

Revenue  
New Issue

## Bay Area Toll Authority, California

### Ratings

#### New Issues\*

|  |     |
|--|-----|
| San Francisco Bay Area Toll<br>Bridge Revenue Bonds,<br>2004 Series A (Variable Rate)..... | AA- |
| 2004 Series B (Variable Rate).....   | AA- |
| 2004 Series C (Variable Rate).....   | AA- |

#### Outstanding Debt\*\*

|                    |     |
|--------------------|-----|
| Revenue Bonds..... | AA- |
|--------------------|-----|

(Downgraded from 'AA' on 9/24/04)

Rating Outlook ..... Stable

\*All series are expected to carry bond insurance. The variable-rate bonds are expected to carry liquidity support in the form of a standby bond purchase agreement.  
\*\*Outstanding revenue bond debt is rated 'AAA' based on guaranties of scheduled debt service payment under an insurance policy with Ambac Assurance Corp., whose insurer financial strength is rated 'AAA' by Fitch Ratings.

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### New Issue Details

\$75,000,000 San Francisco Bay Area Toll Bridge Revenue Bonds, 2004 Series A (Variable Rate), \$150,000,000 San Francisco Bay Area Toll Bridge Revenue Bonds, 2004 Series B (Variable Rate), and \$75,000,000 San Francisco Bay Area Toll Bridge Revenue Bonds, 2004 Series C (Variable Rate), are scheduled to sell during the week of Oct. 4 through negotiation via a syndicate led by Citigroup.

**Purpose:** Bond proceeds will be used to finance and reimburse the costs of design and construction related to the ongoing Regional Measure One (RM1) projects. This bond issuance is the final of three planned issuances in the authority's approximately \$1 billion RM1 borrowing program.

### Outlook

The long-term Rating Outlook on the Bay Area Toll Authority's (BATA, or the authority) revenue bonds is Stable. These bonds represent the final debt issuance by BATA, which was created by legislation in 1998 to complete the implementation of the Regional Measure One (RM1) projects with a \$1 base toll approved by voters in November 1988. Despite the dramatic cost increases in portions of the bridge system's overall capital plan, which may reduce long-term rate-making flexibility, the critical nature of this seven-bridge system and the long-term economic strength and viability of the San Francisco Bay Area continue to provide a basis for very strong investment-grade credit quality.

### Rating Considerations

The Fitch Ratings downgrade of BATA's long-term revenue bond rating to 'AA-' from 'AA' on Sept. 24, 2004 reflects the significantly increased capital cost of infrastructure replacement and rehabilitation of the facilities in the context of limited rate-making authority. It also reflects the strong likelihood of sizable toll rate increases that could, at a minimum, double the toll from the level when the bonds were first rated in 2001 to finance all or a portion of the increased cost. This rating action also reflects BATA's proposed use of parity debt to finance mandated capital cost contributions for nonsystem purposes under the recently approved Regional Measure Two (RM2) \$1 toll increase, which eats into financial flexibility capacity for system needs.

The bridge system's capital plan has three principal components, each backed by an equal portion of the now \$3 two-axle passenger vehicle toll collected at the seven BATA system bridges: the RM1 improvement projects managed by BATA, the seismic retrofit program managed by the California Department of Transportation (Caltrans), and the RM2 projects and operating transfers approved by Senate bill 916 in 2003 and endorsed by voters earlier this year. When Fitch initially rated the bonds in 2001, the capital cost expectation on the entire bridge system was approximately \$4.5 billion. Soon thereafter, Caltrans raised the cost of seismic retrofit, raising total costs to about \$7 billion. With the recent approval of RM2 and the additional cost increases on the seismic retrofit program, capital cost is now approaching \$12 billion.

The state has contributed funding to offset the direct cost to the bridge system. However, with the budgetary challenges that the state has faced, its share of cost increases since 2001 has been deferred to later in the program's lifecycle in recognition of its cash flow constraints. State contributions will not likely support the current cost increase, putting a greater burden on the bridge system.

