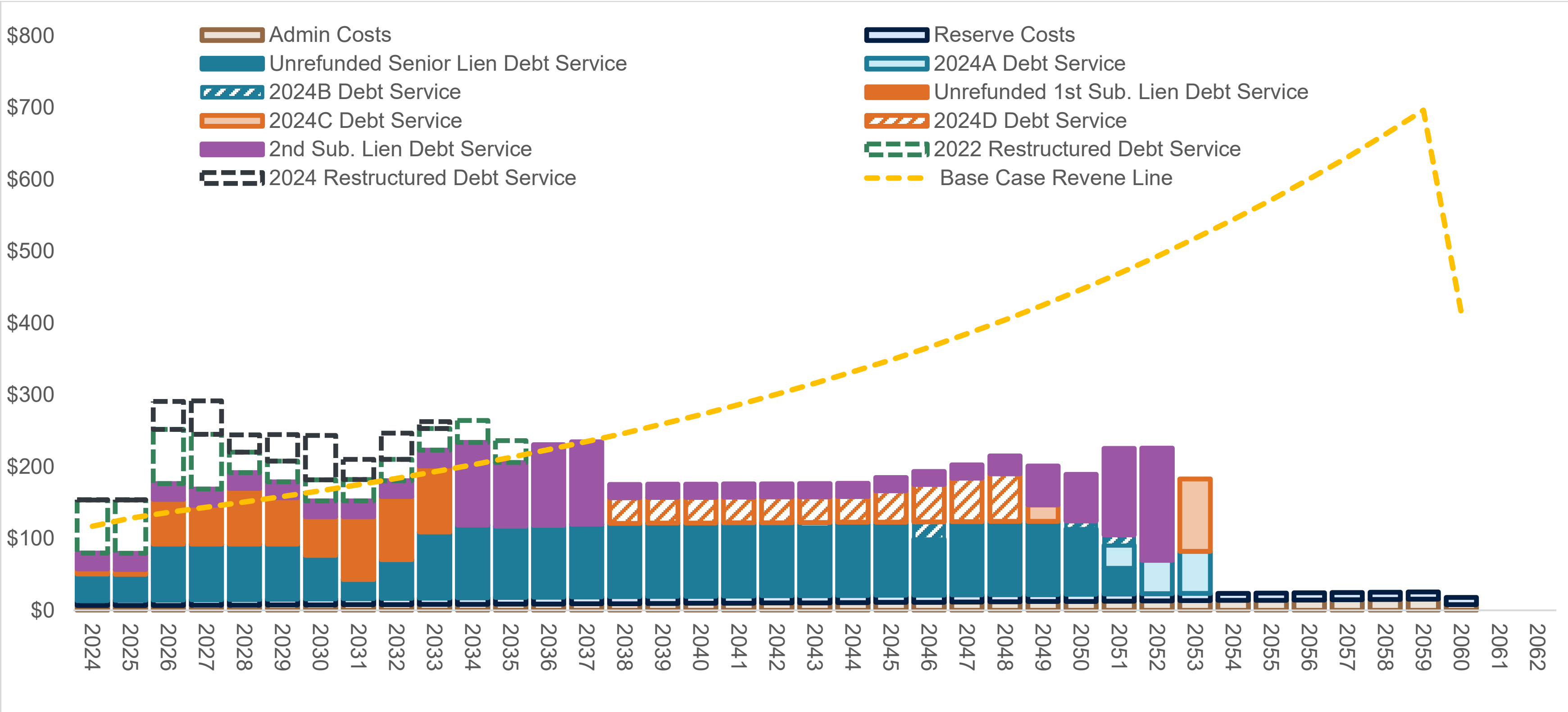
If the Governing Board approves Staff's recommendation to forgo a Full Restructuring, Staff expects to present recommendations for financing alternatives at a future meeting.

