ITEM #2

M E M O

Alameda Corridor Transportation Authority

To:	Governing Board
Meeting Date:	May 15, 2025
From:	Kevin L. Scott, Chief Financial Officer
Subject:	APPROVE staff's recommendation not to pursue a 2025 restructuring transaction for ACTA's outstanding bonds

Recommendation:

ACTA staff proposes that the Governing Board approve the recommendation not to pursue a restructuring transaction for any of ACTA's outstanding bonds in 2025 so that ACTA's financing plan can incorporate the results of the San Pedro Bay Long-term Cargo Forecast (LTCF).

ACTA's Governing Board has several financing alternatives available to address projected revenue shortfalls. These alternatives range from (1) a Full Restructuring which aims to eliminate all projected shortfalls through long-term bond issuances, to (2) more limited restructuring approaches that target shortfalls in specific years, to (3) maintain a reduced steady shortfall level, (4) to forgoing restructuring entirely leaving ACTA's current debt obligations unchanged. The discussion of financing alternatives in this memo is to provide context for the decision on a 2025 bond transaction.

ACTA staff recommends that the Governing Board not pursue a 2025 bond transaction. Based on current ACTA projections, a 2025 bond transaction would not be required. A bond transaction timed after the *LTCF* would allow ACTA's financing plan to incorporate the results of this study. ACTA Staff would then expect to present recommendations for financing alternatives at a future Governing Board meeting.

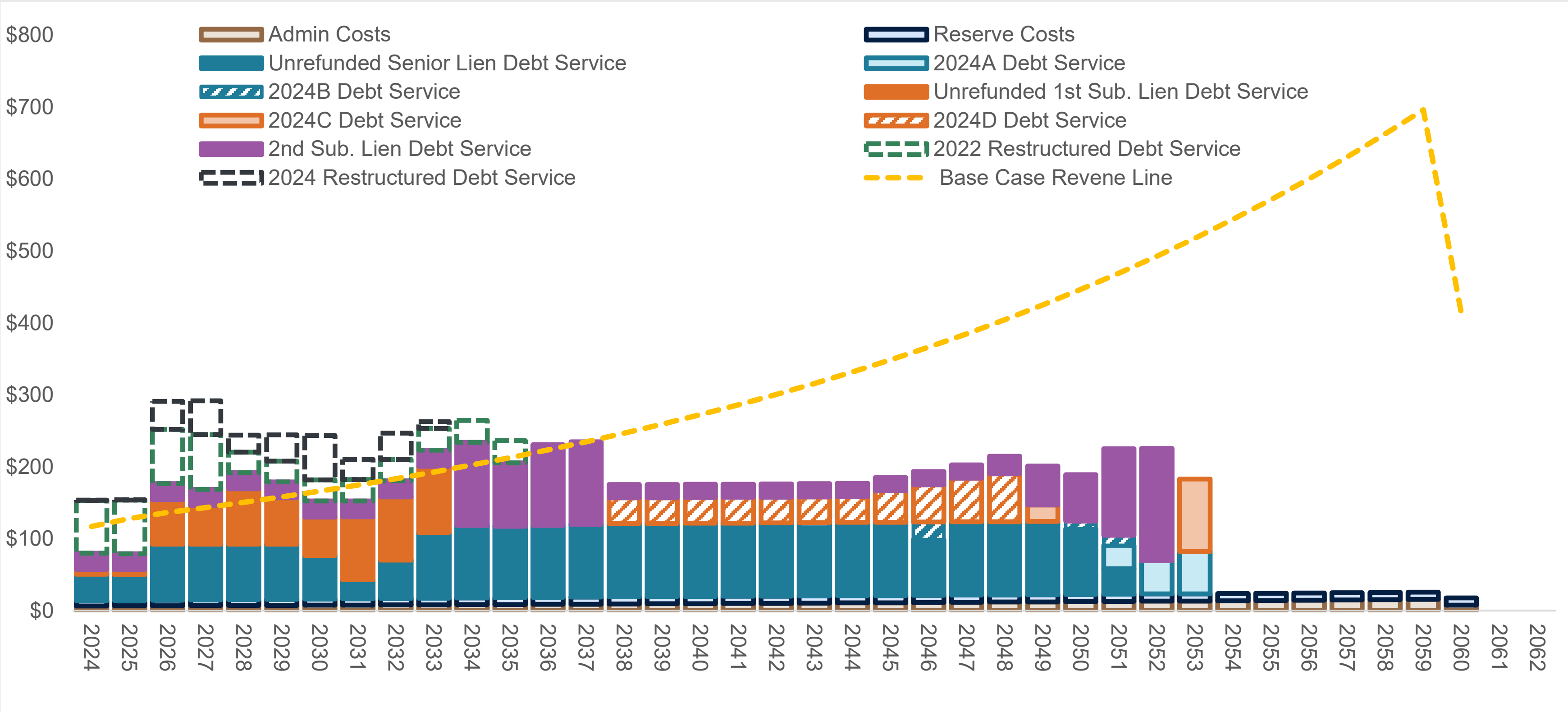
Key Points:

- ACTA staff and consultants have evaluated a range of funding and restructuring alternatives;
- Under current forecasts, a 2025 bond transaction is not required to accomplish restructuring alternatives;
- Strategies involving larger near-term restructurings, such as the Full Restructuring, might benefit from a 2025 bond transaction, but can still be accomplished without a 2025 transaction;
- Selection of a financing alternative should consider the results of the on-going LTCF to be completed in 2025.

Background:

ACTA collects Use Fees and Container Charges for waterborne containers that are transported to and from Southern California by rail, which are the primary sources 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 Bond Year (October 1 through September 30), a "shortfall" occurs that year. In the event of a shortfall, the Ports of Los Angeles and Long Beach ("Ports") must pay a "Shortfall Advance" equal to a total maximum of 40% (20% maximum for each Port) of ACTA's debt service and certain other amounts. ACTA must refund the Shortfall Advances with interest when ACTA has available revenues after payment of all debt service in a Bond 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 (Use Fees and Container Charges) projections and current debt service profile are shown 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 September 30 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 of dollars.*
- *Forecast as of January 9, 2025*

Current projections[1] predict (1) revenue shortfalls during 2026-2037 will require Shortfall Advance payments from the Ports in those years; and (2) no anticipated shortfalls from BY 2038 through the final maturity of ACTA's bonds in BY 2053.

The Ports have previously been required to pay Shortfall Advances on two prior occasions, once in 2011 and once in 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; the obligation to repay is subordinate to the bond payments as described in the Use and Operating Agreement, which also states that the Surcharge remains in place until the Shortfall repayment is complete.

Discussion:

Restructuring the existing outstanding bond obligations of ACTA will incur transactional costs, which will increase ACTA's total debt service over the life of its bonds. Per guidance from the ACTA Ad Hoc Committee on Finance, ACTA staff has evaluated and continues to evaluate such costs in comparison to the Ports making Shortfall Advance payments. The evaluation considers total debt service as well as total cashflow to/from the Ports.

There are several alternative financing strategies with varying levels of bond restructuring that ACTA can pursue, each having different impacts on transactional costs and the need for the Ports to make Shortfall Advance payments to cover revenue shortfalls. The alternative financing strategies that are being evaluated are as follows:

1. **Full Restructuring** – designed to eliminate all currently projected shortfalls through the issuance of long-term bonds, likely through strategic tranche refinancing beginning no later than 2026;
2. **Near-Term Restructuring** – designed to eliminate all currently projected shortfalls in certain bond years (e.g. 2026 to 2030) through the issuance of long-term bonds, which is in essence the first tranche of the Full Restructuring;
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 needs to select a financing strategy before the next bond transaction; the next significant shortfall is expected later in 2026. The Governing Board is requested to approve staff's recommendation to not pursue a 2025 bond transaction based on the benefit of waiting for the completion of the San Pedro Bay Long-term Cargo Forecast report due 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. Approval of this recommendation will not prevent any alternative refinancing strategy from being implemented in the coming months.

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.

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[1] Calculated using Base Case revenue projections, which assume 2.5% annual growth of cargo volume and 2.5% annual increase in unit rates (applied per TEU via Use Fees and Container Charges), against ACTA's existing debt service schedule.