October 4, 2004

The level of bridge system debt as a percentage of total capital cost was anticipated to be about 20% when Fitch initially rated the bonds in 2001. With the issuance of the seismic retrofit bonds by Caltrans in 2003, this percentage rose to 30%. The recent cost increases are likely to raise the amount of leverage further — potentially to 40%–50%. As a result, the total debt burden could grow from the initial \$1 billion to more than \$5 billion. While BATA and Caltrans bonds have been secured separately up to this point by individual components of the revenue stream and carefully structured to maximize credit quality, the overall impact of significantly greater leverage on the bridge system in an environment where voter initiative and legislative action largely drives solutions has had overarching consequences in weakening the individual credit.

BATA manages seven of the eight major crossings in the Bay Area — the eighth is the Golden Gate Bridge, which is managed by a separate entity. These bridges provide the only viable vehicular links within the Bay Area. Given the limited ability of rail and ferry systems to serve the diverse destinations within the area, these facilities are essential to sustained economic success. These fundamentals, together with the continued retention of significant economic rate-setting flexibility to deal with unexpected events that materially impact financial performance and the partnership of the state in providing operational and maintenance services (including funding for the highway maintenance component of BATA's costs structure), support the authority's 'AA-' rating.

## ■ Strengths

- Critical links in the Bay Area.
- Mature system with a growing traffic base.
- Limited alternatives.
- Moderate toll rates.
- Strong liquidity.
- Current system largely depreciated.

## ■ Risks

- Revenue interruptions from seismic activity.
- Increased nontoll-related demands eroding revenue maximization capacity.
- Limited rate-setting authority.
- Escalating cost of seismic retrofit program.

## ■ Security Provisions

**Security:** The bonds are secured by a statutory lien on bridge toll revenues, subject only to operations and

maintenance (O&M) expenditures of the system until all bonds are paid off or provision is made to do so. Bridge toll revenues, investment earnings in any fund or account held by the authority or trustee, and swap revenues are pledged to secure the bonds, parity obligations, and repayments on reserve facility draws. The pledge constitutes a first lien on net revenues.

**Rate Covenant:** The authority covenants to establish and collect tolls sufficient to meet O&M and debt service on all outstanding bonds. It covenants to seek legislative authorization for an increase in tolls if: budgeted net revenues divided by the sum of debt service and Metropolitan Transportation Commission (MTC) transfers for the current fiscal year is less than 1.00 times (x); or budgeted net revenues plus the O&M fund balance divided by the sum of debt service and MTC transfers is less than 1.25x.