Background:

ACTA collects Use Fees and Container Charges for waterborne containers that are transported to and from Southern California by rail, which is the primary source of ACTA's revenue. Revenues are used to pay ACTA's debt service, administrative costs and reimbursement of the costs of capital improvements, all in accordance with the Master Trust Indenture. If annual Use Fees and Container Charges fall short of covering ACTA's debt service in a given year, a "shortfall" occurs. In that case, the Ports of Los Angeles and Long Beach ("Ports") must cover up to 40% (20% each) of the shortfall through a "Shortfall Advance." ACTA is obligated to refund the Shortfall Advances at such time as it has available revenues after payment of all debt service, administrative costs and capital costs in a given year. Shortfall Advances accrue interest from the date advanced at the rate per annum equal to the six-month U.S. Treasury Bill.

ACTA's Base Case revenue projections and current debt service profile are illustrated in Figure 1.

Figure 1 – Current Debt Service Profile



Notes:

- *Base Case Revenue assumes 2.5% annual growth of cargo volume and 2.5% annual increase in fee unit rates.*
- *Annual Administration and Reserve Replenishment costs are forecast at $13 million and increase to $25 million in the later years.*
- *Annual obligations are defined as Debt Service plus certain financing fees and any deposits into the debt service reserve funds.*
- *Debt service and revenues are shown annually, with the period ending on October 1 of each year.*
- *Debt service provided by J.P. Morgan and projected revenues provided by PFM based on ACTA's forecasting assumptions.*
- *Open-dashed boxes show debt that was previously restructured in 2022 and 2024.*
- *Amounts shown in millions.*

Base Case revenue projections, which assume 2.5% annual growth of cargo volume and 2.5% annual increase in unit rates (applied for Use Fees and Container Charges), and ACTA's existing debt service schedule predict that there will be revenue shortfalls in Bond Years 2026-2037, which are expected to necessitate Shortfall Advance payments from the Ports in each of those years; there are no anticipated shortfalls from BY 2038 through the final maturity of ACTA's bonds in BY 2053.

Note, the Ports have been required to pay Shortfall Advances on two prior occasions, once in calendar year 2011 and once in calendar year 2012. As a result of these Shortfall Advance payments, ACTA began imposing a $1.00/TEU surcharge (the "Surcharge") on waterborne containers in December 2011 as permitted by the Use and Operating Agreement. These prior Shortfall Advances, together with interest, have not been repaid to the Ports and the Surcharge remains in place.

Discussion:

Restructuring the existing outstanding bond obligations of ACTA will incur transactional costs and ACTA Staff has evaluated such costs in comparison to the Ports making Shortfall Advance payments. There are several alternative financing strategies with varying levels of bond restructuring that will have different impacts on the need for the Ports to make Shortfall Advance payments to cover anticipated revenue shortfalls.

The alternative financing strategies are as follows:

1. **Full Restructuring** – designed to eliminate all currently projected shortfalls through the issuance of long-term bonds;
2. **Near-Term Restructuring** – designed to eliminate all currently projected shortfalls in calendar years 2026 to 2030 through the issuance of long-term bonds, which is in essence the first phase of the Full Restructuring (this alternative by itself would result in shortfalls after 2030);
3. **Moderate Restructuring** – designed to limit currently projected shortfalls to a consistent level through a smaller refinancing when compared with the Full Restructuring;
4. **No Bond Restructuring** – maintains the existing status of ACTA's outstanding bonds and currently projected shortfalls.

The Governing Board should consider these financing strategies now, as the next shortfall is expected in 2026, with larger shortfalls beginning in 2027 and continuing through 2037. If a Full Restructuring alternative is pursued, there could be benefit from a multi-tranche refinancing, starting in mid-2025 with additional transactions in 2026. The Near-Term and Moderate Restructuring strategies have smaller refinancing requirements and would realize less advantage from a 2025 transaction.

