



REFERENCE | 21

“TCRPD Fitch Ratings Outlook”

AS PREPARED BY
Tri-City Regional Port District

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Fitch Ratings

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April 7, 2009

Mr. Robert L. Wydra
Executive Director
Tri-City Regional Port District
1635 W. First Street
Granite City, IL 62040

Dear Mr. Wydra:

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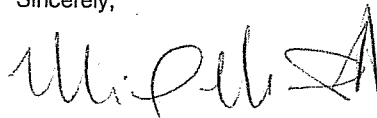
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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Sincerely,



Michael McDermott
Managing Director
Global Infrastructure and Project Finance

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Notice of Rating Action

<u>Bond Description</u>	<u>Rating Type</u>	<u>Action</u>	<u>Rating</u>	<u>Outlook/ Watch</u>	<u>Eff Date</u>	<u>Notes</u>
Tri-City Regional Port District (IL) (Delivery Network Project) port & terminal facils rev rfdg bonds ser 2003-A	Long Term	Revision Outlook	BBB	RO:Sta	03-Mar-2009	

Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

FITCH AFFIRMS TRI-CITY REGIONAL PORT DISTRICT, ILLINOIS REVS AT 'BBB'; OUTLOOK TO STABLE

Fitch Ratings-New York-03 March 2009: Fitch Ratings affirms the 'BBB' rating for approximately \$1.5 million outstanding Port and Terminal Facilities revenue refunding bonds, series 2003-A issued by the Tri-City Regional Port District, Illinois (the port or the district). The Rating Outlook is revised to Stable from Positive. The bonds are payable from all net revenues generated by the port. The port intends to repay the bonds from revenues received under a lease with The Delivery Network, Inc. for a warehouse. Fitch does not rate the port's outstanding \$421,000 series 2007A revenue bonds, \$1.1 million 2008A bank loan with Partner's Bank, \$550,000 2008B bank loan with Bank of Edwardsville, \$790,000 Illinois Department of Transportation (DOT) loan, or \$21,000 capital lease with Greater Bay Capital, which are all on parity with the series 2003A revenue bonds.

The 'BBB' rating is principally supported by the port's favorable location along the Mississippi River, its excellent access to the national rail and highway networks, its status as a landlord facility, which serves to limit operational risk and provides a stable financial base, and its strong position in the St. Louis market. Credit concerns include economic softening in both the greater St. Louis and U.S. economies, potential for increased leverage due to development related activities, the somewhat concentrated nature of the port's revenue stream, and the competitive nature of the shipping industry.

Fitch notes that roughly 70% of the port's leases are of five years duration or longer, and that the port has had recent success in its development of the River's Edge mixed-use facility, demonstrating its ability to develop and attract tenants (such as Abengoa Bioenergy) which continue to enhance the port's operating potential. The Outlook revision reflects a slightly weaker financial profile since Fitch's last review, as expense growth has outpaced revenue growth due to increased development activity; and the port's exposure to impacts of the economic downturn in the near to medium term, potentially impacting tenants' ability to make lease payments and decreasing throughput-related revenues as tonnage slows.

Created by the Illinois legislature in 1959, the port district encompasses a 77 square mile area in southwestern Illinois, immediately across the Mississippi River from St. Louis. Port facilities are located on a 1,200 acre parcel of land adjacent to the Mississippi River and Chain of Rocks Canal, six miles northeast of downtown St. Louis. The port's current harbor lies just north of Lock and Dam 27, the southernmost lock in the Mississippi system. Furthermore, the port is the northernmost facility able to provide year-round barge service on the river. In addition to the current harbor, there is a proposed new south harbor which will lie south of the lock and will serve as a facility for both the new Abengoa ethanol plant and for additional commodity transfers. This location will allow the port to expand its services to larger barges unable to navigate the lock, including ocean-going barges that serve foreign markets.

The port leases facilities to shipping agents, barge operators, warehousing companies, and similar concerns under long-term contracts. The tenants are responsible for the operation of their facilities, limiting the district's financial exposure. The port allows both union and non-union workers on the docks, maintaining a competitive wage environment. In fiscal year 2008 throughput-related revenues accounted for roughly 10% of operating revenues. While this is expected to decrease in fiscal 2009 due to the softening economic environment, all operator leases have a built-in minimum required revenue payment which serves to mitigate revenue volatility. As operator leases come up for renewal, the port will consider whether to change to fixed-rate terms, as they have done for the Mid-Coast Terminal. Additionally, railcar traffic is expected to increase in late calendar 2009 with the opening of the Abengoa ethanol plant.

In fiscal 2008, the port's principal cargos were grain shipments outbound from the farms of the Midwest (52% of tonnage) and petroleum products inbound to nearby refineries and chemical companies (20%). Other major commodities included steel products (19%) and fertilizers (8%). In

addition to its favorable location on the river, the port provides shippers excellent access to the nation's rail and interstate highway systems. St. Louis ranks as the third largest rail center in the U.S., with the port served by both Norfolk Southern Railway and the Illinois Terminal Railway, a terminal railroad owned by all the major railroads operating in the St. Louis area.

Much of the port's development in recent years has been due to the district's recent acquisition of a parcel of land that used to serve as an army service depot. As part of this transaction, the port inherited 150 units of military housing, which it currently leases to service men and women stationed at nearby bases. Military housing represents the port's second largest source of operating revenue (15% in fiscal 2008), and serves to diversify its somewhat concentrated commercial rental revenues. However, apartment rental revenues have decreased each year since peaking in fiscal 2004 due to the reduction in military personnel in the St. Louis area, and may drop further in 2011 when the Army Human Resources Center relocates. Management estimates that roughly one third of personnel housed in port facilities are currently employed at the Human Resources Center. Management seeks to keep tenancy at or above 85%, and will open tenancy to civilians in order to meet this goal. The district's ability to find new tenants and maintain stable occupancy levels in the current economic environment may put negative pressure on the rating in the medium term.

Overall, the district's capital plan totals approximately \$70 million through fiscal 2019. The plan is highly discretionary, with individual elements undertaken only when a tenant for a facility is identified, or when the port receives state or federal funding to support investment. As a result, Fitch expects the port to incur a modest level of additional debt over the next five to 10 year period.

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