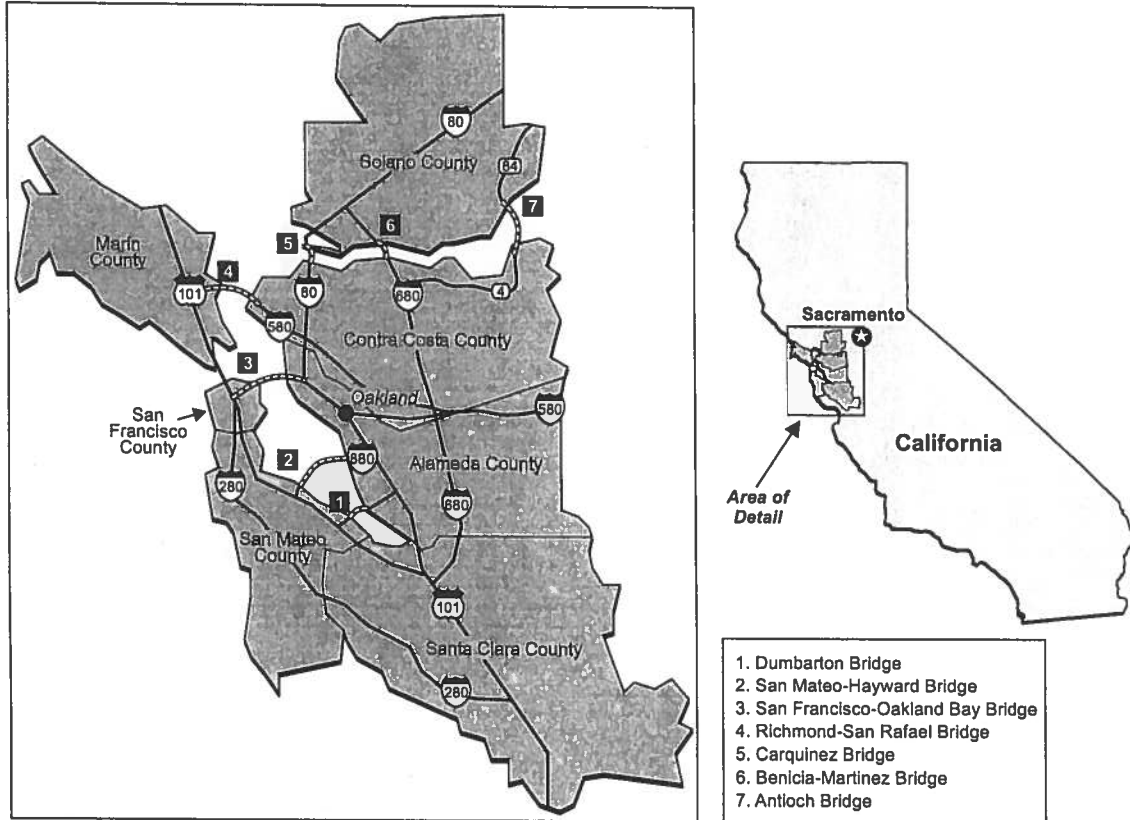
**Debt Service Reserve Fund:** As additional security, a debt service reserve fund is required with an amount on deposit equal to the least of: maximum annual debt service (MADS); 125% of the average annual debt service requirement of the bonds; or 10% of the principal amount of the bonds issued.

**Additional Bonds:** Additional parity bonds issued for refunding purposes are not subject to a debt service coverage test. For the issuance of additional new money bonds, audited net revenues in the most recent fiscal year or projected net revenues for each of the next three fiscal years must be at least 150% of MADS. Adopted toll increases and projected net revenues from any additional (new) bridges may be included for purposes of this calculation.

## ■ Flow of Funds

All revenues paid at the toll plaza are collected by Caltrans, as the operator of toll collection services for BATA, and transferred for deposit by the authority into the Bay Area toll account, which is held by the authority. BATA collects and distributes the approximately 30% of toll revenues paid via the electronic toll system. At the beginning of each fiscal year, the authority is required to transfer to the O&M fund such amounts as necessary to meet a 2.0x current-year budgeted O&M expenditure balance requirement. The statutes require that O&M expenditures, which exclude roadway and bridge maintenance costs payable by the state under California statutes, be paid ahead of debt service. Under the master indenture, at least three days prior to each debt service payment date, the authority is required to transfer to the trustee for deposit

## Bay Area Toll Authority



1. Dumbarton Bridge
2. San Mateo-Hayward Bridge
3. San Francisco-Oakland Bay Bridge
4. Richmond-San Rafael Bridge
5. Carquinez Bridge
6. Benicia-Martinez Bridge
7. Antioch Bridge

in the bond fund the amounts necessary for debt service payment. Deficiencies in the debt service reserve fund are to be made up in equal monthly payments over a one-year period after required debt service payments.

Remaining moneys are then to be transferred to the subordinate obligations fund. While BATA reserves the right to establish subordinate lien debt obligations, none currently exist or are planned. Subsequently, surplus revenues are to be deposited in the fees and expenses fund to cover bond-related costs and, finally, returned to the Bay Area toll account. The indenture also establishes rebate and redemption funds to be funded and administered per the instructions of the authority.

### ■ Bay Area Toll Authority

Because of changes prompted by Senate bill 226, the MTC, operating as BATA, assumed responsibilities previously held by the California Transportation

Commission (CTC) in January 1998. This included the CTC's authority to set tolls in the interest of bondholders, which provides BATA with the statutory authority to raise tolls if revenues are insufficient to meet O&M and debt service obligations.

