

Fitch Affirms Port of Long Beach, CA's Harbor Rfdg Revs at 'AA'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed its long-term 'AA' rating on the Port of Long Beach's approximately \$602 million outstanding harbor revenue bonds and harbor revenue refunding bonds issued by the city of Long Beach, California. The Rating Outlook is Stable.

Rationale

The rating reflects the port's strong market position as the 2nd largest U.S. container port, with resilient revenues stabilized by long-term contractual guarantees that are sufficient to cover the port's outstanding debt obligations. The port's sizable long-term capital improvement plan (CIP), while costly, will help ensure the port's competitive position going forward. Strong financial metrics and considerable liquidity help support the port's rating as it executes its capital plan.

Key Rating Drivers

Strong Market Position: The Port of Long Beach is the nation's second largest container port, located on the west coast. When combined with the Port of Los Angeles, the two constitute the San Pedro Bay Port Complex and are the seventh largest port complex in the world. Fiscal 2013 20-foot equivalent units (TEUs) were 6.7 million, a 13.5% increase over 2012 but still 8% below fiscal 2007 peak levels. Revenue Risk - Volume: Stronger

Resilient Revenue Stream Despite Exposure to Volatility: With a large majority of operating revenues coming from the container business, the port is exposed to fluctuations in international trade and growing competitive pressures, which can lead to volume volatility. However, the port's revenues are largely insulated from trade-related volatility due to long-term guaranteed contracts with most tenants, covering nearly 70% of operating revenues. Revenue Risk - Price: Stronger

Modern Facilities, Sizable Capital Program: The port's five-year capital program is sizable at \$2.9 billion. Additional borrowing of \$1.3 billion is anticipated as part of the capital

program. Careful management of the plan's scope and cost relative to business demand so as to maintain the port's very strong financial profile is important. The port's terminal facilities are modern and contiguous, and the port benefits from favorable rail and highway connections within the LA region and to external markets through the Alameda Corridor. Infrastructure Development/Renewal: Midrange

Debt Structure: The port's senior bonds are all fixed rate and benefit from strong covenants. The port's board has passed an ordinance requiring management to a minimum of 2.0x net debt service coverage ratio (DSCR) and 600 days cash on hand, which will serve to protect bondholders as additional leverage for the CIP is brought online. Debt Structure: Stronger

Excellent Financial Profile: The port has a healthy balance sheet with a strong liquidity position, albeit lower than previous years due to use of cash for the ongoing CIP. 2013 liquidity of \$240 million represents 896 days cash on hand. Debt service coverage has remained above 3.0x since 2011. Port leverage is low at 1.5x net debt/cashflow available for debt service (CFADS) on senior obligations (1.9x when balances on revolving lines of credit are included), though this may rise to the 4x-5x range if the full capital plan is executed through 2018.

RATING SENSITIVITIES

--Higher than anticipated volatility or a steady downward trend in port container volumes.;

--Financial forecasts indicating debt service coverage levels falling below the 2.0x management policy;

--Upward revisions to the capital program or debt funding that could indicate weaker debt metrics or measurably reduce port liquidity.

SECURITY

All bonds are secured by a gross lien on port revenues.

CREDIT UPDATE

Container volumes at Long Beach have improved since the recession. While fiscal 2011 and 2012 saw slight throughput declines (3.2% and 0.3% respectively), 2013 saw a healthy rebound of 13.5%. The overall trend in TEUs remains one of growth, with the 2002-2013 CAGR at 2.5%. The first five months of fiscal 2014 have seen a further modest increase, with year to date TEUs through February up 2.3% over the previous year. Declines and recoveries in volumes have had limited impact on the port's rating, largely due to the revenue stabilizing nature of the port's long-term leases with its largest tenants. These long-term lease contracts collectively contain minimum payment provisions that are more than sufficient to cover annual debt service requirements on the outstanding debt. Management has indicated that key tenants desire to maintain long-term operations at the port, with tenants already secured for the middle-harbor project.

In fiscal 2013, the port's total operating revenues were \$346 million, a 3.7% increase over 2012 (which saw a 3.3% decrease versus 2011). For the first three months of fiscal 2014, revenues are 9.7% above budget. The five-year CAGR shows a slight 0.7% decrease in operating revenues. The top 20 tenants accounted for over 90% of port operating revenues, and contractual minimum revenue guarantees accounted for \$236 million annually (68% of operating revenues), sufficient to cover senior debt service obligations 1.73x (net of operating expenses).

Historically the port has maintained high debt service coverage levels, with net coverage at or above 3.0x both prior to the recession and since fiscal 2011. Coverage remains well above the rate covenant of 1.25x gross coverage. Cash reserves are robust with \$240 million in unrestricted funds which translates to 896 days cash on hand. The port manages to a minimum of 2.0x net coverage and 600 days cash on hand, per an ordinance by the Board of Harbor Commissioners in October 2011. Fitch views this policy as providing liquidity stability for bondholders, and sees continued management to these levels as important to maintenance of credit quality. Fitch notes that potential contingent liabilities to ACTA for debt payments, although none are currently projected, are legally subordinate to port revenue bonds.

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Both San Pedro Bay ports (Los Angeles and Long Beach) are well-positioned in terms of both portside and inter-modal infrastructure, allowing them to accommodate both local and non-local shipments. However, with 50% of cargo destined for inland markets, competition for this cargo may increase as the Panama Canal expansion project reaches completion in 2015. Under various scenarios that contemplate drops in cargo volumes due to diversion or other events; funding of the full capital plan with an additional \$1.3 billion of debt obligations per management's projections; and careful management of operating and capital expenditures, forecasted debt service coverage levels are expected to remain in excess of 2.0x. Should volume stagnate or should the port fail to manage its expense profile prudently, the port may need to delay or defer certain elements of the capital program in order to maintain these coverage levels. Failure to maintain coverage above 2.0x in keeping with the port's debt ordinance will jeopardize the current rating.

The port's five-year CIP through 2018 totals approximately \$2.9 billion, with projects including the middle-harbor redevelopment project, replacement of the Gerald Desmond Bridge, and the modernization of Pier G. While the current plan anticipates issuing \$1.3 billion over the next five years for these projects, including a subordinate TIFIA loan in the context of the bridge replacement, management indicates that timing is flexible for several of the projects, and projects may be deferred or scaled down should market conditions change. While costly, the CIP improvements will help the port maintain its competitive position and service newer, larger ships. Fitch will be monitoring whether upcoming leadership changes at the port could impact the scope, prioritization, and timetable for infrastructure renewals.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--Rating Criteria for Infrastructure and Project Finance (July 12, 2012);

--'Rating Criteria for Ports' (Oct. 3, 2013).

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Rating Criteria for Infrastructure and Project Finance http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867

Rating Criteria for Ports http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=719985

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