The alternative financing strategies have been evaluated based upon ACTA's Base Case revenue projections. The table in Figure 2 shows the results for each of the proposed alternative financing strategies. There are five factors used to evaluate the alternatives, as follows:

(i) ***Net Incremental Debt Service*** represents the net additional debt service that ACTA must pay as a result of pursuing a certain restructuring strategy;

(ii) ***Restructured/Defeased Par*** represents the amount of currently outstanding par that must be restructured or defeased in order to achieve the restructuring target; this also includes par amount defeased using ending balance from BY 2024;

(iii) ***NPV Cost of Restructuring*** represents the net present value of the Net Incremental Debt Service;

(iv) ***Cashflow Shortfalls Total*** represents total ACTA shortfalls projected through the end of the Use & Operating Agreement in April 2062. This figure is inclusive of reserve replenishment and administrative expenses; and

(v) ***NPV of Shortfalls & Excess Revenues*** represents the net present value of ACTA's cashflows through the current end of the Use & Operating Agreement in April 2062 (higher results indicate improved cashflow for Ports).

Figure 2 – Analysis of Alternative Financing Strategies

	Full Restructuring	Near-Term Restructuring	Moderate Restructuring	No Bond Restructuring
i. Net Incremental Debt Service	$1,802,900,526	$958,546,518	$112,850,209	-
ii. Restructured / Defeased Par	$683,540,000	$582,640,000	$460,475,000	$55,325,000
iii. NPV Cost of Restructuring (% of Refunded Par)	28 %	14 %	-8 %	0 %
iv. Cashflow Shortfalls Total (BY26-62)	($8,232,929)	($114,424,168)	($251,734,520)	($305,585,951)
v. NPV of Shortfalls & Excess Revenue thru 2062	$1,379,298,616	$1,455,266,340	$1,536,735,847	$1,549,071,131

Note:
All NPV calculations are discounted at 5.0%.
Shortfalls include payments for debt service, ACTA's administrative costs and capital costs

These results show:

- **Full Restructuring** has the highest expected increase in debt service and cost of finance (as reflected by Net Incremental Debt Service and NPV Cost of Restructuring), but it has the lowest overall projected shortfalls through 2062 (final honing of such restructure would seek zero shortfalls).
- **Near-Term Restructuring** accomplishes the first five years of the Full Restructuring and adds more than half the cost. The projected shortfalls are second lowest and the net present value of cashflows (NPV of shortfalls and excess revenue) is greater than Full Restructuring.
- **Moderate Restructuring** has a much lower incremental debt service and cost of finance, and the projected shortfalls are moderated to a steady level (about $23M annually from 2027-2036 in the evaluated scenario).
- **No Bond Restructuring** has no incremental debt service or cost of finance, but the projected overall shortfalls are the highest of the alternatives; the NPV of shortfalls and excess revenue is also the highest for this alternative.

Two key factors should be considered when evaluating financing strategies. First, ACTA's stable bond ratings depend in part on its refinancing capacity through 2062. A Full or Near-Term Restructuring would use much of this capacity, potentially leading to downward pressure on ACTA's ratings. Second, if revenues fall short of Base Case forecasts, the Full and Near-Term Restructurings pose a greater risk to ACTA's internal rate of return ("IRR") than the Moderate or No Bond Restructuring options.

The Governing Board is requested to approve staff's recommendation to not pursue the Full Restructuring strategy at this time. Approval of this recommendation will not preclude any refinancing strategy in 2026 or at an even later date. Staff's recommendation is based on the analysis presented and comparing each alternative's cost of finance, the total estimated projected shortfalls, NPV of cashflow, and the risk to ACTA's IRR. Moreover, it is anticipated that the Ports will issue a *San Pedro Bay Long-term Cargo Forecast* report later this year which will provide more up-to-date economic and market information that will be beneficial for analyzing future refinancing strategies available to ACTA.

Budget Impact:

No budget appropriation is necessary at this time.

Co-General Counsel Review:

ACTA's Co-General Counsel has reviewed this Board Report and there are no legal issues at this time.