The CTC was responsible previously for the management of the BATA bridges and was the bond-issuing vehicle through which capital was raised for bridge projects. Caltrans provided toll collection and roadway and bridge maintenance services and managed the engineering and construction of the RM1 and RM2 projects, electronic toll collection system implementation, and annual rehabilitation work. As of fiscal 1998, all outstanding CTC debt had been defeased, and BATA was created to complete the implementation of the RM1 projects for the seven state-owned Bay Area bridges: Antioch, Benicia-Martinez, Carquinez, Dumbarton, Richmond-San Rafael, San Francisco-Oakland Bay (Bay Bridge),

## Regional Measure One Projects Program Budget

(\$ Mil., As of July 1, 2004)

|  | Project Budget |
|--|----------------|
| New Benicia-Martinez Bridge                                | 1,058          |
| Carquinez Bridge Replacement                               | 486            |
| Richmond Parkway   | 6              |
| Richmond-San Rafael Bridge Trestle Rehabilitation          | 94             |
| Richmond-San Rafael Bridge Deck Rehabilitation             | 25             |
| San Mateo-Hayward Bridge Widening                          | 217            |
| Interstate 880/State Route (SR) 92 Interchange Improvement | 134            |
| Bayfront Expressway (SR-84) Widening                       | 36             |
| U.S. Highway 101/University Avenue Interchange Improvement | 4              |
| <b>Total</b>   | <b>2,060</b>   |

and San Mateo-Hayward. Caltrans continues to perform the same services under an agreement between the two entities, which is renewable every five years.

The first bridges across San Francisco Bay, the Dumbarton (opened in 1927 and replaced in 1984) and San Mateo-Hayward (opened in 1929 and replaced in 1967), both of which connect Alameda and San Mateo counties, were originally built by private concerns. The California Toll Bridge Authority acquired these two bridges in 1951. The Bay Bridge, which was opened in 1936 and reconstructed in 1958, was built by the State of California. The Richmond-San Rafael Bridge first opened for traffic in 1956, and a second level was added in 1957. The other three bridges serve traffic moving north and east from Contra Costa County. The Carquinez (opened in 1927 and twinned in 1958) and Benicia-Martinez (opened in 1962 and widened in 1991) bridges span the Carquinez Strait between Suisun Bay and San Pablo Bay, and the Antioch Bridge (opened in 1926 and replaced in 1978) spans the San Joaquin River.

BATA's and MTC's members include: the counties of Alameda, Contra Costa, Marin, Napa, San Francisco, Santa Clara, San Mateo, Solano, and Sonoma; the Association of Bay Area Governments; and the San Francisco Bay Conservation and Development Commission.

## Legal Environment

BATA operates under a complex legal environment. It was created by Senate bill 226 in 1998; however, the legislation did not legally distinguish it from the MTC. The MTC manages BATA with its own staff resources. The MTC is a regional planning organization also created by legislation, whose mandate is to coordinate regional planning, including transportation. It receives Transportation Development Act funds for its operations and administers federal and state grants on behalf of member counties. MTC has no debt and is not legally allowed to incur debt; thus, MTC bankruptcy risk is not a concern.

## MTC Transfers

California statutes dictate that certain portions of various toll increases, dating as far back as 1977, be allocated for transit purposes. While the statutes previously were unclear on the subject, they have recently been amended to make MTC transfers for certain bridges subordinate to BATA's O&M and senior debt service requirements.

## Capital Program

The bridge system's large capital program has three principal components: the RM1 projects; the seismic retrofit program; and the RM2 projects. The combined cost total for the three programs is currently estimated at \$12 billion.

## Regional Measure One Projects

In November 1989, Bay Area voters approved RM1. This ballot referendum specified nine separate traffic congestion relief projects for the BATA bridges and authorized a standard automobile toll of \$1 for BATA toll bridges to assist in the financing of these projects. Principal projects include replacing the Benicia-Martinez Bridge for expanded traffic capacity, the replacement of the older of the two Carquinez bridges, and the widening of the San Mateo-Hayward Bridge.

Costs on the RM1 program are about \$500 million higher than the \$1.5 billion initially budgeted in 2001 due to environmental, design, and site condition issues that arose during construction on the new span of the Benicia-Martinez Bridge. Cost increases have been absorbed but are pushing the limit of the current financing envelope.

## Seismic Retrofit Program

Concurrent with the BATA projects, Caltrans is now implementing California's \$8.3 billion seismic retrofit program, including the BATA bridges. The proposed

## Caltrans Seismic Retrofit Program Budget

(\$ Mil., As of July 1, 2004)

|                            | Project Budget |
|----------------------------|----------------|
| SFOBB Skyway               | 1,495          |
| SFOBB East Span            | 2,195          |
| SFOBB West Span            | 1,375          |
| SFOBB Other                | 955            |
| Richmond-San Rafael Bridge | 745            |
| Other Retrofits            | 646            |
| Program Contingency        | <u>900</u>     |
| Total                      | 8,311          |

Caltrans – California Department of Transportation.  
SFOBB – San Francisco-Oakland Bay Bridge.

retrofit program exceeds California seismic standards, which are the highest in the nation. The program is designed for each bridge to withstand the strongest earthquake experienced in the past 1,000 years. The retrofit at most bridges is expected to be completed within approximately three years. However, the largest individual component of the program, the replacement of the eastern span of the Bay Bridge, is expected to be completed by 2013, six years after its initial completion date.

This program was budgeted initially at \$2.6 billion and is being financed by a separate \$1 seismic retrofit surcharge implemented on system bridges in 1998. Following the identification of a further \$2 billion in cost increases in early 2001, the state legislature enacted Assembly bill 1171 in fall 2001, which extended the collection of the \$1 surcharge beyond the Jan. 1, 2008 sunset date to expand the funding. The legislature also provided Caltrans the authority to issue bonds secured by the surcharge until all bonds were retired and allowed for Caltrans and BATA to work cooperatively to raise the surcharge to pay for debt service, if necessary. The total cost of the program was increased to \$8.3 billion in 2004 after bids for the construction of the Bay Bridge east span came in significantly higher than expected, including a \$900 million program cost contingency. Estimates show that the current \$1 seismic surcharge will not be sufficient to complete all projects and that a further \$1 to \$2 surcharge may be necessary. The state legislature is expected to take up the matter in its 2004–2005 session.

The Bay Bridge represents a large portion of revenues after O&M expenditures and MTC transfers, the bulk of which is tied to the Bay Bridge; however, its share of net revenue available for debt service is a smaller portion relative to the rest of the

## Regional Measure Two Projects Program Budget

(\$ Mil., As of July 1, 2004)

|                                | Project Budget | Estimated Start |
|--------------------------------|----------------|-----------------|
| BART Tube Seismic Retrofit     | 143            | 2005            |
| Dumbarton Rail                 | 135            | 2006            |
| Transbay Terminal              | 150            | 2005            |
| Interstate 80/680 Improvements | 100            | 2010            |
| eBART Extension                | 96             | 2011            |
| BART-Warm Springs Extension    | 95             | 2005            |
| Interstate 580 Corridor        | 65             | 2010            |
| Caldecott Tunnel (4th Bore)    | 51             | 2008            |
| Ferry Programs                 | 197            | 2007–2009       |
| Bus Programs                   | 157            | 2005–2006       |
| Other Projects                 | <u>311</u>     | Various         |
| Total                          | 1,500          |                 |

system, reducing the system's overall reliance on the Bay Bridge to pay debt service and its exposure to added seismic risk given the delay in the project's completion.

## Regional Measure Two Projects

On March 2, 2004, voters passed RM2, raising the toll on the seven state-owned toll bridges in the San Francisco Bay Area by \$1, beginning on July 1, 2004. This extra \$1 is designated to fund various transportation projects within the region that have been determined to reduce congestion or to make improvements to travel in the toll bridge corridors. The 36 capital projects listed in RM2 are expected to cost \$1.5 billion and range from studies to transit vehicle procurement to freeway improvements. In addition to capital investments, the Regional Traffic Relief Plan dedicates up to 38% of total annual RM2 funds to providing operating funds for commuter rail, express and enhanced bus, and ferry service.

BATA proposes to issue approximately \$1.5 billion in additional debt under this indenture to fund these projects on parity with its outstanding debt. The \$1 RM2 toll is proposed to be pledged under the indenture.

## Rehabilitation and Other Projects

In addition to the management and implementation of the RM1 and RM2 projects, BATA's capital improvement program (CIP) incorporates about \$230 million for routine rehabilitation and improvement projects through fiscal 2010. While funds are not yet identified for CIP plans beyond 2010, the system clearly maintains the economic ability to fund future capital improvements.

## Balance Sheet

(\$000, Fiscal Years Ended June 30)

|                                   | 1999    | 2000    | 2001    | 2002    | 2003    |
|-----------------------------------|---------|---------|---------|---------|---------|
| Unrestricted Cash and Investments | 267,303 | 263,605 | 808,019 | 635,624 | 717,537 |
| Restricted Cash and Investments   | 320,457 | 405,837 | 125,000 | 125,000 | 130,000 |
| Receivables                       | 76,761  | 6,100   | 45,093  | 28,156  | 28,627  |
| Current Liabilities               | 3,349   | 29,063  | 15,596  | 12,181  | 36,056  |
| Net Working Capital               | 340,715 | 240,642 | 837,516 | 651,599 | 710,108 |
| Total Long-Term Debt Outstanding  | —       | —       | 401,413 | 401,329 | 701,245 |

## ■ Traffic and Tolls

The base passenger automobile toll on the system's seven bridges now stands at \$3 and consists of \$1 each base tolls to fund RM1 and RM2 projects, as well as a \$1 seismic surcharge administered by Caltrans. There remains considerable flexibility within the system to raise bridge tolls to meet the cost overruns of the seismic retrofit program. The toll on the region's only comparable facility, the separately administered Golden Gate Bridge, currently is \$5.

Traffic on the system has experienced moderate but steady growth, averaging nearly 2% annually since 1988, the year prior to the RM1 toll increase to \$1. Traffic increased 0.6% in fiscal 2003, a figure which was consistent with increases since the regional economic downturn in 2000. Except for the effects of the one-month shutdown on the Bay Bridge due to the 1989 earthquake, the system has not seen a reduction in toll-paying vehicles, even with the doubling of the toll experienced by users with the addition of the \$1 seismic surcharge in 1998 and the increase in toll-free passage for car pools. This relative inelasticity reflects the monopolistic nature of these crossings and their importance to the Bay Area.

## ■ Financial Performance and Forecast

The BATA financial forecast is reasonably conservative in that it assumes no growth in traffic at the Bay Bridge, the largest contributor of revenue to the system (35%), and only a 0.5% annual increase in toll revenue at each of the other six bridges. This represents approximately 0.3% system growth, versus average annual revenue growth of about 2.0% since fiscal 1990.

Coverage of debt service associated with the RM1 and RM2 projects net of operating expenses was 6.44x in fiscal 2004. With operating expenses assumed to grow 4.5% annually (slightly above the 3.5% expense growth assumed by BATA) and the layering in of the series 2004 debt in fiscal 2005 and RM2 debt in fiscal 2007, that ratio drops to about 1.70x by fiscal 2013. To fund RM1, RM2, and MTC transfers, coverage would likely need to remain in excess of 1.50x. Given the system's economic rate-making flexibility, there is adequate capacity to meet all needs over the life of the debt, even in the unlikely scenario that a bridge is knocked out of service for an extended period due to a seismic event similar to that which occurred in 1989.

## Operating Statement

(\$000, Fiscal Years Ended June 30)

|  | 1999    | 2000    | 2001    | 2002    | 2003    |
|--|---------|---------|---------|---------|---------|
| Toll Revenue                               | 136,089 | 139,914 | 142,311 | 142,337 | 144,200 |
| Credit Fees and Other                      | 709     | 821     | 1,407   | 1,893   | 1,905   |
| Operating Revenues                         | 136,798 | 140,735 | 143,718 | 144,230 | 146,105 |
| Investment Income                          | 31,789  | 36,684  | 41,390  | 45,134  | 25,530  |
| Total Revenues                             | 168,587 | 177,419 | 185,108 | 189,364 | 171,635 |
| Total Operating Expenses                   | 31,454  | 33,981  | 35,166  | 32,329  | 38,694  |
| Net Revenues                               | 137,133 | 143,438 | 149,942 | 157,035 | 132,941 |
| Debt Service                               | 0       | 0       | 1,327   | 13,358  | 20,441  |
| Debt Service Coverage (x)                  | 0.00    | 0.00    | 112.99  | 11.76   | 6.50    |
| MTC Transfers                              | 24,529  | 22,101  | 25,281  | 25,249  | 24,892  |
| Debt Service and MTC Transfer Coverage (x) | 5.59    | 6.49    | 5.64    | 4.07    | 2.93    |

MTC – Metropolitan Transportation Commission.

Along with the debt-free transfer of the system to BATA in fiscal 1998 came a healthy balance sheet and tremendous income potential, sufficient to pay for operating costs, capital investment needs, and nonsystem transfers. BATA's tremendous liquidity, with a balance of \$535 million as of June 30, 2004, is a significant mitigant to the risk associated with seismic activity.

The key uncertainty in the near term is the solution to the seismic retrofit program cost increase. The possibilities include raising tolls and handing programmatic management responsibility to BATA. In spite of the large increase, the economic wherewithal of the bridge system can support the added costs, if appropriately structured.

### ■ Service Area

Fitch views BATA's service area as a credit strength. The service area encompasses the core of the San Francisco Bay Area, a diverse region with sound long-term economic prospects. The area benefits from a variety of major industries, including high technology, banking and finance, business and professional services, and tourism. High wealth indicators and low historical unemployment rates underscore the affluence of the Bay Area. San Francisco, on the west side of the bay, is the commercial center of the area, while Contra Costa and Alameda counties, on the east side, are more residential, although the latter two have seen employment gains resulting from the economic expansion of the late 1990s and higher costs in other Bay Area locations.

Income levels in all three counties are well above state and national averages. San Francisco is the wealthiest of the three; its 2003 median household effective buying income exceeded the state average by 31.0%.

Contra Costa and Alameda counties follow at 28% and 17% above the state average, respectively.

Following a nationwide trend, unemployment rates in the three major counties within the service area, San Francisco, Alameda, and Contra Costa, rose in 2001; this was the first increase in seven years. However, unemployment rates remain comparable with those of the state. The state registered a 6.7% unemployment rate in 2003, compared with 6.8% for Alameda and San Francisco. Contra Costa County recorded a 5.5% unemployment rate in 2003. Prospects for future job growth remain positive due to the area's economic importance.

Population growth has been sound and is projected to remain so. The three counties had a combined population of approximately 3.2 million in 2002. The 2002 combined area population increased 12% for the 10 years ended 2002, only slightly less than the 15% growth rate for the state during this time. Alameda County has approximately 46% of the residents, Contra Costa County 31%, and San Francisco 24%. Contra Costa County exhibited the strongest population gain, at 20% from 1991–2002, while Alameda County grew 11%. San Francisco's growth was much more flat due in part to its already densely settled urban area and to the 2% drop in population due to outmigration following the severe economic downturn of 2000–2002.

Population projections indicate sustained growth within all counties in the Bay Area, while the generally high income levels of the customer base and the lack of competing facilities provide an ability to endure toll increases.

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